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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 29, 2002

OR

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

For the transition period from to

Commission file number: 000-49850

BIG 5 SPORTING GOODS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

None

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

Common Stock, par value $.01 per share

(Title of Class)

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 o

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $160,905,400 as of June 28, 2002 based upon the closing price of the registrant's common stock on the Nasdaq National Market reported for June 28, 2002. Shares of common stock held by each executive officer and director and by each person who, as of such date, may be deemed to have beneficially owned more than 5% of the outstanding voting stock have been excluded in that such persons may be deemed to be affiliates of the registrant under certain circumstances. This determination of affiliate status is not necessarily a conclusive determination of affiliate status for any other purpose.

22,178,018 shares of the registrant's common stock, par value $0.01 per share, were outstanding at March 31, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement (the "Proxy Statement") for its annual meeting of shareholders to be held on June 4, 2003.

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PART I

ITEM 1: BUSINESS

General

We are the leading sporting goods retailer in the western United States, operating 275 stores in 10 states under the "Big 5 Sporting Goods" name at December 29, 2002. We provide a full-line product offering of over 25,000 stock keeping units in a traditional sporting goods store format that averages 11,000 square feet. Our product mix includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, snowboarding and in-line skating.

We believe that over the past 48 years we have developed a reputation with the competitive and recreational sporting goods customer as a convenient neighborhood sporting goods retailer that consistently delivers value on quality merchandise. Our stores carry a wide range of products at competitive prices from well-known brand name manufacturers, including Nike, Reebok, adidas, New Balance, Wilson, Spalding and Columbia. We also offer brand name merchandise produced exclusively for us, private label merchandise and specials on quality items we purchased through opportunistic buys of vendor over-stock and close-out merchandise. We reinforce our value reputation through weekly print advertising in major and local newspapers and mailers designed to generate customer traffic, drive net sales and build brand awareness.

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

In June 2002, we completed an initial public offering (IPO) of 8.1 million shares of common stock, of which 1.6 million shares were sold by selling stockholders. In July 2002, our underwriters exercised their right to purchase an additional 1.2 million shares through their over-allotment option, of which 0.5 million shares were sold by selling stockholders. With net proceeds of $76.1 million from the offering and total net proceeds of $84.0 million after exercise of the underwriters' over-allotment option, and together with borrowings under our credit facility, we redeemed all of our outstanding senior discount notes and preferred stock, paid bonuses to executive officers and directors which were funded by a reduction in the redemption price of our preferred stock and repurchased 0.5 million shares of our common stock from non-executive employees.

Our accumulated management experience and expertise in sporting goods merchandising, advertising, operations and store development have enabled us to generate consistent, profitable growth. As of December 29, 2002, we have realized 28 consecutive quarterly increases in same store sales over comparable prior periods. All but one of our stores has generated positive store-level operating profit in each of the past five fiscal years. In fiscal 2002, we generated net sales of $667.5 million, pro forma operating income of $55.8 million, pro forma net income of $24.6 million and pro forma diluted earnings per share of $1.09. When measured in accordance with generally accepted accounting principles (GAAP), operating income for fiscal 2002 was $52.8 million, net income was $19.1 million and diluted earnings per share was $0.57. For the past five fiscal years ended December 29, 2002, our net sales and pro forma operating income increased at compounded annual growth rates of 8.5% and 18.8%, respectively. GAAP operating income increased at a compounded annual growth rate of 18.0% over the same period. We report operating income, net income and earnings per share in accordance with GAAP and additionally on a pro forma basis to exclude certain effects of our IPO and the exercise of the underwriters' overallotment option. (See note 3 to "Selected Consolidated Financial and Other Data" for a reconciliation of the pro forma adjustments to GAAP.) We believe our success can be attributed to one of the most experienced management teams in the sporting goods industry, a value-based execution-driven operating philosophy, a controlled growth strategy and a proven business model.

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

Expansion and Store Development

Throughout our operating history, we have sought to expand our business with the addition of new stores through a disciplined strategy of controlled growth. Our expansion within and beyond California has been systematic and designed to capitalize on our name recognition, economical store format and economies of scale related to distribution and advertising. Over the past five fiscal years, we have opened 72 stores, an average of 14 new stores annually, of which 74% were outside of California. The following table illustrates the results of our expansion program during the periods indicated:

Year	California	Other Markets	Total	Stores Relocated	Stores Closed	Number of Stores at Period End
1998	3	9	12	(1)	—	221
1999	3	12	15	(1)	(1)	234
2000	5	10	15	—	—	249
2001	3	12	15	(4)	—	260
2002	6	9	15	—	—	275

Our format enables us to have substantial flexibility regarding new store locations. We have successfully operated stores in major metropolitan areas and in areas with as few as 60,000 people. Our format differentiates us from superstores that typically average over 35,000 square feet compared to our average of 11,000 square feet per store, require larger target markets, are more expensive to operate and require higher net sales per store for profitability.

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

Our in-house store development personnel, who have opened an average of 13 stores during each of the past 10 fiscal years, analyze new store locations with the assistance of real estate firms that specialize in retail properties. We have identified numerous expansion opportunities to further penetrate our established markets, develop recently entered markets and expand into new, contiguous markets with attractive demographic, competitive and economic profiles. We opened 15 new stores in fiscal 2002 and expect to open 16 to 20 new stores in fiscal 2003.

Management Experience

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

	Number of Employees	Average Number of Years With Us
Senior Management	7	29
Vice Presidents	8	22
Buyers	14	18
Store District / Division Supervisors	31	18
Store Managers	275	9

Merchandising

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

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

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

	Fiscal Year			
	1999	2000	2001	2002
Soft Goods				
Athletic and sport apparel	15.6	16.2	16.5	15.9
Athletic and sport footwear	31.3	29.8	30.3	30.8
Total soft goods	46.9	46.0	46.8	46.7
Hard goods	53.1	54.0	53.2	53.3
Total	100.0%	100.0%	100.0%	100.0%

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

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

We also offer a variety of private label merchandise to complement our branded product offerings. Our private label items include shoes, apparel, golf equipment, binoculars, camping equipment and fishing supplies.

Private label merchandise is sold under the labels Fives, Court Casuals, Sport Essentials, Rugged Exposure, Golden Bear, Pacifica, South Bay and Kemper, which is licensed from a third party.

Through our 48 years of experience across different demographic, economic and competitive markets, we have refined our merchandising strategy to increase net sales by offering a selection of products that meets customer demands while effectively managing inventory levels. In terms of category selection, we believe our merchandise offering compares favorably to our competitors, including the superstores. Our edited selection of products enables customers to comparison shop without being overwhelmed by a large number of different products in any one category. We further tailor our merchandise selection on a store-by-store basis in order to satisfy each region's specific needs and seasonal buying habits.

Our 14 buyers, who average 18 years of experience with us, work closely with senior management to determine the product selection, promotion and pricing of our merchandise mix. Management utilizes an integrated merchandising, distribution, point-of-sale and financial information system to continuously refine our merchandise mix, pricing strategy, advertising effectiveness and inventory levels to best serve the needs of our customers.

Advertising

Through years of targeted advertising, we have solidified our reputation for offering quality products at attractive prices. We have advertised almost exclusively through weekly print advertisements since 1955. We typically utilize four-page color advertisements to highlight promotions across our merchandise categories. We believe our print advertising, which includes the weekly distribution of over 13 million newspaper inserts or mailers, consistently reaches more households in our established markets than that of our full-line sporting goods competitors. The consistency and reach of our print advertising programs drive sales and create high customer awareness of the name Big 5 Sporting Goods.

We use our professional in-house advertising staff rather than an outside advertising agency to generate our advertisements, including design, layout, production and media management. Our in-house advertising department provides management the flexibility to react quickly to merchandise trends and to maximize the effectiveness of our weekly inserts and mailers. We are able to effectively target different population zones for our advertising expenditures. We place inserts in over 150 newspapers throughout our markets, supplemented in many areas by mailer distributions to create market saturation.

Vendor Relationships

We have developed strong vendor relationships over the past 48 years. In fiscal 2002, no single vendor represented greater than 5.5% of total purchases. We believe current relationships with our vendors are good. We benefit from the long-term working relationships that our senior management and our buyers have carefully nurtured throughout our history.

Management Information Systems

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

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

Distribution

We maintain a 440,000 square foot leased distribution center in Fontana, California that services all of our stores. The distribution center is fully integrated with our management information systems that provide warehousing and distribution capabilities. The distribution center was constructed in 1990 and warehouses the majority of the merchandise carried in our stores. We estimate that 98% of all store merchandise is received from this distribution center. We distribute merchandise from the distribution center to our stores at least once a week, Monday through Saturday, using a fleet of 32 leased and two owned tractors, and 12 leased and 68 owned trailers, as well as contract carriers. Our lease for the distribution center has an initial term that expires in 2006 and includes three additional five-year renewal options. In August 2002, we leased an additional 136,000 square foot satellite distribution center to handle seasonal merchandise and returns. Based on our expected net sales and store growth, we plan to replace our existing distribution center during the next 18 to 24 months at a cost of approximately $10 million.

Industry and Competition

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

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

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

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

Sporting Goods Superstores. Stores in this category typically are larger than 35,000 square feet and tend to be freestanding locations. These stores emphasize high volume sales and a large number of stock keeping units. Examples include The Sports Authority, Sport Chalet and Gart Sports Company. The Sports Authority and Gart Sports Company recently announced that they have entered into a merger agreement and that the merger is expected to close in the third calendar quarter of 2003.

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

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

Employees

We manage our stores through regional, district and store-based personnel. Our senior vice president of store operations has general oversight responsibility for all of our stores. Field supervision is led by five regional supervisors who report directly to the vice president of store operations and who oversee 26 district supervisors. The district supervisors are each responsible for an average of 11 stores. Each of our stores has a store manager who is responsible for all aspects of store operations and who reports directly to a district supervisor. In addition, each store has at least two assistant managers, at least one full-time cashier, at least one management trainee and a complement of full and part-time associates.

As of February 23, 2003, we had approximately 6,327 full and part-time employees. The Steel, Paper House, Chemical Drivers & Helpers, Local Union 578, affiliated with the International Brotherhood of Teamsters, currently represents 472 hourly employees in our distribution center and some of our retail personnel in our stores. In September 2000, we negotiated two contracts with Local 578 covering these employees. These contracts expire on August 31, 2005. We have not had a strike or work stoppage in the last 22 years. We believe we provide working conditions and wages that are comparable to those offered by other retailers in the sporting goods industry and that our employee relations are good.

Employee Training

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

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

Description of Service Marks and Trademarks

We use the Big 5 name as a service mark in connection with our business operations and have registered this name as a federal service mark. This service mark is due for renewal in 2005. We have also registered Court Casuals, Golden Bear, Pacifica and Rugged Exposure as federal trademarks under which we sell a variety of merchandise. The renewal dates for these trademark registrations range from 2004 to 2008.

ITEM 2: PROPERTIES

Properties

We lease all but one of our 275 store sites. Most of our long-term leases contain fixed-price renewal options and the average lease expiration term of our existing leases, taking into account renewal options, is approximately 20 years. Of the 274 store leases we have, only 13 are due to expire in the next five years without renewal options.

Our Stores

Throughout our history, we have focused on operating traditional, full-line sporting goods stores. Our stores generally range from 8,000 to 15,000 square feet and average 11,000 square feet. Our typical store is located in either free-standing street locations or multi-store shopping centers. Our numerous convenient locations and store

format encourage frequent customer visits. In fiscal 2002, we processed approximately 20.8 million sales transactions and our average transaction size was approximately $32.

Our store format has resulted in productivity levels that we believe are among the highest of any full-time sporting goods retailer, with net sales per gross square foot of approximately $227 for fiscal 2002. Our high net sales per square foot combined with our efficient store-level operations and low store maintenance costs allow us to generate consistently strong store-level returns. All but one of our stores open at least one year have generated positive store-level operating profit in each of the past five fiscal years. In addition, we have never needed to close a store due to poor performance. The following table details our store locations as of March 31, 2003.

Regions	Year Entered	Number of Stores	Percentage of Total Number of Stores
California:			
Southern California	1955	89	32.4%
Northern California	1971	76	27.6
Total California		165	60.0
Washington	1984	33	12.0
Arizona	1993	18	6.6
Oregon	1995	16	5.8
Texas	1995	10	3.6
New Mexico	1995	9	3.3
Nevada	1978	8	2.9
Utah	1998	8	2.9
Idaho	1993	6	2.2
Colorado	2001	2	0.7
Total		275	100.0%

ITEM 3: LEGAL PROCEEDINGS

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

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2002.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock, par value $0.01 per share, has traded on the Nasdaq National Market under the symbol "BGFV" since June 25, 2002. The following table sets forth the high and low sale prices for our common stock since June 25, 2002 as reported by the Nasdaq National Market during fiscal 2002.

Period	High	Low
Second Quarter (from June 25, 2002)	$14.75	$12.90
Third Quarter	$14.32	$ 8.75
Fourth Quarter	$14.64	$ 8.30

As of March 31, 2003, there were 22,178,018 shares of common stock outstanding held by approximately 279 holders of record.

Dividend Policy

We have never declared or paid any dividends on our common stock. We anticipate that we will retain all of our earnings in the foreseeable future to finance the expansion of our business and, therefore, we do not anticipate paying any cash dividends on shares of our common stock in the foreseeable future. Any payment of cash dividends on our common stock will be dependent upon the ability of Big 5 Corp., our wholly owned subsidiary, to pay dividends or make cash payments or advances to us. The agreement governing our credit facility and the indenture governing our senior notes impose restrictions on Big 5 Corp.'s ability to make these payments. For example, Big 5 Corp.'s ability to pay dividends or make other distributions to us, and thus our ability to pay cash dividends on our common stock, will depend upon, among other things, its level of indebtedness at the time of the proposed dividend or distribution, whether it is in default under its financing agreements and the amount of dividends or distributions made in the past. Our future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and other factors considered relevant by our board of directors, including the General Corporation Law of the State of Delaware, which provides that dividends are only payable out of surplus or current net profits.

ITEM 6: SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The selected data presented below under the captions "Statements of Operations Data" and "Balance Sheet Data" for, and as of the end of the fiscal years ended January 3, 1999, January 2, 2000, December 31, 2000, December 30, 2001 and December 29, 2002 are derived from our audited consolidated financial statements, which financial statements have been audited by KPMG LLP, independent auditors. The consolidated financial statements as of December 30, 2001 and December 29, 2002 and for each of the years ended December 31, 2000, December 30, 2001 and December 29, 2002 and the report thereon are included elsewhere in this report. The information presented below under the captions "Pro Forma Operations", "Store Data" and "Other Financial Data" is unaudited. You should read the following tables in conjunction with the financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this report.

	Fiscal Year (1)				
	1998	1999	2000	2001	2002
	(amounts in thousands, except per share data)				
Statement of Operations Data:					
Net sales	$491,430	$514,324	$571,476	$622,481	$667,469
Cost of goods sold, buying and occupancy	330,243	341,852	377,040	407,679	429,858
Gross profit	161,187	172,472	194,436	214,802	237,611
Operating expenses:					
Selling and administrative	122,057	131,222	144,703	160,044	174,868
Litigation settlement	—	—	—	2,515	—
Depreciation and amortization	8,890	9,479	9,340	10,031	9,966
Total operating expenses	130,947	140,701	154,043	172,590	184,834
Operating income	30,240	31,771	40,393	42,212	52,777
Interest expense, net	22,975	21,574	22,008	19,629	15,825
Income before income taxes and extraordinary gain (loss)	7,265	10,197	18,385	22,583	36,952
Income taxes	2,838	4,000	7,324	9,218	15,175
Income before extraordinary gain (loss)	4,427	6,197	11,061	13,365	21,777
Extraordinary gain (loss) from early extinguishment of debt, net of income taxes (2)	79	(372)	87	1,600	(2,695)
Net income	4,506	5,825	11,148	14,965	19,082
Redeemable preferred stock dividends	5,036	5,621	6,400	7,284	7,999
Net income (loss) available to common stockholders	$ (530)	$ 204	$ 4,748	$ 7,681	$ 11,083
Earnings (loss) per share:					
Basic (9)	$ (0.04)	$ 0.02	$ 0.35	$ 0.54	$ 0.60
Diluted	$ (0.04)	$ 0.01	$ 0.30	$ 0.48	$ 0.57
Shares used to calculate earnings per share:					
Basic (9)	12,124	12,801	13,525	14,247	18,358
Diluted	15,667	16,098	16,094	16,090	19,476
Pro Forma Operations (3):					
Operating income	$ 30,576	$ 32,121	$ 40,053	$ 42,556	$ 55,783
Net income available to common stockholders	$ 6,105	$ 7,836	$ 13,941	$ 15,402	$ 24,598
Earnings per share:					
Basic (9)	$ 0.33	$ 0.40	$ 0.69	$ 0.74	$ 1.14
Diluted	$ 0.27	$ 0.35	$ 0.61	$ 0.68	$ 1.09
Weighted average shares of common stock:					
Basic (9)	18,703	19,380	20,104	20,826	21,546
Diluted	22,246	22,677	22,673	22,669	22,664

	Fiscal Year				
	1998	1999	2000	2001	2002
	(dollar amounts in thousands)				
Store Data:					
Same store sales increase (4)	5.2%	2.0%	6.6%	4.9%	4.0%
Net sales per gross square foot (5)	$ 206	$ 203	$ 217	$ 224	$ 227
End of period stores	221	234	249	260	275
Average net sales per store (6)	$ 2,313	$ 2,285	$ 2,405	$ 2,448	$ 2,541
Other Financial Data:					
Gross margin	32.8%	33.5%	34.0%	34.5%	35.6%
Capital expenditures	$ 8,500	$ 13,075	$ 11,602	$ 10,510	$ 10,207
Inventory turns (7)	2.1	2.1	2.2	2.4	2.5
Balance Sheet Data:					
Cash and cash equivalents	$ 6,455	$ 5,091	$ 3,753	$ 7,865	$ 9,441
Working capital (8)	$ 66,873	$ 71,289	$ 69,427	$ 66,292	$ 72,767
Total assets (9)	$223,857	$234,917	$254,433	$253,883	$257,975
Total debt	$176,591	$178,446	$172,098	$153,351	$125,131
Redeemable preferred stock	$ 39,866	$ 45,408	$ 51,721	$ 58,911	$ —
Stockholders' equity (deficit) (9)	$ (97,051)	$ (96,851)	$ (92,105)	$ (84,425)	$ 3,674

(Notes to table on previous page and this page)

(1) Our fiscal year is the 52 or 53-week reporting period ending on the Sunday closest to the calendar year end. Fiscal 1998 consisted of 53 weeks as compared to 52 weeks for each of fiscal years 1999, 2000, 2001 and 2002.

(2) See "Management's Discussion and Analysis of Financial condition and Results of Operations – Impact of New Accounting Pronouncements – SFAS No. 145."

(3) In the second quarter of 2002, we completed an initial public offering of 8.1 million shares of common stock, of which 1.6 million shares were sold by selling stockholders. In the third quarter of 2002, our underwriters exercised their right to purchase an additional 1.2 million shares through their over-allotment option, of which 0.5 million shares were sold by selling stockholders. With net proceeds of $76.1 million from the offering and total net proceeds of $84.0 million after exercise of the underwriters' over-allotment option, and together with borrowings under our credit facility, we redeemed all of our outstanding senior discount notes and preferred stock, paid bonuses to executive officers and directors which was funded by a reduction in the redemption price of our preferred stock and repurchased 0.5 million shares of our common stock from non-executive employees. All uses of proceeds, other than the payment of a portion of the bonuses related to the initial public offering and certain initial public offering costs, occurred in the third quarter of fiscal 2002.

We report net income and earnings per diluted share in accordance with GAAP and additionally on a pro forma basis to exclude certain effects of our initial public offering, including the exercise of the underwriters' over-allotment option. The pro forma figures assume that the initial public offering took place at the beginning of the periods presented and exclude the effects of certain initial public offering related expenses, the payment of bonuses that were funded through the reduction of the redemption premium that would otherwise have been applicable to the redemption of preferred stock, interest payments and redemption premium paid on debt redeemed in connection with the initial public offering, dividends payable and redemption premium paid on preferred stock redeemed in connection with the initial public offering and related income tax effects. We use this pro forma reporting internally to evaluate our operating performance without regard to certain financial effects of the initial public offering and believe this presentation will provide investors with additional insight into our operating results. The following table contains a reconciliation of the pro forma adjustments to GAAP:

	Fiscal Year				
	1998	1999	2000	2001	2002
	(in thousands except earnings per share data)				
Reported net income (loss) available to common stockholders	$ (530)	$ 204	$ 4,748	$ 7,681	$11,083
Redeemable preferred stock dividends (a)	5,036	5,621	6,400	7,284	7,999
Reported net income	4,506	5,825	11,148	14,965	19,082
Bonus expense (b)			—	—	1,962
Management fees (c)	340	340	340	344	1,044
Interest expense (d)	2,281	2,279	3,448	3,064	1,775
Extraordinary (gain) loss (e)	—	(24)	—	(1,600)	2,695
Income taxes (f)	(1,022)	(1,084)	(1,379)	(1,371)	(1,960)
Pro forma net income available to common stockholders	$ 6,105	$ 7,836	$13,557	$15,402	$24,598
Pro forma earnings per share – diluted	$ 0.27	$ 0.35	$ 0.60	$ 0.68	$ 1.09
Pro forma weighted average shares outstanding – diluted	22,246	22,677	22,673	22,669	22,664
Reported operating income	$30,240	$31,771	$40,393	$42,212	$52,777
Bonus expense (b)	—	—	—	—	1,962
Management fees (c)	336	350	340	344	1,044
Pro forma operating income	$29,904	$31,421	$40,053	$42,556	$55,783

(a) To eliminate dividends and redemption premium on preferred stock redeemed in connection with the initial public offering.

(b) To eliminate the payment of bonuses that was funded through a reduction of the redemption price that would otherwise have been applicable to redemption of the Company's outstanding preferred stock.

(c) To eliminate management services agreement fees and the management services agreement termination cost incurred in connection with the initial public offering.

(d) To eliminate interest expense and amortization of debt issue costs associated with the senior discount notes redeemed in connection with the initial public offering and to reflect interest expense on incremental borrowings under the credit facility.

(e) To eliminate the extraordinary gain (loss), net of taxes, associated with the redemption of the senior discount notes.

(f) To reflect tax expense (benefit) for items (b) through (d) noted above at the effective tax rate.

(4) Same store sales data for a fiscal year presented reflects stores open throughout that fiscal year and the prior fiscal year.

(5) Net sales per gross square foot is calculated by dividing net sales for stores open the entire period by the total gross square footage for those stores.

(6) Average net sales per store is calculated by dividing net sales for stores open the entire period by total store count for stores open the entire period.

(7) Inventory turns equal fiscal year cost of goods sold, buying and occupancy costs divided by fiscal year four-quarter average FIFO (first-in, first-out) inventory balances.

(8) Working capital is defined as current assets less current liabilities.

(9) Total assets, stockholders' equity (deficit), basic earnings per share and shares used to calculate basic earnings per share have been restated for the fiscal years 1998, 1999, 2000 and 2001 as a result of matters discussed in note 19 to the consolidated financial statements.

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

Throughout this section, our fiscal years ended December 31, 2000, December 30, 2001 and December 29, 2002 are referred to as 2000, 2001 and 2002, respectively. The following discussion and analysis of our financial condition and results of operations for fiscal 2000, fiscal 2001 and fiscal 2002 should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to our plans and strategies for our business includes forward-looking statements that involve risk and uncertainties. You should review the "Risk Factors" set forth elsewhere in this report for a discussion of important factors that could cause actual results described in or implied by the forward-looking statements contained herein.

Overview

We are the leading sporting goods retailer in the western United States, operating 275 stores in 10 states under the name "Big 5 Sporting Goods." We provide a full-line product offering of over 25,000 stock keeping units in a traditional sporting goods store format that averages 11,000 square feet. Our product mix includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, snowboarding and in-line skating. We believe over the past 48 years we have developed a reputation with the competitive and recreational sporting goods customer as a convenient neighborhood sporting goods retailer that delivers consistent value on quality merchandise.

Throughout our 48 year history, we have emphasized controlled growth. The following table summarizes our store count for the periods presented:

	Fiscal Year		
	2000	2001	2002
Big 5 Sporting Goods stores			
Beginning of period	234	249	260
New stores (1)	15	15	15
Stores relocated	—	(4)	—
Stores closed	—	—	—
End of period	249	260	275

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

Basis of Reporting

Net Sales

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

Gross Profit

Gross profit is comprised of net sales less all costs of sales, including the cost of merchandise, inventory markdowns, inventory shrinkage, inbound freight, distribution and warehousing, payroll for our buying personnel and store and corporate office occupancy costs. Store and corporate office occupancy costs include rent, contingent rents, common area maintenance, real estate property taxes and property insurance.

Selling and Administrative

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

Depreciation and Amortization

Depreciation and amortization consists primarily of the depreciation of leasehold improvements, fixtures and equipment owned by us, amortization of leasehold interest and goodwill (for periods prior to fiscal 2002) and non-cash rent expense.

Discussion of Critical Accounting Policies

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

Valuation of Inventory

We value our inventories at the lower of cost or market using the weighted average cost method that approximates the first-in, first-out (FIFO) method. Management has evaluated the current level of inventories in comparison to planned sales volume and other factors and, based on this evaluation, has recorded adjustments to inventory and cost of goods sold for estimated decreases in inventory value. These adjustments are estimates, which could vary significantly, either favorably or unfavorably, from actual results if future economic conditions, consumer demand and competitive environments differ from our expectations. We are not aware of any events or changes in demand or price that would indicate to us that our inventory valuation may be inaccurate at this time.

Valuation of Long-Lived Assets

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

Results of Operations

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

	Fiscal Year		
	2000	2001	2002
Statement of Operations Data:			
Net sales	100.0%	100.0%	100.0%
Costs of sales	66.0	65.5	64.4
Gross profit	34.0	34.5	35.6
Selling and administrative	25.3	25.7	26.2
Litigation settlement	—	0.4	—
Depreciation and amortization	1.6	1.6	1.5
Operating income	7.1	6.8	7.9
Interest expense, net	3.9	3.2	2.4
Income before income tax expense	3.2	3.6	5.5
Income tax expense	1.3	1.5	2.3
Extraordinary gain (loss)	—	0.3	(0.4)
Net income	1.9	2.4	2.9

Fiscal 2002 Compared to Fiscal 2001

Net Sales. Net sales increased by $45.0 million, or 7.2%, to $667.5 million in fiscal 2002 from $622.5 million in fiscal 2001. This growth reflected an increase of $24.0 million in same store sales and an increase of $23.8 million in new store sales, which reflected the opening of 15 new stores during each of fiscal 2002 and fiscal 2001. The remaining variance was attributable to net sales from relocated stores. Same store sales increased 4.0% for fiscal 2002 versus fiscal 2001. The increase in same store sales was primarily attributable to higher sales in the majority of our merchandise categories. Store count at the end of fiscal 2002 was 275 versus 260 at the end of fiscal 2001 as we opened 15 new stores. We achieved positive same store sales of 0.4% during the fourth quarter of fiscal 2002, representing the twenty-eighth consecutive quarter of positive quarterly same store sales results.

Gross Profit. Gross profit increased by $22.8 million, or 10.6%, to $237.6 million in fiscal 2002 from $214.8 million in fiscal 2001. Gross profit margin was 35.6% in fiscal 2002 compared to 34.5% in fiscal 2001. We were able to achieve higher gross profit margins primarily due to improved selling margins in the majority of our product categories, including favorable comparisons throughout our footwear and apparel categories. Improved margins in our skate category after the sale of excess scooter inventory in fiscal 2001 was the primary factor resulting in improved margins in our hard goods categories.

Selling and Administrative. Selling and administrative expenses increased by $14.9 million, or 9.3%, to $174.9 million in fiscal 2002 from $160.0 million in fiscal 2001. The increase was primarily due to an $8.9 million increase in store-related expenses associated with supporting increased sales, new store openings and increased employee health benefit costs and increased expenses due to electric utility rate increases in our California markets. Other factors impacting the increase included an increase of $1.2 million in advertising costs that resulted primarily from advertising expenditures for the 15 new stores opened in 2002 and the 15 new stores opened in 2001 and higher insurance related costs of $0.9 million primarily related to increased directors and officers insurance premiums after our initial public offering. The remaining increase in selling and administrative expenses resulted primarily from expenses incurred in connection with our initial public offering. These expenses include termination costs associated with our management services agreement with Leonard Green & Associates, L.P., an affiliate of Leonard Green & Partners, L.P., which were $0.9 million in 2002, as well as bonuses relating to our initial public offering paid to our executive officers and directors in 2002. The bonuses for that period totaled $2.0 million and were funded through a reduction of the redemption price that would otherwise have been applicable to redemption of our outstanding preferred stock. When measured as a percentage of net sales and adjusting on a pro forma basis to exclude expenses related to our initial public offering of common stock, selling and administrative expenses were 25.7% for both 2002 and 2001. GAAP selling and administrative expenses when measured as a percentage of net sales were 26.2% for fiscal 2002 versus 25.7% for fiscal 2001 reflecting the impact as a percentage of sales of the

expenses incurred in connection with our initial public offering described above. (See note 3 to “Selected Consolidated Financial and Other Data”)

Depreciation and Amortization. Depreciation and amortization expense decreased by $0.1 million in fiscal 2002 compared to fiscal 2001 as a result of the implementation of SFAS No. 142, *Goodwill and Other Intangible Assets*, effective December 31, 2001, which reduced amortization expense by $0.1 million in 2002.

Interest Expense, net. Interest expense, net decreased by $3.8 million, or 19.4%, to $15.8 million in fiscal 2002 from $19.6 million in fiscal 2001. This decrease reflected lower average daily debt balances and lower average interest rates on our credit facility in fiscal 2002 versus fiscal 2001. In fiscal 2002, we used some of the proceeds from our initial public offering to redeem all of our outstanding senior discount notes for an aggregate redemption price of approximately $27.5 million. Interest expense, net included expense related to those senior discount notes of $2.1 million in fiscal 2002 versus $4.1 million fiscal 2001.

Income Taxes. Provision for income taxes was $15.2 million for fiscal 2002 and $9.2 million for fiscal 2001. Our effective income tax rate was 41.1% for fiscal 2002 and 40.8% for fiscal 2001. Our effective rate includes primarily Federal income taxes of 34% and state income taxes, net of Federal income tax benefit of 7%. The effective rate is subject to ongoing evaluation by management.

Extraordinary Gain/Loss from Early Extinguishment of Debt. We incurred an extraordinary loss of $2.7 million, net of taxes, for 2002, due primarily to the redemption of $25.4 million face value of our senior discount notes. We incurred an extraordinary gain of $1.6 million, net of taxes, for 2001, in connection with the repurchase of $12.5 million face value of our senior discount notes. See discussion of “Impact of New Accounting Pronouncements” below.

Fiscal 2001 Compared to Fiscal 2000

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

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

Selling and Administrative. Selling and administrative expenses increased by $15.3 million, or 10.6%, to $160.0 million in fiscal 2001 from $144.7 million in fiscal 2000. The increase was primarily due to a $10.1 million increase in store personnel and other store related expenses associated with supporting increased sales, new store openings, and increase in the minimum wage, regional hiring pressures during much of the year and increased expenses related to electric utility rate increases primarily in our California markets. Other factors impacting the increase included an increase of $2.5 million in advertising costs that resulted primarily from increased advertising during parts of 2001 and new store openings, and a $0.9 million expense related to added store labor hours allocated to implement our new point-of-sale systems. When measured as a percentage of net sales, selling and administrative expenses were 25.7% in 2001 compared to 25.3% in 2000.

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

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

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

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

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

Liquidity and Capital Resources

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

Net cash provided by operating activities for 2002 and 2001 was $32.1 million and $31.5 million, respectively. The change between periods primarily reflected higher operating income before extraordinary gain (loss) in 2002.

Capital expenditures for 2002 and 2001 were $10.2 million and $10.5 million, respectively. We expect capital expenditures for fiscal 2003 will range from $11.0 to $12.0 million, primarily to fund the opening of approximately 16 to 20 new stores, store improvements and remodelings, warehouse and headquarters improvements and computer hardware and software expenditures. Our store format requires a low investment in furniture and equipment (approximately $400,000), working capital (approximately $400,000, net of amount financed by vendors through trade payables, which is typically one-third) and real estate (leased “built-to-suit” locations).

Net cash used in financing activities in 2002 was $20.3 million versus net cash used by financing activities of $16.9 million in 2001. As of December 29, 2002, we had borrowings of $22.3 million and letter of credit commitments of $4.3 million outstanding under our credit facility and $102.9 million of our senior notes outstanding. These balances compare to borrowings of $25.0 million and letter of credit commitments of $3.4 million outstanding under our credit facility and $103.8 million of our senior notes outstanding as of December 30, 2001. In February 2002, we repurchased $2.8 million face value of our senior discount notes. In June and July of 2002 we used $19.0 million in net borrowings from our credit facility, combined with $84.0 million in net proceeds from our initial public offering and subsequent exercise of the underwriters’ over-allotment option, to redeem in full our senior discount notes for $27.5 million, redeem in full our redeemable preferred stock for $67.9 million, repurchase common stock from our non-executive employees for $6.9 million and pay special bonuses to executive officers and directors for $1.9 million. During 2002, we repurchased $1.0 million face value of our senior notes. During 2001, we repurchased $12.5 million face value of our senior discount notes.

We had cash of $9.4 million and $7.9 million at December 29, 2002 and December 30, 2001, respectively. Subsequent to fiscal 2002, in the first quarter of 2003, we redeemed $20.0 million face value of our senior notes.

We believe we will be able to fund our future cash requirements for operations from operating cash flows, cash on hand and borrowings under our credit facility. We believe these sources of funds will be sufficient to continue our operations and planned capital expenditures and satisfy our scheduled payments under debt obligations for at least the next twelve months. However, our ability to satisfy such obligations depends upon our future performance, which in turn is subject to general economic conditions and regional risks, and to financial, business and other factors affecting our operations, including factors beyond our control. See "Risk Factors."

Our principal future obligations and commitments as of December 29, 2002, excluding periodic interest payments, include the following:

	Payments Due by Period				
	Total	1 Year	2-3 Years	4-5 Years	After 5 Years
			(in thousands)		
Long-term debt	$102,852	—	—	—	$102,852
Operating lease commitments	267,257	36,855	69,844	54,710	105,848
Revolving credit facility	22,280	—	22,280	—	—
Letters of credit	4,278	4,278	—	—	—
Total	$396,667	$41,133	$92,124	$54,710	$208,700

Long-term debt consists of our senior notes that mature on November 13, 2007. We expect to repay our senior notes by the maturity date using a combination of drawings under our existing or replacement credit facility, expansion of our credit facility or replacement of the credit facility and the issuance of debt or equity securities.

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

We had a five-year, non-amortizing $125 million revolving credit facility, which was amended and restated to a three-year non-amortizing $140 million revolving credit facility subsequent to year-end. The amended and restated credit facility may be terminated by the lenders by giving at least 90 days prior written notice before any anniversary date, commencing with its anniversary date on March 20, 2006. We may terminate the amended and restated credit facility by giving at least 30 days prior written notice, provided that if we terminate prior to March 20, 2006, we must pay an early termination fee. Unless it is terminated, the amended and restated credit facility will continue on an annual basis from anniversary date to anniversary date beginning on March 21, 2006. The amended and restated credit facility bears interest at various rates based on our performance, with a floor of LIBOR plus 1.50% or the Chase Manhattan prime lending rate and a ceiling of LIBOR plus 2.50% or the Chase Manhattan prime lending rate plus 0.75% and is secured by trade accounts receivable, merchandise inventory and general intangible assets (including trademarks and trade names) of ours. At December 29, 2002, loans under the amended and restated credit facility bear interest at a rate of LIBOR (1.30% at December 29, 2002) plus 1.50% or the Chase Manhattan prime lending rate (4.25% at December 29, 2002). An annual fee of 0.325%, payable monthly, is assessed on the unused portion of the amended and restated credit facility. On December 29, 2002, we had $22.3 million in LIBOR and prime lending rate borrowings and letters of credit of $4.3 million outstanding. Our maximum eligible borrowing available under the amended and restated credit facility is limited to 70% of the aggregate value of eligible inventory during November through February and 65% of the aggregate value of eligible inventory during November through February and 65% of the aggregate value of eligible inventory during the remaining months of the year. Available borrowings over and above actual LIBOR and prime rate borrowings and letters of credit outstanding on the amended and restated credit facility amounted to $91.6 million at December 29, 2002 and $58.3 million at March 20, 2003.

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

If we are unable to generate sufficient cash flow from operations to meet our obligations and commitments, we will be required to refinance or restructure our indebtedness or raise additional debt or equity capital. Additionally, we may be required to sell material assets or operations or delay or forego expansion opportunities. We might not be able to effect these alternative strategies on satisfactory terms, if at all.

Seasonality

We experience seasonal fluctuations in our net sales and operating results. In fiscal 2002, we generated 26.5% of our net sales and 35.2% of our operating income in the fourth fiscal quarter, which includes the holiday

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

Impact of Inflation

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

Impact of New Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143). This new pronouncement establishes financial accounting and reporting standards for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of SFAS No. 143 apply to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Management has not determined what impact, if any, this standard will have on our consolidated financial statements.

In April 2002, the FASB issued Statement No. 145, *Rescission of SFAS Statements No. 4, 44, and 64, Amendment of SFAS Statement No. 13, and Technical Corrections* (SFAS No. 145). SFAS No. 145 requires that the extinguishment of debt not be considered an extraordinary item under APB Opinion No. 30, *Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* (APB No. 30), unless the debt extinguishment meets certain criteria set forth in APB No. 30. These criteria, which include that the debt extinguishment be unusual in nature and occur infrequently, are expected to be satisfied infrequently. SFAS No. 145 rescinds SFAS Nos. 4, 44 and 64, amends SFAS Statement No. 13 and makes certain technical corrections to other standards. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002, although the voluntary early adoption is encouraged related to the provisions effecting SFAS No. 4, *Reporting Gains and Losses From Extinguishment of Debt*, which previously required gains and losses arising from debt extinguishments to be classified as an extraordinary item in the statement of operations. Upon adoption, enterprises must reclassify prior period items that do not meet the extraordinary item classification criteria in APB No. 30. The adoption of SFAS No. 145 is not expected to have a material impact on our financial condition or results of operations, although it will result in a reclassification of our extraordinary items.

In July 2002, the FASB issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS No. 146), which addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 will rescind EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)* (Issue No. 94-3). The principal difference between SFAS No.146 and Issue No. 94-3 relates to the recognition of a liability for a cost associated with an exit or disposal activity. SFAS No.146 requires that a liability be recognized for these costs only when the liability is incurred. In contrast, under Issue No. 94-3, a liability for an exit cost is recognized when the company commits to an exit plan. SFAS No. 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. Thus, SFAS No. 146 affirms the FASB's view that fair value is the most relevant and faithful representation of the economics of a transaction. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002, although voluntary early application of SFAS No. 146 is being encouraged. Issue No. 94-3 continues to apply to exit activities initiated under an exit plan that met the criteria of Issue No. 94-3 before the entity began applying SFAS No. 146. The adoption of SFAS No. 146 is not expected to have a material impact on our financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN No. 45), which addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. FIN No. 45 requires the recognition of a liability by a guarantor at the inception of

certain guarantees. FIN No. 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to be ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements. We have adopted the disclosure requirements of FIN No. 45 and will apply the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002. However, because we are not currently a guarantor, the adoption of FIN No. 45 is not expected to have a material impact on our financial condition or results of operations.

In December 2002, the FASB issued Statement No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123* (SFAS No. 148). SFAS No. 148 amends Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), to provide alternative methods of transition for enterprises that elect to adopt the SFAS No. 123 fair value method of accounting for stock-based employee compensation. SFAS No. 148 permits two additional transition methods for entities that adopt the SFAS No. 123 fair value methods, both of which avoid the ramp-up effect arising from prospective application of the fair value method under the existing transition provisions of SFAS No. 123. The SFAS No. 123 prospective method of transition for changes to the fair value method will no longer be permitted for fiscal periods beginning after December 15, 2003. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The new disclosure requirements of SFAS No. 148 are effective for fiscal years ended after December 15, 2002, although earlier application is being encouraged. We have adopted SFAS No. 148, which did not have a material effect on our consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN No. 46). This interpretation clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements (*ARB No. 51), and requires companies to evaluate variable interest entities for specific characteristics to determine whether additional consolidation and disclosure requirements apply. This interpretation is immediately applicable for variable interest entities created after January 31, 2003 and applies to fiscal periods beginning after June 15, 2003 for variable interest entities acquired prior to February 1, 2003. We do not expect that the adoption of this interpretation will have any impact on our financial position or results of operations.

EITF Issue No. 02-16, “Accounting by a Reseller for Cash Consideration Received from a Vendor,” provides that cash consideration received from a vendor is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction in cost of sales unless it is a payment for assets or services delivered to the vendor, in which case the cash consideration should be characterized as revenue, or unless it is a reimbursement of costs incurred to sell the vendor's products, in which case the cash consideration should be characterized as a reduction of that cost. EITF No. 02-16 becomes effective for us in the first quarter of 2003. We are currently analyzing the effect that adoption of EITF No. 02-16 will have on our financial statements.

Forward-Looking Statements

This document includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, our financial condition, our results of operations, our growth strategy and the business of our company generally. In some cases, you can identify such statements by terminology such as “may”, “will”, “should”, “expects”, “plans”, “anticipates”, “believes”, “intends” or other such terminology. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. These risks and uncertainties include, without limitation, the risk factors set forth elsewhere in this report and other risks and uncertainties more fully described in our other filings with the Securities and Exchange Commission. We caution that the risk factors set forth in this report are not exclusive. We disclaim any obligation to revise or update any forward-looking statement that may be made from time to time by us or on our behalf.

Risk Factors That May Affect Future Results and Market Price of Our Common Stock

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

Risks Related to Our Business

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

We have a substantial amount of debt. As of February 23, 2003, the aggregate principal amount of our outstanding indebtedness was approximately $133.5 million. Our highly leveraged financial position means:

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

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

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

If we are unable to generate sufficient cash flow from operations to meet our obligations and commitments, we will be required to refinance or restructure our indebtedness or raise additional debt or equity capital. Additionally, we may be required to sell material assets or operations or delay or forego expansion opportunities. These alternative strategies might not be effected on satisfactory terms, if at all.

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

The terms of our debt instruments impose operating and financial restrictions on us, including, among other things, restrictions on our ability to incur additional indebtedness, create or allow liens, pay dividends, engage in mergers, acquisitions or reorganizations or make specified capital expenditures. For example, our ability to engage in the foregoing transactions will depend upon, among other things, our level of indebtedness at the time of the proposed transaction and whether we are in default under our financing agreements. As a result, our ability to respond to changing business and economic conditions and to secure additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might further our growth strategy or otherwise benefit us without obtaining consent from our lenders. In addition, our credit facility is secured by a first priority security interest in our trade accounts receivable, merchandise inventories, service marks and trademarks and other general intangible assets, including trade names. In the event of our insolvency, liquidation, dissolution or reorganization, the lenders under our debt instruments would be entitled to payment in full from our assets before distributions, if any, were made to our stockholders.

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

One of our strategies includes opening profitable stores in new and existing markets. Our ability to successfully implement our growth strategy could be negatively affected by any of the following:

- suitable sites may not be available for leasing;
- we may not be able to negotiate acceptable lease terms;
- we might not be able to hire and retain qualified store personnel; and
- we might not have the financial resources necessary to fund our expansion plans.

In addition, our expansion in new and existing markets may present competitive, distribution and merchandising challenges that differ from our current challenges. These potential new challenges include competition among our stores, added strain on our distribution center, additional information to be processed by our

management information systems and diversion of management attention from ongoing operations. We face additional challenges in entering new markets, including consumers' lack of awareness of us, difficulties in hiring personnel and problems due to our unfamiliarity with local real estate markets and demographics. New markets may also have different competitive conditions, consumer tastes and discretionary spending patterns than our existing markets. To the extent that we are not able to meet these new challenges, our net sales could decrease and our operating costs could increase.

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

Our stores are located in the western United States. Because of this, we are subject to regional risks, such as the economy, weather conditions, power outages, the increasing cost of electricity and earthquakes and other natural disasters specific to the states in which we operate. For example, particularly in southern California where we have a high concentration of stores, seasonal factors such as unfavorable snow conditions, such as those that occurred in the winter of 2002-2003, inclement weather or other localized conditions such as flooding, earthquakes or electricity blackouts could harm our operations. If the region were to suffer an economic downturn or other adverse regional event, our net sales and profitability and our ability to implement our planned expansion program could suffer. Several of our competitors operate stores across the United States and thus are not as vulnerable to these regional risks.

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

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

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

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

- earthquake, fire, flood and other natural disasters;
- power loss, computer systems failures, internet and telecommunications or data network failure, operator negligence, improper operation by or supervision of employees, physical and electronic loss of data or security breaches, misappropriation and similar events; and
- computer viruses.

Any failure that causes an interruption in our operations or a decrease in inventory tracking could result in reduced net sales.

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

We purchase merchandise from over 750 vendors. Although we did not rely on any single vendor for more than 5.5% of our total purchases during the twelve months ended December 29, 2002, our dependence on principal suppliers involves risk. Our 20 largest vendors collectively accounted for 35.2% of our total purchases during the twelve months ended December 29, 2002. If there is a disruption in supply from a principal supplier or distributor, we may be unable to obtain merchandise that we desire to sell and that consumers desire to purchase. In addition, a significant portion of the products that we purchase, including those purchased from domestic suppliers,

are manufactured abroad. A vendor could discontinue selling products to us at any time for reasons that may or may not be in our control. Our net sales and profitability could decline if we are unable to promptly replace a vendor who is unwilling or unable to satisfy our requirements with a vendor providing equally appealing products.

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

We currently rely on a single distribution center in Fontana, California. Any natural disaster or other serious disruption to this distribution center due to fire, earthquake or any other cause could damage a significant portion of our inventory and could materially impair both our ability to adequately stock our stores and our net sales and profitability. If the security measures used at our distribution center do not prevent inventory theft, our gross margin may significantly decrease. In August 2002, we entered into a two-year lease for an additional 136,000 square foot satellite distribution center to handle seasonal merchandise and returns. In addition, because of limited capacity at the current distribution center, we will need to build a replacement distribution center in the next 18 to 24 months. Any disruption to, or delay in, this process could harm our future operations.

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

Green Equity Investors, L.P., an affiliate of Leonard Green & Partners, L.P., holds a significant equity interest in us and also holds an equity interest in Gart Sports Company, one of our competitors. John G. Danhakl, an executive officer and equity owner of Leonard Green & Partners, L.P., currently serves on our board of directors. Jonathan Sokoloff and Jonathan Seiffer, equity owners of Leonard Green & Partners, L.P. and former members of our board of directors, currently serve on Gart Sports Company's board of directors. Mr. Danhakl may have conflicts of interest with respect to certain matters affecting us, including the pursuit of certain business opportunities presented to Leonard Green & Partners, L.P. All potential conflicts may not be resolved in a manner that is favorable to us. We believe it is impossible to predict the precise circumstances under which future potential conflicts may arise and therefore intend to address potential conflicts on a case-by-case basis. Under Delaware law, directors have a fiduciary duty to act in good faith and in what they believe to be in the best interest of the corporation and its stockholders. Such duties include the duty to refrain from impermissible self-dealing and to deal fairly with respect to transactions in which the directors, or other companies with which such directors are affiliated, have an interest.

Risks Related to Our Industry

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

In general, our sales represent discretionary spending by our customers. Discretionary spending is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, taxation, electricity power rates, unemployment trends and other matters that influence consumer confidence and spending. Our customers' purchases of discretionary items, including our products, could decline during periods when disposable income is lower or periods of actual or perceived unfavorable economic conditions. If this occurs, our net sales and profitability could decline.

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

We experience seasonal fluctuations in our net sales and operating results. In fiscal 2002, we generated 26.5% of our net sales and 35.2% of our operating income in the fourth fiscal quarter, which includes the holiday selling season as well as the peak winter sports selling season. As a result, we incur significant additional expenses in the fourth fiscal quarter due to higher purchase volumes and increased staffing. If we miscalculate the demand for our products generally or for our product mix during the fourth fiscal quarter, our net sales could decline, resulting in excess inventory, which could harm our financial performance. Because a substantial portion of our operating income is derived from our fourth fiscal quarter net sales, a shortfall in expected fourth fiscal quarter net sales could cause our annual operating results to suffer significantly.

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

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

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

Some of our competitors have a larger number of stores and greater financial, distribution, marketing and other resources than we have. Two of our major competitors, The Sports Authority and Gart Sports Company, recently announced that they have entered into a merger agreement and that the merger is expected to close in the third calendar quarter of 2003. In addition, if our competitors reduce their prices, it may be difficult for us to reach our net sales goals without reducing our prices. As a result of this competition, we may also need to spend more on advertising and promotion than we anticipate. If we are unable to compete successfully, our operating results will suffer.

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

We sell products manufactured by third parties, some of which may be defective. If any product that we sell were to cause physical injury or injury to property, the injured party or parties could bring claims against us as the retailer of the product. Our insurance coverage may not be adequate to cover every claim that could be asserted against us. If a successful claim were brought against us in excess of our insurance coverage, it could harm our business. Even unsuccessful claims could result in the expenditure of funds and management time and could have a negative impact on our business. In addition, our products are subject to the Federal Consumer Product Safety Act, which empowers the Consumer Product Safety Commission to protect consumers from hazardous sporting goods and other articles. The Consumer Product Safety Commission has the authority to exclude from the market certain consumer products that are found to be hazardous. Similar laws exist in some states and cities in the United States. If we fail to comply with government and industry safety standards, we may be subject to claims, lawsuits, fines and negative publicity that could harm our operating results.

In addition, we sell firearms and ammunition, products associated with an increased risk of injury and related lawsuits. Sales of firearms and ammunition have historically represented less than 5% of our annual net sales. We may incur losses due to lawsuits relating to our performance of background checks on firearms purchases as mandated by state and federal law or the improper use of firearms sold by us, including lawsuits by municipalities or other organizations attempting to recover costs from firearms manufacturers and retailers relating to the misuse of firearms. In addition, in the future there may be increased federal, state or local regulation, including taxation, of the sale of firearms in both our current markets as well as future markets in which we may operate. Commencement of these lawsuits against us or the establishment of new regulations could reduce our net sales and decrease our profitability.

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

Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty. These preferences are also subject to change. Our success depends upon our ability to anticipate and respond in a timely manner to trends in sporting goods merchandise and consumers' participation in sports. If we fail to identify and respond to these changes, our net sales may decline. In addition, because we often make commitments to purchase products from our vendors up to six months in advance of the proposed delivery, if we

misjudge the market for our merchandise, we may over-stock unpopular products and be forced to take inventory markdowns that could have a negative impact on profitability.

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

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

Other Risks

The price of our common stock may be volatile.

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

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

We cannot predict the effect, if any, that the availability of shares of common stock for sale will have on the market price of our common stock prevailing from time to time. All of the outstanding shares of common stock belonging to executive officers, directors and other stockholders are currently "restricted securities" under the Securities Act. 13,613,513 shares are eligible for future sale in the public market at prescribed times pursuant to Rule 144 under the Securities Act, or otherwise. Sales of a significant number of these shares of common stock in the public market could reduce the market price of the common stock.

Green Equity Investors, L.P. owns 6,171,073 shares of our common stock and has the right, on two occasions, to require us to register these shares of common stock at any time pursuant to a registration rights agreement entered into in 1992. In addition, holders of 11,731,025 shares of our common stock, which includes the shares held by Green Equity Investors, L.P., have piggyback registration rights. If Green Equity Investors, L.P. exercises its right to require us to register its shares for resale, the market price of our common stock could decline.

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

Our executive officers and directors, their affiliates and affiliates of Leonard Green & Partners, L.P., together control approximately 48% of our outstanding common stock. As a result, these stockholders, if they act together, may be able to control, as a practical matter, all matters requiring our stockholders' approval, including the election of directors and approval of significant corporate transactions. In addition, we are a party to a stockholders agreement with Green Equity Investors, L.P. and Mr. Steven G. Miller and Mr. Robert W. Miller that entitles Green Equity Investors, L.P. to nominate one director to our board of directors for as long as it holds at least 5% of our outstanding shares. The agreement also provides that Mr. Steven G. Miller and Mr. Robert W. Miller will vote their shares in favor of Green Equity Investors, L.P.'s nominee and that Green Equity Investors, L.P. will vote its shares to elect Mr. Steven G. Miller and Mr. Robert W. Miller to our board of directors. We are also a party to employment agreements with Mr. Steven G. Miller and Mr. Robert W. Miller that require us to use our best efforts to ensure that each of them continues to be a member of our board of directors. As a result, this concentration of ownership and representation on our board of directors may delay, prevent or deter a change in control, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of the company or its assets and might reduce the market price of our common stock.

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

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

- a board of directors that is classified such that only one-third of directors are elected each year;
- authorization of the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;
- limitations on the ability of stockholders to call special meetings of stockholders;
- prohibition of stockholder action by written consent and requiring all stockholder actions to be taken at a meeting of our stockholders; and
- establishment of advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

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

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to risks resulting from interest rate fluctuations since interest on our borrowings under our revolving credit facility are based on variable rates. If the LIBOR rate were to increase 1.0% in 2003 as compared to the rate at December 29, 2002, our interest expense for 2003 would increase $0.23 million based on the outstanding balance of our revolving credit facility at December 29, 2002. We do not hold any derivative instruments and do not engage in hedging activities.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and the supplementary financial information required by this Item and included in this report are listed in the Index to Consolidated Financial Statements beginning on page F-1.

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

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended December 29, 2002.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended December 29, 2002.

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

Equity Compensation Plan Information (1)

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders (2)	61,000	$12.91	3,584,000(3)
Equity compensation plans not approved by security holders (none)	—	—	—
Total	61,000	$12.91	3,584,000(3)

(1) Information is provided as of December 29, 2002.

(2) The Company has two equity compensation plans: the 1997 Management Equity Plan and the 2002 Stock Incentive Plan.

(3) Does not include 611,298 shares available for issuance under the 1997 Management Equity Plan because the Company does not intend to make any more grants under such plan.

The remaining information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended December 29, 2002.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended December 29, 2002.

ITEM 14: CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that (1) information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified by the Securities and Exchange Commission and (2) this information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In March 2003, under the supervision and review of our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective in alerting them in a timely manner to material information regarding us that is required to be included in our periodic reports. In addition, there have been no significant changes in our internal controls or in other factors that could significantly affect those controls since our March 2003 evaluation. We cannot assure you, however, that our system of disclosure controls and procedures will always achieve its stated goals under all future conditions.

PART IV

ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) Documents filed as part of this report:

(1) Financial Statements.

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

(2) Financial Statement Schedule.

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

(3) Exhibits and Reports on Form 8-K.

(a)	Exhibits	
	3.1	Amended and Restated Certificate of Incorporation of Big 5 Sporting Goods Corporation. (7)
	3.2	Amended and Restated Bylaws. (7)
	4.1	Specimen of Common Stock Certificate. (5)
	4.2	Indenture dated as of November 13, 1997 between Big 5 Corp. and First Trust National Association, as trustee. (1)
	4.3	Form of Big 5 Corp. 10.875% Series B Senior Notes due 2007 (included in Exhibit 4.2). (1)
	4.4	Indenture dated as of November 13, 1997 between Big 5 Sporting Goods Corporation and First Trust National Association, as trustee. (2)
	4.5	Form of Big 5 Sporting Goods Corporation 13.45% Senior Discount Notes due 2008. (2)
	10.1	Form of Amended and Restated Stockholders Agreement among Big 5 Sporting Goods Corporation, Green Equity Investors, L.P., Steven G. Miller and Robert W. Miller. (4)
	10.2	Management Services Agreement dated as of November 13, 1997 by and among Big 5 Sporting Goods Corporation, Big 5 Corp. and Leonard Green & Associates, L.P. (1)
	10.3	1997 Management Equity Plan. (2)
	10.4	2002 Stock Incentive Plan. (4)
	10.5	Form of Amended and Restated Employment Agreement between Robert W. Miller and Big 5 Sporting Goods Corporation. (4)
	10.6	Form of Amended and Restated Employment Agreement between Steven G. Miller and Big 5 Sporting Goods Corporation (4)
	10.7	Amended and Restated Indemnification Implementation Agreement between Big 5 Corp. (successor to United Merchandising Corp.) and Thrifty PayLess Holdings, Inc. dated as of April 20, 1994. (7)
	10.8	Agreement and Release among Pacific Enterprises, Thrifty PayLess Holdings, Inc., Thrifty PayLess, Inc., Thrifty and Big 5 Corp. (successor to United Merchandising Corp.) dated as of March 11, 1994. (7)
	10.9	Financing Agreement dated March 8, 1996 between The CIT Group/ Business Credit, Inc. and Big 5 Corp. (7)
	10.10	Grant of Security Interest in and Collateral Assignment of Trademarks and Licenses dated as of March 8, 1996 by Big 5 Corp. in favor of The CIT Group/ Business Credit, Inc. (7)

(a)	Exhibits	
	10.11	Guarantee dated March 8, 1996 by Big 5 Corporation (now known as Big 5 Sporting Goods Corporation) in favor of The CIT Group/ Business Credit, Inc. (7)
	10.12	Letter agreement from The CIT Group/ Business Credit, Inc. to Big 5 Corp. dated November 13, 1997, amending the Financing Agreement dated March 8, 1996 between Big 5 Corp. (successor to United Merchandising Corp.) and The CIT Group/ Business Credit, Inc. (1)
	10.13	Letter agreement from The CIT Group/ Business Credit, Inc. to Big 5 Corp. dated December 16, 1997, amending the Financing Agreement dated March 8, 1996 between Big 5 Corp. (successor to United Merchandising Corp.) and The CIT Group/ Business Credit, Inc. (2)
	10.14	Fifth Amendment to Financing Agreement, dated March 21, 2000, by and among Big 5 Corp. and The CIT Group/ Business Credit, Inc., amending the Financing Agreement, dated March 8, 1996, between Big 5 Corp. (successor to United Merchandising Corp.) and The CIT Group/ Business Credit, Inc. (2)
	10.15	Sixth Amendment to Financing Agreement, dated February 27, 2002, by and among Big 5 Corp. and The CIT Group/ Business Credit, Inc., amending the Financing Agreement, dated March 8, 1996, between Big 5 Corp. (successor to United Merchandising Corp.) and The CIT Group/ Business Credit, Inc. (3)
	10.16	Seventh Amendment to Financing Agreement, dated April 30, 2002, by and among Big 5 Corp. and The CIT Group/Business Credit, Inc., amending the Financing Agreement, dated March 8, 1996, between Big 5 Corp. (successor to United Merchandising Corp.) and The CIT Group/Business Credit, Inc. (5)
	10.17	Form of Indemnification Agreement. (7)
	10.18	Form of Termination Agreement by and among Big 5 Sporting Goods Corporation, Big 5 Corp. and Leonard Green & Associates, L.P. (4)
	10.19	Stock Subscription Agreement dated as of September 25, 1992, between Big 5 Sporting Goods Corporation and Green Equity Investors, L.P. (4)
	10.20	Letter agreement from The CIT Group/Business Credit, Inc. to Big 5 Corp. dated April 17, 1996, amending the Financing Agreement dated March 8, 1996, between Big 5 Corp. (successor to United Merchandising Corp.) and The CIT Group/Business Credit, Inc. (4)
	10.21	Letter agreement from The CIT Group/Business Credit, Inc. to Big 5 Corp. dated August 11, 1997, amending the Financing Agreement dated March 8, 1996, between Big 5 Corp. (successor to United Merchandising Corp.) and The CIT Group/Business Credit, Inc. (4)
	10.22	Letter agreement from The CIT Group/Business Credit, Inc. to Big 5 Corp. dated June 13, 2002, under the Financing Agreement dated March 8, 1996, between Big 5 Corp. (successor to United Merchandising Corp.) and The CIT Group/Business Credit, Inc. (5)
	10.23	Form of Indemnification Letter Agreement. (5)
	10.24	Form of Subscription Agreement between Big 5 Sporting Goods Corporation and Green Equity Investors, L.P. (6)
	10.25	Form of Subscription Agreement between Big 5 Sporting Goods Corporation and Grand Avenue Associates, L.P. (6)
	10.26	Amended and Restated Financing Agreement dated March 20, 2003 between The CIT Group/Business Credit, Inc., the Lenders and Big 5 Corp. (7)
	10.27	Modification and Reaffirmation of Guaranty dated March 20, 2003 by Big 5 Sporting Goods Corporation in favor of The CIT Group/Business Credit, Inc. (7)
	21.1	Subsidiaries of Big 5 Sporting Goods Corporation. (2)
	99.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (7)
	99.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (7)

(a) Exhibits

(1) Incorporated by reference to Big 5 Corp.'s Registration Statement on Form S-4 (File No. 333-43129) filed with the Securities and Exchange Commission on December 23, 1997.

(2) Incorporated by reference to the Registration Statement on Form S-1 (File No. 333-68094) filed by Big 5 Sporting Goods Corporation on August 21, 2001.

(3) Incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1 filed by Big 5 Sporting Goods Corporation on March 18, 2002.

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

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

(6) Incorporated by reference to Amendment No. 5 to the Registration Statement on Form S-1 filed by Big 5 Sporting Goods Corporation on June 25, 2002.

(7) Filed herewith.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BIG 5 SPORTING GOODS CORPORATION
a Delaware Corporation

Date: March 31, 2003

By: /S/Steven G. Miller

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

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

Signatures	Title	Date
/S/Steven G. Miller Steven G. Miller	Chairman of the Board of Directors, President, Chief Executive Officer and Director of the Company (Principal Executive Officer)	March 31, 2003
/S/Charles P. Kirk Charles P. Kirk	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2003
/S/Robert W. Miller Robert W. Miller	Chairman Emeritus of the Board of Directors and Director of the Company	March 31, 2003
/S/Sandra N. Bane Sandra N. Bane	Director of the Company	March 31, 2003
/S/ G. Michael Brown G. Michael Brown	Director of the Company	March 31, 2003
John G. Danhakl	Director of the Company	
/S/Michael D. Miller Michael D. Miller	Director of the Company	March 31, 2003

CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-K of Big 5 Sporting Goods Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) Designed such disclosure controls and procedures 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 annual report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ Steven G. Miller

Steven G. Miller
President and Chief Executive Officer

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

1. I have reviewed this annual report on Form 10-K of Big 5 Sporting Goods Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) Designed such disclosure controls and procedures 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 annual report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ Charles P. Kirk

Charles P. Kirk
Senior Vice President and Chief Financial Officer

BIG 5 SPORTING GOODS CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

We are responsible for the preparation of our consolidated financial statements and related information appearing in this Annual Report. We believe that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present our financial position and results of operations in conformity with generally accepted accounting principles. We also have included in our financial statements amounts that are based on estimates and judgments which we believe are reasonable under the circumstances.

The independent auditors audit our consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position.

Our board of directors has a standing audit committee, which is chaired by Sandra N. Bane and currently consists of Ms. Bane and Messrs. Brown and Danhakl. Ms. Bane and Mr. Brown are "independent" as that term is defined in Marketplace Rule 4200(a)(14) of the National Association of Securities Dealers' listing standards. However, Mr. Danhakl may not be considered to be "independent," as a result of the fact that he may be deemed to be an affiliate of Green Equity Investors, L.P., the Company's principal stockholder. Notwithstanding Mr. Danhakl's lack of independence, the board of directors has determined that Mr. Danhakl's presence on the audit committee is beneficial to the Company because of his extensive experience with respect to sophisticated financial matters. In addition, Mr. Danhakl has developed a thorough understanding of the Company's financial accounting as a result of his several years of service as a director of the Company. The audit committee meets periodically with financial management and the independent auditors to review accounting, internal control, auditing and financial reporting matters.

/s/ Steven G. Miller

Steven G. Miller
Chairman of the Board, President & Chief Executive Officer

/s/ Charles P. Kirk

Charles P. Kirk
Chief Financial Officer

El Segundo, California
March 31, 2003

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Big 5 Sporting Goods Corporation:

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Big 5 Sporting Goods Corporation and subsidiary as of December 30, 2001 and December 29, 2002 and the results of their operations and their cash flows for each of the fiscal years ended December 31, 2000, December 30, 2001 and December 29, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 17 to the consolidated financial statements, effective December 31, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

As discussed in note 19 to the consolidated financial statements, the Company has restated its consolidated balance sheet as of December 30, 2001 and its consolidated statements of operations and stockholders' equity (deficit) for each of the years ended December 31, 2000 and December 30, 2001.

KPMG LLP

Los Angeles, California
February 11, 2003

BIG 5 SPORTING GOODS CORPORATION
Consolidated Balance Sheets
(dollars in thousands)

	December 30, 2001	December 29, 2002
	As restated (note 19)	
Assets		
Current assets:		
Cash	$ 7,865	9,441
Trade and other receivables, net of allowances for doubtful accounts of $671 and $729, respectively	8,229	9,057
Merchandise inventories	163,680	169,529
Prepaid expenses	1,469	2,385
Total current assets	181,243	190,412
Property and equipment:		
Land	186	186
Buildings and improvements	31,903	36,861
Furniture and equipment	51,007	55,930
Less accumulated depreciation and amortization	(40,446)	(47,873)
Net property and equipment	42,650	45,104
Deferred income taxes, net	13,708	9,658
Leasehold interest, net of accumulated amortization of $21,264 and $23,053, respectively	7,600	5,811
Other assets, at cost, less accumulated amortization of $4,871 and $4,974, respectively	4,249	2,557
Goodwill	4,433	4,433
Total assets	$253,883	257,975
Liabilities, Redeemable Preferred Stock and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 62,307	67,937
Accrued expenses	52,643	49,708
Total current liabilities	114,950	117,645
Deferred rent	11,096	11,525
Long-term debt	153,351	125,131
Total liabilities	279,397	254,301
Commitments and contingencies		
Redeemable Series A 13.45% Senior Exchangeable Preferred Stock, $0.01 par value. Authorized 350,000 shares; issued and outstanding 0 shares at December 29, 2002 and 350,000 shares at December 30, 2001	58,911	—
Stockholders' equity (deficit):		
Preferred stock $0.01 par value. Authorized 2,650,000 shares; no shares issued and outstanding at December 30, 2001 and December 29, 2002	—	—
Common stock, $.01 par value. Authorized 50,000,000 shares; issued and outstanding 15,602,220 shares at December 30, 2001 and 22,178,018 shares at December 29, 2002	156	222
Additional paid-in capital	7,058	84,008
Accumulated deficit	(91,639)	(80,556)
Net stockholders' equity (deficit)	(84,425)	3,674
Total liabilities, redeemable preferred stock and stockholders' equity (deficit)	$253,883	257,975

See accompanying notes to consolidated financial statements.

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

	Year ended December 31, 2000	Year ended December 30, 2001	Year ended December 29, 2002
Net sales	$571,476	622,481	667,469
Cost of goods sold, buying and occupancy	377,040	407,679	429,858
Gross profit	194,436	214,802	237,611
Operating expenses:			
Selling and administrative	144,703	160,044	174,868
Litigation settlement (note 11)	—	2,515	—
Depreciation and amortization	9,340	10,031	9,966
Total operating expenses	154,043	172,590	184,834
Operating income	40,393	42,212	52,777
Interest expense	22,008	19,629	15,825
Income before income taxes and extraordinary gain (loss)	18,385	22,583	36,952
Income taxes	7,324	9,218	15,175
Income before extraordinary gain (loss)	11,061	13,365	21,777
Extraordinary gain (loss) from early extinguishment of debt, net of income taxes	87	1,600	(2,695)
Net income	11,148	14,965	19,082
Redeemable preferred stock dividends and redemption premium	6,400	7,284	7,999
Net income available to common stockholders	$ 4,748	7,681	11,083
Earnings per share:			
Basic, as restated (note 19)	$ 0.35	0.54	0.60
Diluted	$ 0.30	0.48	0.57
Weighted average shares of common stock outstanding:			
Basic, as restated (note 19)	13,525	14,247	18,358
Diluted	16,094	16,090	19,476

See accompanying notes to consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION

Consolidated Statements of Stockholders' Equity (Deficit)

Years ended December 31, 2000, December 30, 2001 and December 29, 2002

(dollars in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Net Stockholders' Equity (Deficit)
	Shares	Amount			
Balance at January 2, 2000, as restated (note 19)	15,607,890	$156	$ 7,061	($104,068)	($ 96,851)
Redeemable preferred stock dividend	—	—	—	(6,400)	(6,400)
Repurchase of common stock	(3,240)	—	(2)	—	(2)
Net income	—	—	—	11,148	11,148
Balance at December 31, 2000, as restated (note 19)	15,604,650	156	7,059	(99,320)	(92,105)
Redeemable preferred stock dividend	—	—	—	(7,284)	(7,284)
Repurchase of common stock	(2,430)	—	(1)	—	(1)
Net income	—	—	—	14,965	14,965
Balance at December 30, 2001, as restated (note 19)	15,602,220	156	7,058	(91,639)	(84,425)
Redeemable preferred stock dividend and redemption premiums	—	—	—	(7,999)	(7,999)
Issuance of common stock	7,112,421	71	86,243	—	86,314
Repurchase of common stock	(536,623)	(5)	(6,951)	—	(6,956)
Stock issuance costs	—	—	(2,342)	—	(2,342)
Net income	—	—	—	19,082	19,082
Balance at December 29, 2002	22,178,018	$222	$84,008	($ 80,556)	$ 3,674

See accompanying notes to consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION
Consolidated Statements of Cash Flows
(dollars in thousands)

	Year ended December 31, 2000	Year ended December 30, 2001	Year ended December 29, 2002
Cash flows from operating activities:			
Net income	$ 11,148	14,965	19,082
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,340	10,031	9,966
Amortization of deferred finance charges and discounts	4,684	3,932	2,291
Deferred tax provision (benefit)	(5,492)	806	4,050
Loss on disposal of equipment and leasehold interest	278	43	6
Extraordinary (gain) loss from early extinguishment of debt	(148)	(2,662)	4,557
Changes in assets and liabilities:			
Merchandise inventories	(13,698)	5,301	(5,849)
Trade and other accounts receivable, net	(498)	(800)	(828)
Prepaid expenses and other assets	182	(959)	(566)
Accounts payable	6,538	(4,204)	1,330
Accrued expenses	7,523	5,068	(1,924)
Net cash provided by operating activities	19,857	31,521	32,115
Cash flows from investing activities - purchases of property and equipment	(11,602)	(10,510)	(10,207)
Cash flows from financing activities:			
Net borrowings (repayments) under revolving credit facilities, and other	(2,252)	(10,210)	1,579
Issuance of common stock	—	—	86,314
Stock issuance costs	—	—	(2,342)
Repayment of Notes	(7,339)	(6,688)	(31,006)
Redemption of preferred stock	—	—	(67,921)
Repurchase of common stock	(2)	(1)	(6,956)
Net cash used in financing activities	(9,593)	(16,899)	(20,332)
Net increase (decrease) in cash	(1,338)	4,112	1,576
Cash at beginning of year	5,091	3,753	7,865
Cash at end of year	$ 3,753	7,865	9,441
Supplemental disclosures of non-cash financing activities:			
Accreted dividends on preferred stock	$ 6,400	7,284	3,529
Supplemental disclosures of cash flow information:			
Interest paid	$ 17,013	14,690	13,066
Income taxes paid	8,143	13,820	11,850

See accompanying notes to consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION
Notes to Consolidated Financial Statements
December 30, 2001 and December 29, 2002
(dollars in thousands)

(1) Basis of Presentation and Description of Business

The accompanying consolidated financial statements as of December 30, 2001 and December 29, 2002 and for the years ended December 31, 2000, December 30, 2001 and December 29, 2002 represent the financial position and results of operations of Big 5 Sporting Goods Corporation and its wholly owned subsidiary, Big 5 Corp. ("Big 5 Corp."). The Company operates in one business segment, as a sporting goods retailer under the Big 5 Sporting Goods name carrying a broad range of hardlines, softlines and footwear, operating 275 stores at December 29, 2002 in California, Washington, Arizona, Oregon, Texas, New Mexico, Nevada, Utah, Idaho and Colorado.

(2) Initial Public Offering

In the second quarter of 2002, the Company completed an initial public offering of 8.1 million shares of common stock, of which 1.6 million shares were sold by selling stockholders. In the third quarter of 2002, the Company's underwriters exercised their right to purchase an additional 1.2 million shares through their over-allotment option, of which 0.5 million shares were sold by selling stockholders. With net proceeds of $76.1 million from the offering and total net proceeds of $84.0 million after exercise of the underwriters' over-allotment option, and together with borrowings under its credit facility, the Company redeemed all of its outstanding senior discount notes for $27.5 million and preferred stock for $67.9 million, paid bonuses to executive officers and directors of $1.9 million which were funded by a reduction in the redemption price of the Company's preferred stock and repurchased 0.5 million shares of the Company's common stock from non-executive employees for $6.9 million. All uses of proceeds, other than the payment of a portion of the bonuses related to the initial public offering and certain initial public offering costs, occurred in the third quarter of fiscal 2002.

(3) Summary of Significant Accounting Policies

Consolidation

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

Reporting Period

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

Revenue Recognition

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

Trade and Other Receivables

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

Merchandise Inventories

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

Property and Equipment

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

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

Leasehold Interest

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

Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, was historically amortized on a straight-line basis over periods ranging from 15 to 30 years. In the current year the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. Upon adoption of SFAS No. 142, the Company was required to evaluate its existing goodwill for impairment. To accomplish this, the Company was required to identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of December 31, 2001. The Company has determined that it has one reporting unit under SFAS No. 142. The Company was then required to determine the fair value of the reporting unit and compare it to the carrying amount of the reporting unit within six months of December 31, 2001 to determine if further impairment analysis was required. The results of this analysis did not require the Company to recognize an impairment loss upon adoption or upon the annual impairment test. Prior to adoption of SFAS No. 142, the amount of goodwill and other intangible asset impairment, if any, was measured based upon projected discounted future operating cashflows using a discount rate reflecting the Company's average cost of funds.

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

The Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be

recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Other Assets

Other assets consist principally of deferred financing costs and are amortized straight-line over the terms of the respective debt, which approximates the effective interest method.

Self-Insurance Reserves

The Company maintains self-insurance programs for workers' compensation and general liability risks. The Company is self-insured up to specified per-occurrence limits and maintains insurance coverage for losses in excess of specified amounts. Estimated costs under these programs, including incurred but not reported claims, are recorded as expenses based upon actuarially determined historical experience and trends of paid and incurred claims. Self-insurance reserves amount to $4,987 and $5,863 at December 30, 2001 and December 29, 2002, respectively, and are included in accrued liabilities.

Preopening Expenses

New store preopening expenses are charged against operations as incurred.

Advertising Expenses

The Company expenses advertising costs the first time the advertising takes place. Advertising expenses amounted to $33,498 for the year ended December 31, 2000, $35,981 for the year ended December 30, 2001, and $37,084 for the year ended December 29, 2002. Advertising expense is included in selling and administrative expenses in the accompanying statements of operations. There are no amounts related to advertising reported as assets in the balance sheets presented. The Company received cooperative advertising allowances from manufacturers in order to subsidize qualifying advertising and similar promotional expenditures made relating to vendors products. These advertising allowances are recognized as a reduction to selling and administrative expense when the Company incurs the advertising eligible for the credit. The Company recognized cooperative advertising allowances of $5,007, $5,437, and $5,953 for the years ended December 31, 2000, December 30, 2001 and December 29, 2002, respectively.

Rent Expense

The Company leases the majority of store locations under operating leases that provide for annual payments that increase over the life of the leases. The aggregate of the minimum annual payments are expensed on a straight-line basis over the term of the related lease. The amount by which straight-line rent expense exceeds actual lease payment requirements in the early years of the leases is accrued as deferred rent liability and reduced in later years when the actual cash payment requirements exceed the straight-line expense.

Income Taxes

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

includes the enactment date. The realizability of deferred tax assets is assessed throughout the year and a valuation allowance is established if deemed necessary.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

Stock Compensation

The Company measures compensation costs under Accounting Principle Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and complies with the pro forma disclosure requirements of SFAS No. 123, except for options and warrants granted to non-employees, which are recorded in the financial statements under the fair value method.

Had the Company determined compensation cost based upon the fair value at the grant date for its stock options and restricted stock using the Black Scholes option pricing model, pro forma net income and pro forma net income per share, including the following weighted average assumptions used in these calculations, would have been as follows:

	December 31, 2000	December 30, 2001	December 29, 2002
Net income, as reported	$11,148	$14,965	$19,082
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	323	323	310
Pro forma net income	$10,825	$14,642	$18,772
Earnings per share:			
Basic – as reported	0.35	0.54	$ 0.60
Basic – pro forma	0.33	0.52	$ 0.59
Diluted – as reported	0.30	0.48	$ 0.57
Diluted – pro forma	0.27	0.46	$ 0.55
Risk free interest rate	3.6%	3.6%	3.6%
Expected lives	4 years	4 years	4 years
Expected volatility	60%	60%	60%
Expected dividends	—	—	—

Earnings Per Share

Basic earnings per share is calculated by dividing net income available to common stockholder by the weighted average common shares outstanding during the period excluding unvested restricted shares issued under the 1997 Management Equity Plan (1997 Plan) (note 15). Diluted earnings per share is calculated by using the weighted average of common shares outstanding adjusted to include the potentially dilutive effect of an outstanding warrant, outstanding stock options and the dilutive effect of unvested restricted shares issued under the 1997 Plan. (see note 16) The warrant was exercised in the first quarter of 2003.

(4) Long-Term Debt

Long-term debt consists of the following:

	December 30, 2001	December 29, 2002
Revolving credit facility	$ 25,000	22,280
10.875% Senior Notes, net of unamortized discount, $103.2 million face amount at December 29, 2002 due in 2007	103,806	102,851
13.45% Senior Discount Notes, net of unamortized discount, repaid in 2002	24,545	—
Total long-term debt	$153,351	125,131

In 1997, the Company issued $131,000 face amount, 10.875% Senior Notes due 2007 (Senior Notes), less discount of $591 based on an imputed interest rate of 10.95%. The Senior Notes require semiannual interest payments on each May 15 and November 15, commencing on May 15, 1998. The Company has no mandatory payments of principal on the Senior Notes prior to their maturity in 2007. The Senior Notes may be redeemed in whole or in part, at the option of the Company, at any time on or after November 15, 2002, at the redemption prices set forth below with respect to the indicated redemption date, together with any accrued and unpaid interest to such redemption date. The Senior Notes are unsecured obligations that rank senior in right of payment to all existing and future indebtedness that is subordinated to the Senior Notes and rank *pari passu* in right of payment with all current and future unsubordinated indebtedness, subject to restrictions due to the securitization of certain assets. During the year ended December 31, 2000 the Company repurchased $7,750 face value of Senior Notes for a repurchase price of $7,339 and an additional $1,000 face value of Senior Notes during the year ended December 29, 2002 for a repurchase price of $995. Subsequent to fiscal 2002, in the first quarter of 2003 the Company redeemed an additional $20,000 face value of Senior Notes for a redemption price of $21,095.

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

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

In 1997, the Company issued $48,200 face amount 13.45% Senior Discount Notes due 2008 (Senior Discount Notes), less a discount of $24,000 based on an imputed interest rate of 13.85%. The Senior

Discount Notes were issued with a warrant (see note 15) for aggregate consideration of $24,500. The Senior Discount Notes are unsecured and cash interest did not accrue on the Senior Discount Notes prior to November 30, 2002. The Company had no mandatory payments of principal on the Senior Discount Notes prior to their maturity in 2008. The Senior Discount Notes could be redeemed in their entirety only, at the option of the Company, upon the Company's receipt of proceeds from an initial public offering of its common stock at any time prior to November 30, 2002 at a redemption price equal to 113.45% of their accreted value plus accrued but unpaid interest. The Company repurchased in the open market, $12,500 face value of Senior Discount Notes during the year-ended December 30, 2001 for a repurchase price of $6,688. On February 1, 2002 the Company purchased an additional $2,825 face value of the Senior Discount Notes for a repurchase price of $2,536. The Company repurchased the remaining $25,400 face value Senior Discounts Notes upon completion of the initial public offering in July 2002 for $27,475.

The Company has a five-year, non-amortizing $125,000 revolving credit facility, which was amended and restated to a three-year non-amortizing $140,000 revolving credit facility subsequent to year-end (the CIT Credit Facility). The CIT Credit Facility may be terminated by the lenders by giving at least 90 days prior written notice before any anniversary date, commencing with its anniversary date on March 20, 2006. The Company may terminate the CIT Credit Facility by giving at least 30 days prior written notice, provided that if the Company terminates prior to March 20, 2006, it must pay an early termination fee. Unless it is terminated, the CIT Credit Facility will continue on an annual basis from anniversary date to anniversary date beginning on March 21, 2006. The CIT Credit Facility bears interest at various rates based on the Company's performance, with a floor of LIBOR plus 1.50% or the Chase Manhattan prime lending rate and a ceiling of LIBOR plus 2.50% or the Chase Manhattan prime lending rate plus 0.75% and is secured by trade accounts receivable, merchandise inventory and general intangible assets (including trademarks and trade names) of the Company. At December 29, 2002, loans under the CIT Credit Facility bear interest at a rate of LIBOR (1.30% at December 29, 2002) plus 1.50% or the Chase Manhattan prime lending rate (4.25% at December 29, 2002). An annual fee of 0.325%, payable monthly, is assessed on the unused portion of the CIT Credit Facility. On December 29, 2002, the Company had $22,280 in LIBOR and prime lending rate borrowings and letters of credit of $4,278 outstanding. The Company's maximum eligible borrowing available under the CIT Credit Facility is limited to 70% of the aggregate value of eligible inventory during November through February and 65% of the aggregate value of eligible inventory during the remaining months of the year. Available borrowings over and above actual LIBOR and prime rate borrowings and letters of credit outstanding on the CIT Credit Facility amounted to $91,610 at December 29, 2002.

The various debt agreements contain covenants restricting the ability of the Company to, among other things, incur additional debt, create or allow liens, pay dividends, merge or consolidate with or invest in other companies, sell, lease or transfer all or substantially all of its properties or assets, or make certain payments with respect to its outstanding capital stock, issue preferred stock and engage in certain transactions with affiliates. In addition, the Company must comply with certain financial covenants. The Company was in compliance with all such covenants at December 29, 2002.

(5) Fair Values of Financial Instruments

The fair value of cash, trade and other receivables, trade accounts payable and accrued expenses approximate the fair values of these instruments due to their short-term nature. The fair value of the Senior Notes at December 29, 2002 approximated $108,483 based upon recent market prices. The carrying amount of the CIT Credit Facility reflects the fair value based on current rates available to the Company for debt with the same remaining maturities.

(6) Leases

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

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

Rental expense for operating leases consisted of the following:

	Year ended December 31, 2000	Year ended December 30, 2001	Year ended December 29, 2002
Cash rental payments	$29,667	31,602	33,693
Noncash rentals	375	258	195
Contingent rentals	1,592	1,710	1,730
Rental expense	$31,634	33,570	35,618

Future minimum lease payments (cash rentals) under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 29, 2002 are:

Year ending:	
2003	$ 36,855
2004	36,566
2005	33,278
2006	28,697
2007	26,013
Thereafter	105,848

(7) Accrued Expenses

Accrued expenses consist of the following:

	December 30, 2001	December 29, 2002
Payroll and related expenses	$19,537	13,757
Advertising	5,179	5,047
Sales tax	7,285	7,810
Income tax	3,673	1,086
Litigation Settlement	2,515	—
Other	20,351	22,008
	$52,643	49,708

(8) Income Taxes

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

	December 31, 2000	December 30, 2001	December 29, 2002
Income tax before extraordinary gain (loss)	$ 7,324	9,218	15,175
Tax effect of extraordinary gain (loss)	61	1,062	(1,862)
Total income tax expense	$ 7,385	10,280	13,313

	Current	Deferred	Total
2002:			
Federal	$ 9,024	4,188	13,212
State	2,101	(138)	1,963
	$11,125	4,050	15,175
2001:			
Federal	$ 6,835	711	7,546
State	1,577	95	1,672
	$ 8,412	806	9,218
2000:			
Federal	$10,506	(4,882)	5,624
State	2,310	(610)	1,700
	$12,816	(5,492)	7,324

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

	Year ended December 31, 2000	Year ended December 30, 2001	Year ended December 29, 2002
Tax expense at statutory rate	$6,434	7,904	12,933
State taxes, net of federal benefit	875	1,093	1,742
Other	15	221	500
	$7,324	9,218	15,175

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

	December 30, 2001	December 29, 2002
	As restated (note 19)	
Deferred assets:		
Self-insurance reserves	$ 1,987	2,341
Employee benefits	1,946	2,384
State taxes	627	611
Noncash rentals	4,459	4,638
Deferred interest	5,282	—
Tax credits	—	791
Other	599	410
Deferred tax assets	$14,900	11,175
Deferred liabilities – basis difference in fixed assets	$ 1,192	1,517
Net deferred tax assets	$13,708	9,658

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

(9) Employee Benefit Plans

The Company has a 401(k) plan to cover all eligible employees. All employees' contributions may be supplemented by Company contributions. The Company contributed $1,650 for the year ended December 31, 2000, $1,830 for the year ended December 30, 2001 and $2,000 for the year ended December 29, 2002 in employer matching and profit sharing contributions.

The Company has no other significant post-retirement or post-employment benefits.

(10) Related Party Transactions

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

As a result of the Company's prior relationship with Thrifty and its affiliates, the Company continues to maintain certain relationships with Rite Aid and PE. These relationships include continuing indemnification obligations of PE to the Company for certain environmental matters; agreements between the Company and PE with respect to various tax matters and obligations under ERISA, including the allocation of various tax obligations relating to the inclusion of the Company and each

member of the affiliated group of which the Company was a subsidiary in certain consolidated and/or unitary tax returns of PE, and subleases described as follows. An affiliate of a stockholder of the Company holds convertible preferred stock in Rite Aid, which, if converted, would represent approximately 11% of Rite Aid's outstanding stock.

The Company leases certain property and equipment from Rite Aid, which leases this property and equipment from an outside party. Charges related to these leases totaled $203 for the year ended December 31, 2000, $212 for the year ended December 30, 2001 and $236 for the year ended December 29, 2002.

The Company had a Management Services Agreement with an investment advisor group that is an affiliate of the Company which was due to expire in May 2005, under which $333, plus expenses, was paid annually for financial advisory and investment banking services. The agreement was terminated in conjunction with the initial public offering for a fee of $875. During each of the years ended December 31, 2000, December 30, 2001, and December 29, 2002 the Company paid $340, $340, and $1,044 to this advisor group, respectively.

On July 2, 2002, the Company used a portion of the net proceeds from its initial public offering to redeem all of the Company's outstanding shares of Series A 13.45% Senior Exchangeable Preferred Stock, par value $0.01 per share, (Preferred Stock). Green Equity Investors, L.P. and its affiliates owned 309,071 of the 350,000 outstanding shares of preferred stock and received approximately $60,600 upon redemption of such shares.

Green Equity Investors, L.P. and Grand Avenue Associates, L.P., both affiliates of Leonard Green & Partners, L.P., purchased an aggregate of 350,000 shares of the Company's common stock at the initial public offering price of $13.00 per share.

(11) Contingencies

On August 9, 2001, the Company received a copy of a complaint filed in the California Superior Court in Los Angeles alleging violations of the California Labor Code and the Business and Professions Code. This complaint was brought as a purported class action with two subclasses comprised of our California store managers and our California first assistant store managers. The plaintiffs alleged that the Company improperly classified its store managers and first assistant store managers as exempt employees not entitled to overtime pay for work in excess of forty hours per week. On February 8, 2002 the Company filed a joint settlement which was approved by the court on August 1, 2002. The settlement constitutes a full and complete settlement and release of all claims related to the lawsuit. Under the terms of the settlement, the Company agreed to pay $32.46 per week of active employment as store manager from August 8, 1997 through December 31, 2001, the covered period, and $25.50 per week of active employment as first assistant store manager during the covered period to each class member who submits a valid and timely claim form. The Company also agreed to pay attorneys' fees, plus costs and expenses, in the amount of $690, as well as up to $40 for the cost of the settlement administrator. In addition, the Company agreed to pay the class representatives an additional aggregate amount of $28.5 for their service as named plaintiffs. The Company recorded a charge of approximately $2,500 in the fourth quarter of fiscal 2001 to provide for expected payments to the class members as well as legal and other fees associated with the settlement. All payments under the settlement agreement have been made at December 29, 2002.

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

(12) Business Concentrations

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

(13) Quarterly Financial Data (unaudited)

	Year Ended December 30, 2001 (in thousands, except per share data)				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	$143,179	151,456	158,085	169,761	622,481
Gross profit	$ 47,837	53,609	52,956	60,400	214,802
Net income	$ 2,643	3,257	2,945	6,120	14,965
Net income per share (diluted)	$ 0.06	0.09	0.07	0.26	0.48
Diluted shares	16,091	16,091	16,091	16,090	16,090

	Year Ended December 29, 2002 (in thousands, except per share data)				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	$157,133	162,703	170,913	176,720	667,469
Gross profit	$ 55,007	59,633	59,107	63,864	237,611
Net income	$ 3,530	4,129	2,596	8,827	19,082
Net income (loss) per share (diluted)	$ 0.10	0.13	(0.06)	0.39	0.57
Diluted shares	16,087	16,512	22,156	22,664	19,476

(14) Redeemable Preferred Stock

In November 1997, the Company authorized and issued 350,000 shares of Preferred Stock with a liquidation preference of $100.00 per share as of the date of issue. The Preferred Stock had a liquidation preference over the common stock equal to the initial liquidation value of the Preferred Stock plus accrued and unpaid dividends thereon. On July 2, 2002, the Company used a portion of the net proceeds from its initial public offering to redeem all of the Company's outstanding shares of Preferred Stock.

The Preferred Stock earned cumulative dividends at the rate of 13.45% per annum. Dividends could, at the option of the Company, be paid in cash or by adding to the liquidation preference of Preferred Stock an amount equal to the dividends then accrued and payable. The Preferred Stock was subject to mandatory redemption on November 13, 2009 at 100% of the liquidation preference plus accrued and unpaid dividends. Prior to November 13, 2002, the Company could redeem the Preferred Stock following an initial public offering of common stock at 110% of the liquidation preference, less an amount (calculated as a percentage) sufficient to reduce the aggregate redemption price by an amount sufficient to permit the Company to pay bonuses to the Company's directors and executive officers who sold shares of the Company's common

stock in the initial public offering in an amount equal to the underwriting commission and discounts that they will pay, as well as to repurchase shares from the Company's other non-executive employees relating to such offering at the offering price to the public rather than the net price to the Company after deducting underwriting commissions and discounts, plus accrued and unpaid dividends. In conjunction with the Company's initial public offering, the Preferred Stock was redeemed in its entirety, including accrued and unpaid dividends. Accrued and unpaid dividends were $1,012 at December 30, 2001. Preferred Stock consisted of the following:

	Fiscal Year Ended	
	December 31, 2000	December 30, 2001
Initial liquidation preference	$ 35,000	$ 35,000
Dividends added to initial liquidation preference	16,721	23,911
	$ 51,721	$ 58,911

(15) Stock Options, Restricted Stock and Warrant

1997 Management Equity Plan

The 1997 Plan provides for the sale of shares or granting of incentive stock options or nonqualified options to officers, directors and selected key employees of the Company to purchase shares of the Company's common stock. The 1997 Plan is administered by the board of directors of the Company and the granting of awards under the 1997 Plan is discretionary with respect to the individuals to whom and the times at which awards are made, the number of options awarded or shares sold, and the vesting and exercise period of such awards. The options and stock granted under the 1997 Plan must have an exercise or sale price that is no less than 85% of the fair value of the Company's common stock at the time the stock option or stock is granted or sold. The aggregate number of common shares that may be allocated to awards under the 1997 Plan is 4,536,000 shares. No more than 810,000 of these shares shall be subject to stock options outstanding at any time. Options granted or restricted stock sold under the 1997 Plan vest ratably over five years from the date the options are granted and have an exercise period not to exceed 120 months from the date the Stock option is granted. The 1997 Plan does not allow for the transfer of options or stock purchase rights. As of December 30, 2001 and December 29, 2002, no options had been granted under the 1997 Plan and 3,744,702 shares of restricted common stock had been sold under the 1997 Plan. The Company does not intend to make additional grants under the 1997 Plan. At December 29, 2002, all shares granted under the 1997 Plan were fully vested.

In connection with the issuance of the Senior Discount Notes in 1997, the Company issued a warrant to purchase 486,000 shares of common stock. The warrant is exercisable at any time with an exercise price of $.00123 per share. The warrant expires on November 30, 2008. The fair value of the warrant at the time of issuance was $0.3 million, determined by cash purchases of common stock by third parties on the same date. At December 30, 2001 and December 29, 2002, the warrant had not been exercised. The warrant was exercised in the first quarter of fiscal 2003.

In June 2002, the Company adopted the 2002 Stock Incentive Plan (2002 Plan). The 2002 Plan provides for the grant of incentive stock options and non-qualified stock option to the Company's employees, directors, and specified consultants. Under the 2002 Plan, the Company may grant options to purchase up to 3,645,000 shares of common stock. Options granted under the 2002 Plan vest ratably over various terms with a maximum life of ten years. At December 29, 2002, options to purchase 61,000 shares of common stock had been granted under the 2002 Plan.

Stock option activity for all plans during the periods presented is as follows:

	No. of Shares	Weighted Average Exercise Price
Balance at December 30, 2001	—	—
Granted	61,000	12.91
Exercised	—	—
Forfeited	—	—
Balance at December 29, 2002	61,000	12.91

The following is a summary of stock options outstanding and exercisable at December 29, 2002:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Years Remaining	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
10.50	2,000	9.5	10.50	—	—
13.00	59,000	9.5	13.00	—	—

(16) Earnings Per Share

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

	Year ended December 31, 2000	Year ended December 30, 2001	Year ended December 29, 2002
Income before extraordinary gain (loss)	$11,061	13,365	21,777
Extraordinary gain (loss), net of tax	87	1,600	(2,695)
Net income	11,148	14,965	19,082
Less: Preferred stock dividends	6,400	7,284	7,999
Net income available to common stockholders	4,748	7,681	11,083
Basic earnings per share, as restated (note 19):			
Income before extraordinary gain (loss)	$ 0.34	0.43	0.75
Net income	$ 0.35	0.54	0.60
Diluted earnings per share:			
Income before extraordinary gain (loss)	$ 0.29	0.38	0.71
Net income	$ 0.30	0.48	0.57
Weighted average shares of common stock outstanding, as restated (note 19):			
Basic	13,525	14,247	18,358
Dilutive effect of unvested restricted stock	2,083	1,357	632
Dilutive effect of outstanding warrant	486	486	486
Diluted	16,094	16,090	19,476

Options to purchase 59,000 shares of common stock at $13 per share were outstanding at December 29, 2002 but were not included in the computation of diluted earnings per share because the exercise price of these options was greater than the average market price of common stock and would be antidilutive. The outstanding warrant was exercised in the first quarter of fiscal 2003.

(17) Goodwill

In accordance with SFAS No. 142, goodwill amortization was discontinued as of December 31, 2001. There was no cumulative effect of a change in accounting principle upon adoption, as there was deemed to be no impairment in the carrying value of goodwill or other identifiable intangibles. The following adjusts reported net income and earnings per share to exclude goodwill amortization:

	Year Ended		
	December 31, 2000	December 30, 2001	December 29, 2002
	(in thousands, except earnings per share data)		
Reported net income	$11,148	$14,965	$19,082
Goodwill amortization, net of tax	149	146	—
Adjusted net income	11,297	15,111	19,082
Less: Preferred stock dividends	6,400	7,284	7,999
Adjusted net income available to common stockholders	$ 4,897	$ 7,827	$11,083
Reported basic earnings per share	$ 0.35	$ 0.54	$ 0.60
Goodwill amortization, net of tax	0.01	0.01	—
Adjusted basic earnings per share	$ 0.36	$ 0.55	$ 0.60
Reported diluted earnings per share	$ 0.30	$ 0.48	$ 0.57
Goodwill amortization, net of tax	—	0.01	—
Adjusted diluted earnings per share	$ 0.30	$ 0.49	$ 0.57

(18) Stock Split

On May 31, 2002, the Company's Board of Directors approved a resolution to increase the authorized common shares from 5,000,000 to 50,000,000, and to enact an 8.1 for 1 stock split such that 1,925,900 issued and outstanding shares of common stock were split into 15,599,790 issued and outstanding shares of common stock upon the completion of the initial public offering. In connection with the stock split, the par value of the common stock remained $0.01. All disclosures of shares of common stock and earnings per share have been changed in the accompanying financial statements to retroactively reflect the stock split.

(19) Prior Period Adjustment and Restatement

During fiscal 2002, the Company's management determined that there was an error in the calculation of its deferred rent liability for store leases which impacted periods prior to 2000. To correct this error, the Company increased the accumulated deficit at January 2, 2000 by $1,949 and has increased the deferred rent liability by $3,304 as of December 30, 2001 and recognized a corresponding deferred tax asset of $1,355 as of that date. In addition, during fiscal 2002, the Company's management determined that there was an understatement of basic earnings per share. This resulted from the previous inclusion in basic weighted average shares outstanding of unvested restricted common stock issued under the 1997 Plan.

These changes had an immaterial impact on the previously stated net income for the 2000, 2001 and 2002 fiscal years and net cash flows from operating, investing or financing activities.

The following accounts are adjusted as a result of the restatement:

	As previously reported	As restated
Balance sheet at December 30, 2001:		
Deferred income taxes	$ 12,353	13,708
Total assets	$252,528	253,883
Deferred rent	$ 7,791	11,096
Total liabilities	$276,093	279,397
Accumulated deficit	$ (89,690)	(91,639)
Total stockholders' equity	$ (82,476)	(84,425)
Accumulated deficit at:		
December 31, 2000	$ (97,371)	(99,320)
January 2, 2000	$102,119	(104,068)
Statement of operations for the year ended December 30, 2001:		
Basic earnings per share	$ 0.49	0.54
Basic weighted average shares of common stock outstanding	15,604	14,247
Statement of operations for the year ended December 31, 2000:		
Basic earnings per share	$ 0.30	0.35
Basic weighted average shares of common stock outstanding	15,608	13,525

BIG 5 SPORTING GOODS CORPORATION

Schedule II - Valuation and Qualifying Accounts

(dollars in thousands)

	BALANCE AT BEGINNING OF YEAR	ADDITIONS: CHARGES TO OPERATIONS	DEDUCTIONS: ACCOUNTS RECEIVABLE WRITE OFFS	BALANCE AT END OF YEAR
December 31, 2000				
Allowance for doubtful receivables	$499	$365	($257)	$607
December 30, 2001				
Allowance for doubtful receivables	607	129	(65)	671
December 29, 2002				
Allowance for doubtful receivables	671	120	(62)	729

EXHIBIT 3.1

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF BIG 5 SPORTING GOODS CORPORATION A DELAWARE CORPORATION

(ORIGINALLY INCORPORATED ON OCTOBER 31, 1997)

Big 5 Sporting Goods Corporation, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of this corporation is Big 5 Sporting Goods Corporation. Big 5 Sporting Goods Corporation was originally incorporated under the name Big 5 Holdings Corp., and the original Certificate of Incorporation of this corporation was filed with the Secretary of State of the State of Delaware on October 31, 1997.

2. A Restated Certificate of Incorporation of this corporation was filed with the Secretary of State of the State of Delaware on November 12, 1997.

3. A Certificate of Designations of the Powers, Preferences and Other Special Rights of Series A 13.45% Senior Exchangeable Preferred Stock, and Qualifications, Limitations and Restrictions Thereof was filed with the Secretary of State of the State of Delaware on November 13, 1997.

4. A Certificate of Amendment of the Restated Certificate of Incorporation of this corporation was filed with the Secretary of State of the State of Delaware on August 20, 2001.

5. A Certificate of Amendment of the Restated Certificate of Incorporation of this corporation was filed with the Secretary of State of the State of Delaware on June 4, 2002.

6. The Restated Certificate of Incorporation of this corporation is further amended and restated in its entirety as set forth in the Amended and Restated Certificate of Incorporation attached hereto as Exhibit "A" and incorporated herein by this reference (the "Amended and Restated Certificate of Incorporation").

7. The Amended and Restated Certificate of Incorporation was duly adopted by the Board of Directors and the stockholders of this corporation in accordance with the provisions of Sections 242 and 245 of the Delaware General Corporation Law.

IN WITNESS WHEREOF, Big 5 Sporting Goods Corporation has caused this Amended and Restated Certificate of Incorporation to be duly executed by the undersigned President of Big 5 Sporting Goods Corporation this 24th day of June, 2002.

BIG 5 SPORTING GOODS CORPORATION

By: /s/ Steven G. Miller

Steven G. Miller, President

EXHIBIT "A"

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

BIG 5 SPORTING GOODS CORPORATION
A DELAWARE CORPORATION

(ORIGINALLY INCORPORATED ON OCTOBER 31, 1997)

FIRST: The name of the corporation is Big 5 Sporting Goods Corporation (hereinafter referred to as the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is 30 Old Rudnick Lane, in the City of Dover, County of Kent 19901. The name of the registered agent of the Corporation at that address is Lexis Document Services, Inc.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the Delaware General Corporation Law.

FOURTH: A. The total number of shares of all classes of stock which the Corporation shall have authority to issue is Fifty Three Million (53,000,000), consisting of :

1. Fifty Million (50,000,000) shares of Common Stock, par value one cent ($.01) per share (hereinafter referred to as the "Common Stock"); and

2. Three Million (3,000,000) shares of Preferred Stock, par value one cent ($.01) per share (hereinafter referred to as the "Preferred Stock"), of which Three Hundred Fifty Thousand (350,000) shares have been designated as Series A 13.45% Senior Exchangeable Preferred Stock, par value one cent ($.01) per share (hereinafter referred to as the "Series A Preferred Stock"), the powers, preferences, other special rights, and qualifications, limitations and restrictions of which were originally set forth in a Certificate of Designations of the Powers, Preferences and Other Special Rights of Series A 13.45% Senior Exchangeable Preferred Stock, and Qualifications, Limitations and Restrictions Thereof filed with the Delaware Secretary of State on November 13, 1997, as amended by a Certificate of Amendment filed with the Delaware Secretary of State on June 4, 2002, in the form attached hereto as Appendix "A."

Upon the filing and effectiveness of this Amended and Restated Certificate of Incorporation, each currently issued and outstanding share of Common Stock shall be subdivided and split up into eight and one-tenth (8.10) shares of Common Stock.

B. The board of directors is authorized, subject to any limitations prescribed by law, to provide for the additional issuance of shares of Preferred Stock in series, and by filing a certificate pursuant to the applicable law of the State of Delaware (such certificate being hereinafter referred to as a "Preferred Stock Designation"), to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences, and rights of the shares of each such series and any qualifications, limitations or restrictions thereof. The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the Common Stock, without a vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such holders is required pursuant to the terms of any Preferred Stock Designation.

C. Each outstanding share of Common Stock shall entitle the holder thereof to one vote on each matter properly submitted to the stockholders of the Corporation for their vote; provided, however, that, except as otherwise required by law, holders of Common Stock shall not be entitled to vote on any amendment to this Amended and Restated Certificate of Incorporation (including any Certificate of Designations relating to any series of Preferred Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together as a class with the holders of one or more other such series, to vote thereon by law or pursuant to this Amended and Restated Certificate of Incorporation (including any Certificate of Designations relating to any series of Preferred Stock).

FIFTH: The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

A. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authority expressly conferred upon them by statute or by this Amended and Restated Certificate of Incorporation or the Amended and Restated Bylaws of the Corporation, as they may be amended from time to time (the "Bylaws"), the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation.

B. The directors of the Corporation need not be elected by written ballot unless the Bylaws so provide.

C. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

D. Special meetings of stockholders of the Corporation may be called only by the Chairman of the Board, the Chief Executive Officer or the President or by the Board of Directors acting pursuant to a resolution adopted by a majority of the Whole Board. For purposes of this Amended and Restated

Certificate of Incorporation, the term "Whole Board" shall mean the total number of authorized directors whether or not there exist any vacancies in previously authorized directorships.

SIXTH: A. Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, the number of directors shall be fixed from time to time exclusively by the board of directors pursuant to a resolution adopted by a majority of the Whole Board. The directors, other than those who may be elected by the holders of any series of Preferred Stock under specified circumstances, shall be divided, with respect to the time for which they severally hold office, into three classes consisting of Class A Directors, Class B Directors and Class C Directors. The terms of office of the Class A Directors, Class B Directors and Class C Directors will expire at the Corporation's first, second and third annual meeting of stockholders following the date hereof, respectively. Each director shall hold office until his or her successor shall have been duly elected and qualified. At each annual meeting of stockholders, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until his or her successor shall have been duly elected and qualified. Directors need not be stockholders.

B. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause shall, unless otherwise required by law or by resolution of the Board of Directors, be filled only by a majority vote of the directors then in office, though less than a quorum (and not by stockholders), and directors so chosen shall serve for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been chosen expires or until such director's successor shall have been duly elected and qualified. No decrease in the authorized number of directors shall shorten the term of any incumbent director.

C. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the Corporation shall be given in the manner provided in the Bylaws of the Corporation.

D. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any director, or the entire board of directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least eighty percent (80%) of the voting power of all of the then-out-standing shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class.

SEVENTH: The Board of Directors is expressly empowered to adopt, amend or repeal the Bylaws of the Corporation. Any adoption, amendment or repeal of the Bylaws of the Corporation by the board of directors shall require the approval of a majority of the Whole Board. The stockholders shall also have power to adopt, amend or repeal the Bylaws

of the Corporation; provided, however, that, in addition to any vote of the holders of any class or series of stock of the Corporation required by law or by this Amended and Restated Certificate of Incorporation, the affirmative vote of the holders of at least eighty percent (80%) of the voting power of all of the then-outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt, amend or repeal any provision of the Bylaws of the Corporation.

EIGHTH: A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended. Any repeal or modification of the foregoing paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification. All references in this Article EIGHTH to a director shall also be deemed to refer to any such director acting in his or her capacity as a Continuing Director (as defined in Article TENTH).

NINTH: The Corporation reserves the right to amend or repeal any provision contained in this Amended and Restated Certificate of Incorporation in the manner prescribed by the laws of the State of Delaware and all rights conferred upon stockholders are granted subject to this reservation; provided, however, that, notwithstanding any other provision of this Amended and Restated Certificate of Incorporation or any provision of law that might otherwise permit a lesser vote or no vote, but in addition to any vote of the holders of any class or series of the stock of the Corporation required by law or by this Amended and Restated Certificate of Incorporation, the affirmative vote of the holders of at least eighty percent (80%) the voting power of all of the then-outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend or repeal this Article NINTH, Sections C or D of Article FIFTH, Article SIXTH, Article SEVENTH, or Article EIGHTH.

TENTH: The Board of Directors is expressly authorized to cause the Corporation to issue rights pursuant to Section 157 of the Delaware General Corporation Law and, in that connection, to enter into any agreements necessary or convenient for such issuance. Any such agreement may include provisions limiting, in certain circumstances, the ability of the Board of Directors of the Corporation to redeem the securities issued pursuant thereto or to take other action thereunder or in connection therewith unless there is a specified number or percentage of Continuing Directors then in office. Pursuant to Section 141(a) of the Delaware General Corporation Law, the Continuing Directors shall have the power and authority to make all decisions and determinations, and exercise or perform such other acts, that any such agreement provides that such Continuing Directors

shall make, exercise or perform. For purposes of this Article TENTH and any such agreement, the term, "Continuing Directors," shall mean (1) those directors who were members of the Board of Directors of the Corporation at the time the Corporation entered into such agreement and any director who subsequently becomes a member of the Board of Directors, if such director's nomination for election to the Board of Directors is recommended or approved by the majority vote of the Continuing Directors then in office and (2) such other members of the Board of Directors, if any, designated in, or in the manner provided in, such agreement as Continuing Directors.

APPENDIX "A"

1. DESIGNATION OF THE COMPANY'S SERIES A 13.45% SENIOR EXCHANGEABLE PREFERRED STOCK

(a) Designation.

There is hereby created out of the authorized and unissued shares of preferred stock of the Company a series of preferred stock designated as the "Series A 13.45% Senior Exchangeable Preferred Stock". The number of shares constituting such series shall be 350,000 shares of Series A Preferred Stock, consisting of an initial issuance of 350,000 shares of Series A Preferred Stock. The liquidation preference of the Series A Preferred Stock shall be $100.00 per share as of the date of issue.

(b) Rank.

The Series A Preferred Stock shall, with respect to dividend distributions and distributions upon the liquidation, winding up and dissolution of the Company, rank senior to all classes of common stock, $0.01 par value, of the Company (the "Common Stock"), and to each other class of capital stock or series of preferred stock hereafter created by the Board of Directors the terms of which do not expressly provide that it ranks senior to or on a parity with the Series A Preferred Stock as to dividend distributions and distributions upon the liquidation, winding up and dissolution of the Company (collectively referred to with the Common Stock as "Junior Securities"). The Series A Preferred Stock shall, with respect to dividend distributions and distributions upon the liquidation, winding up and dissolution of the Company, rank on a parity with any class of capital stock or series of preferred stock hereafter created which has been approved by the Holders of Series A Preferred Stock in accordance with paragraph (f)(ii)(A) hereof and which expressly provides that it ranks on a parity with the Series A Preferred Stock as to dividend distributions and distributions upon the liquidation, winding up and dissolution of the Company ("Parity Securities"). The Series A Preferred Stock shall, with respect to dividend distributions and distributions upon the liquidation, winding up and dissolution of the Company, rank junior to each class of capital stock or series of preferred stock hereafter created which has been approved by the Holders of Series A Preferred Stock in accordance with paragraph (f)(ii)(B) hereof and which expressly provides that it ranks senior to the Series A Preferred Stock as to dividend distributions or distributions upon the liquidation, winding up and dissolution of the Company ("Senior Securities").

(c) Dividends.

(i) Beginning on the date of issuance of shares of the Series A Preferred Stock, the Holders of the outstanding shares of Series A Preferred Stock shall be entitled to receive dividends on each share of Series A Preferred Stock, at a rate per annum equal to thirteen and forty-five one hundredths percent (13.45%) of the liquidation preference (as adjusted from time to time as hereinafter provided) per

share of the Series A Preferred Stock, payable semiannually. All dividends shall be cumulative, whether or not earned or declared, on a daily basis from the Preferred Stock Issue Date and shall be payable semiannually in arrears on each Dividend Payment Date, commencing on the first Dividend Payment Date after the date of issuance of the Series A Preferred Stock, provided that with respect to any dividend payable on any Dividend Payment Date on or before December 15, 2004, the amount payable as dividends on such Dividend Payment Date may, at the option of the Company, be paid in cash or by increasing the then liquidation preference per share of the Series A Preferred Stock by the amount of such dividends (rounded to the nearest whole cent). Such increase in the liquidation preference shall constitute full payment of such dividend. In the event the Board of Directors does not declare and the Company does not pay, a cash dividend on the shares of the Series A Preferred Stock on any Dividend Payment Date on or before December 15, 2004, the Company shall be deemed to have satisfied such dividends on the Series A Preferred Stock by increase in the liquidation preference. Dividends payable on any Dividend Payment Date after December 15, 2004 shall be paid only in cash. With respect to any cash dividend payable on any Dividend Payment Date after December 15, 2004 which is not paid in cash on the Dividend Payment Date, the amount so payable in cash on such Dividend Payment Date shall conditionally increase the then liquidation preference per share of the Series A Preferred Stock by the amount of such unpaid cash dividends (rounded to the nearest whole cent) on the Dividend Payment Date. Such conditional increase in the liquidation preference shall not constitute a payment of such dividend, but all subsequent cash dividends, all distributions upon the liquidation, winding up and dissolution of the Company, all payments in redemption and any other amounts referred to herein that are determined by reference to the liquidation preference shall be calculated with reference to the amount of the liquidation preference as conditionally increased, reduced from time to time by the amount of the cumulative unpaid cash dividends that are subsequently paid in cash to the Holders of the Series A Preferred Stock, until such time as the cumulative unpaid cash dividends are paid in full or the Series A Preferred Stock is redeemed. Each distribution in the form of a dividend in cash shall be payable to the Holders of Series A Preferred Stock of record as they appear on the stock books of the Company on such record dates, not less than 10 nor more than 45 days preceding the related Dividend Payment Date, as shall be fixed by the Board of Directors or, in the event no record date is fixed by the Board of Directors, to the Holders of record of the Series A Preferred Stock on the Dividend Payment Date. Any increase in the then liquidation preference of the Series A Preferred Stock as set forth in this paragraph (c) shall occur automatically, without the need for any action on the part of the Company, on the applicable Dividend Payment Date. Dividends shall cease to accumulate in respect of shares of the Series A Preferred Stock on the Exchange Date or on the date of their earlier redemption unless the Company shall have failed to issue the appropriate aggregate principal amount of Exchange Notes (as defined in paragraph (g)(i)(A) hereof) in respect of the Series A Preferred Stock on the Exchange Date or shall have failed to pay, or irrevocably set apart in trust for payment, the relevant redemption price on the date fixed for redemption. Not more than 30 days after a Dividend Payment Date, written notice of the amount of the dividend per share paid, or in the event of a failure of the Board of Directors to

declare and the Company to pay a cash dividend on or prior to December 15, 2004, the resulting increase in the liquidation preference of each share, or in the event of a failure of the Board of Directors to declare and the Company to pay a cash dividend after December 15, 2004, the resulting conditional increase in the liquidation preference, and in any case the resulting liquidation preference (permanent and conditional) of each share of Series A Preferred Stock (the "Liquidation Preference Notice") shall be given by first-class mail, postage prepaid, to each Holder of Series A Preferred Stock of record, on the record date fixed by the Board of Directors for payment of such dividend or, if no record date was fixed, the Dividend Payment Date, of the Series A Preferred Stock at such Holder's address as the same appears on the stock register of the Company, provided that no failure to give such notice nor any deficiency therein shall affect any increase or conditional increase in the liquidation preference of each share of Series A Preferred Stock.

(ii) All dividends paid with respect to shares of the Series A Preferred Stock pursuant to paragraph (c)(i) shall be paid pro rata to the Holders thereof entitled thereto.

(iii) Nothing herein contained shall in any way or under any circumstances be construed or deemed to require the Board of Directors to declare, or the Company to pay or set apart for payment, in cash any dividends on shares of the Series A Preferred Stock at any time.

(iv) Dividends on account of arrears for any past Dividend Period and dividends in connection with any optional redemption pursuant to paragraph (e)(i) may be declared and paid at any time, without reference to any regular Dividend Payment Date, to Holders of Series A Preferred Stock of record on such date, not more than 45 days prior to the payment thereof, as may be fixed by the Board of Directors, provided that a Liquidation Preference Notice (setting forth the decrease in the conditional amount of the liquidation preference as a result of such dividend payment) shall be given by first-class mail, postage prepaid, to each Holder of Series A Preferred Stock of record, on the record date fixed by the Board of Directors for payment of such dividend on the Series A Preferred Stock at such Holder's address as the same appears on the stock register of the Company, provided, further, that no failure to give such notice nor any deficiency therein shall affect the decrease in the conditional amount of the liquidation preference of each share of Series A Preferred Stock on account of the payment in cash of the dividends in arrears.

(iv) No full dividends shall be declared by the Board of Directors or paid or funds set apart in trust for payment of dividends by the Company on any Parity Securities for any period unless full cumulative dividends shall have been or contemporaneously are declared and paid in full, or declared and (in the case of dividends payable in cash) a sum in cash set apart irrevocably in trust sufficient for such payment, on the Series A Preferred Stock for all Dividend Periods terminating on or prior to the date of payment of such full dividends on such Parity Securities. If any dividends are not paid in full, as aforesaid, upon the shares of the Series A Preferred Stock and any other Parity Securities, all

dividends declared upon shares of the Series A Preferred Stock and any other Parity Securities shall be declared pro rata based on the then relative liquidation preferences (permanent and conditional as then in effect) of the Series A Preferred Stock and such Parity Securities. So long as any shares of the Series A Preferred Stock are outstanding, the Company shall not make any payment on account of, or set apart for payment, money for a sinking or other similar fund for, the purchase, redemption or other retirement of, any of the Parity Securities or any warrants, rights, calls or options exercisable for or convertible into any of the Parity Securities, and shall not permit any corporation or other entity directly or indirectly controlled by the Company to purchase or redeem any of the Parity Securities or any such warrants, rights, calls or options unless full dividends determined in accordance herewith on the Series A Preferred Stock shall have been paid or contemporaneously are declared and paid in full (or a sum sufficient to pay such dividends is irrevocably set apart in trust for payment).

(vi) (A) Except as permitted by paragraph subclause (B) hereof, Holders of shares of the Series A Preferred Stock shall be entitled to receive the dividends provided for in paragraph (c)(i) hereof in preference to and in priority over any dividends upon any of the Junior Securities.

(B) So long as any shares of Series A Preferred Stock are outstanding, the Company shall not, and shall not permit any of the Company's Subsidiaries to, (1) declare, pay or set apart for payment any dividend on any of the Junior Securities or on any equity interests of the Subsidiaries (other than dividends or distributions in Junior Securities or to the Company or to another Wholly Owned Subsidiary) or make any payment on account of, or set apart for payment money for a sinking or other similar fund for, the purchase, redemption or other retirement of, any of the Junior Securities or any warrants, rights, calls or options exercisable for or convertible into any of the Junior Securities (other than the repurchase, redemption or other acquisition or retirement for value of Junior Securities (and any warrants, rights, calls or options exercisable for or convertible into such Junior Securities) either pursuant to agreements entered into on or prior to the Preferred Stock Issue Date or held by employees of or consultants or advisors to the Company or any of its Subsidiaries, which repurchase, redemption or other acquisition or retirement shall have been approved by a majority of the Board of Directors or shall be made pursuant to the repurchase provisions under employee stock option, stock purchase or stock subscription agreements or other agreements to compensate employees, consultants or advisors and which such repurchases, redemptions or other acquisitions or retirements for value would otherwise be permitted by the documents governing the Company's indebtedness from time to time), or (2) make any distribution in respect thereof, either directly or indirectly, and whether in cash, obligations or shares of the Company or other property (other than distributions or dividends in Junior Securities to the holders of Junior Securities), or (3) permit any corporation or other entity directly or indirectly controlled by the Company to purchase or redeem any of the Junior Securities or any such warrants, rights, calls or options, unless in either case

full cumulative dividends determined in accordance herewith have been paid in full in cash (if so required at that time) on the Senior Preferred Stock, including the payment of any accumulated and unpaid dividends as to which a conditional increase of the liquidation preference of the Series A Preferred Stock has been made.

(vii) Dividends payable on shares of the Series A Preferred Stock for any period less than a year shall be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed in the period for which payable. If any Dividend Payment Date occurs on a day that is not a Business Day, any accrued dividends otherwise payable on such Dividend Payment Date shall be paid on the next succeeding Business Day.

(d) Liquidation Preference.

(i) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, the Holders of shares of Series A Preferred Stock then outstanding shall be entitled to be paid, out of the assets of the Company available for distribution to its stockholders, $100.00 per share of Series A Preferred Stock, plus an amount in cash equal to the sum of (x) the amounts, if any, added (permanently and conditionally as then in effect) to the liquidation preference pursuant to paragraph (c)(i) and (y) the accumulated and unpaid dividends thereon to the date fixed for liquidation, dissolution or winding up (including an amount equal to a prorated dividend for the period from the last Dividend Payment Date to the date fixed for liquidation, dissolution or winding up), before any payment shall be made or any assets distributed to the holders of any of the Junior Securities, including, without limitation, Common Stock of the Company. Except as provided in the preceding sentence, Holders of shares of Series A Preferred Stock shall not be entitled to any distribution in the event of liquidation, dissolution or winding up of the affairs of the Company. If the assets of the Company are not sufficient to pay in full the liquidation payments payable to the Holders of outstanding shares of the Series A Preferred Stock and all Parity Securities, then the holders of all such shares shall share equally and ratably in such distribution of assets of the Company in accordance with the amounts which would be payable on such distribution if the amount to which the Holders of outstanding shares of Series A Preferred Stock and the holders of outstanding shares of all Parity Securities are entitled were paid in full.

(ii) For the purposes of this paragraph (d), neither the sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Company nor the consolidation or merger of the Company with or into one or more corporations or other entities shall be deemed to be a liquidation, dissolution or winding up of the affairs of the Company (unless such sale, conveyance, exchange or transfer is in connection with a dissolution or winding up of the business of the Company).

(e) Redemption.

(i) Optional Redemption.

(A) The Company may (subject to contractual and other restrictions with respect thereto and the legal availability of funds therefor), at the option of the Company, redeem at any time on or after November 13, 2002, from any source of funds legally available therefor, in whole or in part, in the manner provided in paragraph (e)(iii) hereof, any or all of the shares of the Series A Preferred Stock, at the redemption prices (expressed as a percentage of the then liquidation preference (both permanent and conditional as then in effect) thereof) set forth below plus, without duplication, an amount in cash equal to all accumulated and unpaid dividends per share (including an amount in cash equal to a prorated dividend for the period from the Dividend Payment Date immediately prior to the Redemption Date to the Redemption Date) (the "Optional Redemption Price"), if redeemed during the 12-month period beginning on November 13 of each of the years indicated below:

2002.....	106.725%
2003.....	105.380%
2004.....	104.035%
2005.....	102.690%
2006.....	101.345%
2007 and thereafter.....	100.000%;

provided that no optional redemption pursuant to this paragraph (e)(i)(A) shall be authorized or made at less than 101% of the then liquidation preference (both permanent and conditional as then in effect) of the Series A Preferred Stock at any time when the Company is making or purchasing shares of Series A Preferred Stock under a Change of Control Offer in accordance with the provisions of paragraph (h)(i) hereof.

(B) In addition, on or prior to November 13, 2002, the Company may, at its option, on one or more occasions redeem, in the manner provided in paragraph (e)(iii) hereof, any or all of the shares of the Series A Preferred Stock then outstanding, at the redemption price set forth below, following any underwritten public offering (a "Public Offering") of its Common Stock.

For purposes of this Section (e)(i)(B), the redemption price shall be (i) a non-transferable, interest-free note in such form and with such terms as are determined by the Board of Directors of the Company (an "Additional Payment Note") evidencing the right to receive the Additional Payment (as defined in Section (e)(I)(D)) and (ii) an amount in cash (the "Contingent Redemption Price") equal to the sum of (I) the Public Offering Redemption Percentage (as defined below) multiplied by the then liquidation preference (both permanent and conditional as then in effect), plus, without duplication, (II) an amount in cash equal to all accumulated and unpaid dividends per

share (including an amount in cash equal to a prorated dividend for the period from the Dividend Payment Date immediately prior to the Redemption Date to the Redemption Date). The "Public Offering Redemption Percentage" shall be 110% less (II) the number (computed to three decimal places) calculated as follows and expressed as a percentage: (x) the product of (A) the underwriters' discount (the "Underwriters' Discount") in connection with the Public Offering (expressed as a percentage) multiplied by (B) the price per share of Common Stock (before underwriting commissions and discounts) in the Public Offering multiplied by (C) the sum of (i) the maximum number of shares of Common Stock to be sold by selling stockholders in the Public Offering and (ii) the maximum number of shares of Common Stock to be repurchased by the Company from its employee-stockholders with a portion of the proceeds of the Public Offering as described in the prospectus relating to the Public Offering, in each case assuming exercise in full of the underwriters' "green shoe" option (such aggregate number of shares, the "Maximum Number"); and then dividing such product by (y) the aggregate liquidation preference of all outstanding shares of Series A Preferred Stock immediately prior to redemption.

(C) In the event of a redemption pursuant to paragraph (e)(i)(A) or (e)(i)(B) hereof of only a portion of the then outstanding shares of the Series A Preferred Stock, the Company shall effect such redemption as it determines, pro rata according to the number of shares held by each Holder of Series A Preferred Stock or by lot, as may be determined by the Company in its sole discretion.

(ii) Mandatory Redemption. On November 13, 2009, the Company shall redeem, subject to contractual and other restrictions thereupon, from any source of funds legally available therefor, in the manner provided in paragraph (e)(iii) hereof, all of the shares of the Series A Preferred Stock then outstanding at a redemption price equal to 100% of the then liquidation preference (both permanent and conditional as then in effect) per share, plus, without duplication, an amount in cash equal to all accumulated and unpaid dividends per share (including an amount equal to a prorated dividend for the period from the Dividend Payment Date immediately prior to the Redemption Date to the Redemption Date) (the "Mandatory Redemption Price").

(iii) Procedures for Redemption.

(A) At least 20 days and not more than 60 days prior to the date fixed for any redemption of the Series A Preferred Stock, written notice (the "Redemption Notice") shall be given by first-class mail, postage prepaid, to each Holder of Series A Preferred Stock of record as of the date such notice is given at such Holder's address as the same appears on the stock register of the Company, provided that no failure to give such notice nor any deficiency therein shall affect the validity of the procedure for the redemption of any shares of Series A Preferred Stock to be redeemed except as to the Holder or Holders to whom the Company has failed to give said notice or except as to

the Holder or Holders whose notice was defective. The Redemption Notice shall state: (1) whether the redemption is pursuant to paragraph (e)(i)(A), (e)(i)(B) or (e)(ii) hereof; (2) the Optional Redemption Price, the Contingent Redemption Price or the Mandatory Redemption Price, as the case may be; (3) whether all or less than all the outstanding shares of the Series A Preferred Stock are to be redeemed and the total number of shares of the Series A Preferred Stock being redeemed; (4) the number of shares of Series A Preferred Stock held, as of the appropriate record date, by the Holder that the Company intends to redeem; (5) the date fixed for redemption; (6) that the Holder is to surrender to the Company, at the place or places where certificates for shares of Series A Preferred Stock are to be surrendered for redemption, in the manner and at the price designated, such Holder's certificate or certificates representing the shares of Series A Preferred Stock to be redeemed; and (7) that dividends on the shares of the Series A Preferred Stock to be redeemed shall cease to accrue on such Redemption Date unless the Company defaults in the payment of the Optional Redemption Price, the Contingent Redemption Price or the Mandatory Redemption Price, and, if applicable, the delivery of the Additional Payment Note, as the case may be.

(B) Each Holder of Series A Preferred Stock shall surrender the certificate or certificates representing such shares of Series A Preferred Stock to the Company, duly endorsed, in the manner and at the place designated in the Redemption Notice, and on the Redemption Date the full Optional Redemption Price, Contingent Redemption Price or Mandatory Redemption Price, as the case may be, for such shares shall be payable in cash, and, if applicable, the Additional Payment Notes for such shares shall be deliverable, to the Person whose name appears on such certificate or certificates as the owner thereof, and each surrendered certificate shall be canceled and retired. In the event that less than all of the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(C) If (i) the Redemption Notice is duly mailed as described in subparagraph (iii)(a) and (ii) either (x) a sum in cash is set apart irrevocably in trust sufficient to pay the applicable redemption price payable at the Redemption Date on the shares of Series A Preferred Stock called for redemption (whether before or on the Redemption Date) or (y) the Company pays in full the applicable redemption price payable at the Redemption Date, and (iii) if applicable, the Company delivers or has prepared for irrevocable delivery (whether before or on the Redemption Date) the Additional Payment Notes, then, notwithstanding that any certificate for shares so called for or subject to redemption shall not have been surrendered for cancellation, (1) dividends on the Series A Preferred Stock called for redemption shall cease to accumulate on the Redemption Date, (2) such shares shall no longer be deemed to be outstanding or have the status of shares of Series A Preferred Stock, (4) such shares shall no longer be transferable on the books of the Company and (5) all rights of the Holders of such redemption shares as

stockholders of the Company shall cease, other than the right to receive from the Company or exchange agent or other agent selected by the Company the Optional Redemption Price, the Contingent Redemption Price or the Mandatory Redemption Price, and, if applicable, the Additional Payment Note, as the case may be, without interest.

(D) In the event that the total number of shares of Common Stock actually sold by selling stockholders in the Public Offering and repurchased by the Company from its employee-stockholders with a portion of the proceeds of the Public Offering (the "Actual Number") is less than the Maximum Number, then the Additional Payment shall be calculated by multiplying the liquidation preference of a share of Series A Preferred Stock as in effect immediately prior to redemption by a percentage calculated as follows: (x) the product of (A) the Underwriters' Discount multiplied by (B) the price per share of Common Stock (before underwriting commissions and discounts) in the Public Offering multiplied by (C) the amount calculated by subtracting the Actual Number from the Maximum Number; and then dividing such product by (y) the aggregate liquidation preference of all shares of Series A Preferred Stock outstanding immediately prior to the Redemption Date; provided that if the Actual Number equals the Maximum Number or if the Additional Payment would be less than $0.50, then the Additional Payment shall be $0.00. The Additional Payment Notes shall provide that the Additional Payment, if any, shall be payable in cash promptly (and in any event within 10 business days) after the Company finally determines the Actual Number to the Person whose name appears on a certificate or certificates for the Series A Preferred Stock as the owner thereof prior to redemption.

(f) Voting Rights.

(i) The Holders of shares of the Series A Preferred Stock, except as otherwise required under the General Corporation Law of the State of Delaware law or as set forth in paragraphs (ii), (iii) and (iv) below, shall not be entitled or permitted to vote on any matter required or permitted to be voted upon by the stockholders of the Company.

(ii) (A) So long as any shares of the Series A Preferred Stock are outstanding, the Company shall not authorize any class of Parity Securities without the affirmative vote or consent of Holders of at least a majority of the outstanding shares of Series A Preferred Stock, voting or consenting, as the case may be, separately as one class, given in person or by proxy, either in writing or by resolution adopted at an annual or special meeting, except that without the approval of Holders of Series A Preferred Stock, the Company may issue shares of Parity Securities in exchange for, or the proceeds of which are used to redeem or repurchase, any or all shares of Series A Preferred Stock then outstanding, provided that, in the case of Parity Securities issued in exchange for, or the proceeds of which are used to redeem or repurchase, less than all shares of Series A Preferred Stock then

outstanding, the aggregate liquidation preference (both permanent and conditional as then in effect) of such Parity Securities shall not exceed the aggregate liquidation preference (both permanent and conditional as then in effect) of, premium, if any, and accrued and unpaid dividends on, and expenses in connection with the refinancing of, the Series A Preferred Stock so exchanged, redeemed or repurchased.

(B) So long as any shares of the Series A Preferred Stock are outstanding, the Company shall not authorize any class of Senior Securities without the affirmative vote or consent of Holders of at least a majority of the outstanding shares of Series A Preferred Stock, voting or consenting, as the case may be, separately as one class, given in person or by proxy, either in writing or by resolution adopted at an annual or special meeting.

(C) So long as any shares of the Series A Preferred Stock are outstanding, the Company shall not amend this Certificate of Designation or its Certificate of Incorporation so as to affect adversely the specified rights, preferences, privileges or voting rights of Holders of shares of Series A Preferred Stock or to authorize the issuance of any additional shares of Series A Preferred Stock without the affirmative vote or consent of Holders of at least a majority of the outstanding shares of Series A Preferred Stock, voting or consenting, as the case may be, separately as one class, given in person or by proxy, either in writing or by resolution adopted at an annual or special meeting. The affirmative vote or consent of Holders of at least a majority of the outstanding shares of Series A Preferred Stock, voting or consenting, as the case may be, separately as one class, whether voting in person or by proxy, either in writing or by resolution adopted at an annual or special meeting, may waive compliance with any provision of this Certificate of Designation or its Certificate of Incorporation.

(D) Prior to the exchange of Series A Preferred Stock for Exchange Notes, the Company may amend or modify the indenture for the Exchange Notes, including, without limitation, in a manner so as to affect adversely the specified rights, preferences and privileges of the Holders of outstanding shares of Series A Preferred Stock who may receive Exchange Notes as described herein, with the affirmative vote or consent of Holders of at least a majority of the outstanding shares of Series A Preferred Stock, voting or consenting, as the case may be, separately as one class, given in person or by proxy, either in writing or by resolution adopted at an annual or special meeting. In addition, without such an affirmative vote or consent, the Company may amend or modify such indenture as expressly provided therein in respect of amendments without the consent of holders of Exchange Notes. Such indenture, as it may be amended or modified pursuant to this provision, is referred to as the "Exchange Indenture," and a copy of the form of Exchange Indenture is attached hereto as Exhibit A.

(E) Except as set forth in paragraphs (f)(ii)(A) and (f)(ii)(B) above, (1) the creation, authorization or issuance of any shares of any Junior

Securities, Parity Securities or Senior Securities, or (2) the increase or decrease in the amount of authorized capital stock of any class, including any preferred stock, shall not require the consent of Holders of Series A Preferred Stock and shall not, unless not complying with paragraphs (f)(ii)(A) and (f)(ii)(B) above, be deemed to affect adversely the rights, preferences, privileges or voting rights of Holders of shares of Series A Preferred Stock.

(iii) (A) If (1) after December 15, 2004, dividends on the Series A Preferred Stock are not paid in cash for six consecutive Dividend Payment Dates (a "Dividend Default"); or (2) the Company fails to make a mandatory redemption of the Series A Preferred Stock when required (whether or not any contractual or other restrictions apply to such redemption) pursuant to paragraph (e)(ii) hereof (a "Redemption Default"); or (3) the Company fails to make an offer to repurchase all of the outstanding shares of Series A Preferred Stock within thirty (30) days following a Change of Control, if such offer to repurchase is required to be made pursuant to paragraph (h)(i) hereof, (whether or not any contractual or other restrictions apply to such redemption) (a "Repurchase Default"); or (4) the Company breaches or violates one of the provisions set forth in this Certificate of Designation and the breach or violation continues for a period of 30 days or more (a "Restriction Default"), then the number of directors constituting the Board of Directors shall be increased to permit the Holders of the majority of the then outstanding Series A Preferred Stock, voting separately as one class, to elect one director. Holders of a majority of the issued and outstanding shares of the Series A Preferred Stock, voting separately as one class, shall have the exclusive right to elect a maximum of one member of the Board of Directors at a meeting therefor called upon occurrence of any one or more of a Dividend Default, Redemption Default, Repurchase Default or Restriction Default, as the case may be, and at every subsequent meeting at which the term of office of the director so elected by the Holders of Series A Preferred Stock expires (other than as described in (f)(iii)(B) below). Each such event described in clauses (1), (2), (3) and (4) is a "Voting Rights Triggering Event." Irrespective of the number of Voting Rights Triggering Events, in no event shall the Holders of Series A Preferred Stock have the right to elect and have serve more than one member of the Board of Directors at any time.

(B) The right of the Holders of Series A Preferred Stock voting separately as one class to elect a maximum of one member of the Board of Directors as set forth in paragraph (f)(iii)(A) above shall continue until such time as (1) in the event such right arises due to a Dividend Default, all accumulated dividends that are in arrears on the Series A Preferred Stock are paid in full in cash; and (2) in the event such right arises due to a Redemption Default or a Repurchase Default, a Restriction Default, the Company remedies any such failure, breach or default, at which time the term of the director elected pursuant to paragraph (f)(iii)(A) shall terminate, subject always to the same provisions for the renewal and divestment of such special voting rights in the case of any future Voting Rights Triggering Event. At

any time after voting power to elect a director shall have become vested and be continuing in the Holders of shares of Series A Preferred Stock pursuant to paragraph (f)(iii) hereof, or if a vacancy shall exist in the office of the director elected by the Holders of shares of the Series A Preferred Stock, a proper officer of the Company may, and upon the written request of the Holders of record of at least 10% of the shares of Series A Preferred Stock then outstanding addressed to the Secretary of the Company shall, call a special meeting of the Holders of Series A Preferred Stock, for the purpose of electing the director which such Holders are entitled to elect. If such meeting shall not be called by the proper officer of the Company within 10 days after personal service of said written request upon the Secretary of the Company, or within 10 days after mailing the same within the United States by certified mail, addressed to the Secretary of the Company at its principal executive offices, then the Holders of record of at least 20% of the outstanding shares of the Series A Preferred Stock may designate in writing one of their number to call such meeting at the expense of the Company, and such meeting may be called by the Person so designated upon the notice required for the annual meetings of stockholders of the Company and shall be held at the place for holding the annual meetings of stockholders or such other place in the United States as shall be designated in such notice. Notwithstanding the provisions of this paragraph (f)(iii)(B), no such special meeting shall be called if any such request is received less than 20 days before the date fixed for the next ensuing annual or special meeting of stockholders of the Company. Any Holder of shares of the Series A Preferred Stock so designated shall have, and the Company shall provide, access to the lists of Holders of shares of the Series A Preferred Stock for purposes of calling a meeting pursuant to the provisions of this paragraph (f)(iii)(B).

(C) At any meeting held for the purpose of electing directors at which the Holders of Series A Preferred Stock shall have the right, voting separately as one class, to elect a director as aforesaid, the presence in person or by proxy of the Holders of at least a majority of the outstanding Series A Preferred Stock shall be required to constitute a quorum of such Series A Preferred Stock.

(iv) In any case in which the Holders of shares of the Series A Preferred Stock shall be entitled to vote pursuant to this paragraph (f) or pursuant to the General Corporation Law of the State of Delaware, each Holder of shares of the Series A Preferred Stock shall be entitled to one vote for each share of Series A Preferred Stock held.

(g) Optional Exchange.

(i) Conditions.

(A) The Company may, at its option on any date (herein the "Exchange Date"), exchange all, but not less than all, of the then outstanding shares of Series A Preferred Stock into the Company's 13.45% Subordinated

Exchange Debenture due 2009 (the "Exchange Notes") if such exchange is then permitted by the documents governing the Company's indebtedness from time to time. To exchange Series A Preferred Stock into Exchange Notes, the Company shall send a written notice (the "Exchange Notice") of exchange by mail to each Holder of Series A Preferred Stock, which notice shall state: (v) that the Company has elected to exchange the Series A Preferred Stock into Exchange Notes pursuant to this paragraph (g); (w) the Exchange Date, which shall be no sooner than 30 days nor later than 60 days from the date on which the Exchange Notice is mailed; (x) that the Holder is to surrender to the Company, at the place or places where certificates for shares of Series A Preferred Stock are to be surrendered for exchange, in the manner designated in the Exchange Notice, his certificate or certificates representing the shares of Series A Preferred Stock to be exchanged (properly endorsed or assigned for transfer); (y) that dividends on the shares of Series A Preferred Stock to be exchanged shall cease to accrue, and the Holders of such shares shall cease to have any further rights with respect to such shares (other than the right to receive Exchange Notes), on the Exchange Date whether or not certificates for shares of Series A Preferred Stock are surrendered for exchange on the Exchange Date unless the Company shall default in the delivery of Exchange Notes; and (z) that interest on the Exchange Notes shall accrue from the Exchange Date whether or not certificates for shares of Series A Preferred Stock are surrendered for exchange on the Exchange Date. On the Exchange Date, if the conditions set forth in clauses (I) through (IV) below are satisfied and if the exchange is then permitted by the documents governing the Company's indebtedness from time to time, the Company shall issue Exchange Notes in exchange for the Series A Preferred Stock as provided in the next paragraph, provided that on the Exchange Date: (I) there shall be legally available funds sufficient therefor (including, without limitation, legally available funds sufficient therefor under Sections 160 and 170 (or any successor provisions) of the Delaware General Corporation Law of the State of Delaware); (II) either (a) a registration statement relating to the Exchange Notes shall have been declared effective under the Securities Act of 1933, as amended (the "Securities Act"), prior to such exchange and shall continue to be in effect on the Exchange Date or (b)(i) the Company shall have obtained a written opinion of counsel that an exemption from the registration requirements of the Securities Act is available for such exchange and (ii) such exemption is relied upon by the Company for such exchange; (III) the Exchange Indenture and the trustee thereunder (the "Trustee") shall have been qualified under the Trust Indenture Act of 1939, as amended, if such qualification is required; and (IV) immediately after giving effect to such exchange, no Default or Event of Default (each as defined in the Exchange Indenture) would exist under the Exchange Indenture.

In the event that the issuance of the Exchange Notes is not permitted on the Exchange Date set forth in the Exchange Notice, or any of the conditions set forth in clauses (I) through (IV) of the preceding sentence are not satisfied on

the Exchange Date set forth in the Exchange Notice, the Exchange Date shall be deemed to be the first Business Day thereafter, if any, upon which all of such conditions are satisfied.

(B) Upon any exchange pursuant to paragraph (g)(i)(A), each Holder of outstanding shares of Series A Preferred Stock shall be entitled to receive Exchange Notes in a principal amount equal to the sum of (i) the then liquidation preference (both permanent and conditional as then in effect) of such Holder's shares of Series A Preferred Stock and (ii) the amount of accumulated and unpaid dividends, if any, thereon.

(ii) Procedure for Exchange.

(A) On or before the Exchange Date, each Holder of Series A Preferred Stock shall surrender the certificate or certificates representing such shares of Series A Preferred Stock, in the manner and at the place designated in the Exchange Notice. The Company shall cause the Exchange Notes to be executed on the Exchange Date and, upon surrender in accordance with the Exchange Notice of the certificates for any shares of Series A Preferred Stock so exchanged (properly endorsed or assigned for transfer), such shares shall be exchanged by the Company into Exchange Notes. The Company shall pay interest on the Exchange Notes at the rate and on the dates specified therein from the Exchange Date.

(B) Subject to the conditions set forth in paragraph (g)(i), if notice has been mailed as aforesaid, and if before the Exchange Date (1) the Exchange Indenture shall have been duly executed and delivered by the Company and the Trustee and (2) all Exchange Notes necessary for such exchange shall have been duly executed by the Company and delivered to the Trustee with irrevocable instructions to authenticate the Exchange Notes necessary for such exchange, then the rights of the Holders of shares of the Series A Preferred Stock as stockholders of the Company shall cease (except the right to receive Exchange Notes), and the Person or Persons entitled to receive the Exchange Notes issuable upon exchange shall be treated for all purposes as the registered Holder or Holders of such Exchange Notes as of the date of exchange without any further action of the Holders of Series A Preferred Stock.

(h) Option of Holders to Elect Repurchase.

(i) Change of Control Offer. Subject to the last paragraph of subclause (B) below, upon the occurrence of a Change of Control, the Company shall make an offer (a "Change of Control Offer") to each Holder of Series A Preferred Stock to repurchase any or all of such Holder's shares of Series A Preferred Stock at a purchase price in cash equal to 101.0% of the aggregate liquidation preference (both permanent and conditional as then in effect) thereof plus cumulated and unpaid dividends thereon, if any, to the date of repurchase (the "Change of Control Payment").

(A) Within 30 days following any Change of Control, the Company shall mail a notice to each Holder of Series A Preferred Stock stating: (1) that the Change of Control Offer is being made pursuant to this paragraph (h)(i) and that all shares of Series A Preferred Stock tendered will be accepted for payment; (2) the purchase price and the purchase date, which shall be no sooner than 30 nor later than 60 days from the date such notice is mailed (the "Change of Control Payment Date"); (3) that any shares not tendered will continue to accumulate dividends; (4) that, unless the Company defaults in the payment of the Change of Control Payment, all shares of Series A Preferred Stock accepted for payment pursuant to the Change of Control Offer shall cease to accumulate dividends after the Change of Control Payment Date; (5) that Holders electing to have any shares of Series A Preferred Stock repurchased pursuant to a Change of Control Offer will be required to surrender such shares, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the shares of Series A Preferred Stock, completed, or transfer by book-entry transfer, to the Company or its transfer agent at the address specified in the notice prior to the close of business on the third Business Day preceding the Change of Control Payment Date; (6) that Holders will be entitled to withdraw their election if the Company or the transfer agent, as the case may be, receives, not later than the close of business on the third Business Day preceding the Change of Control Payment Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the number of shares of Series A Preferred Stock delivered for repurchase, and a statement that such Holder is withdrawing his election to have such shares repurchased; and (7) that Holders whose shares of Series A Preferred Stock are being repurchased only in part will be issued new shares of Series A Preferred Stock equal in liquidation preference to the then liquidation preference (both permanent and conditional as then in effect) of the unpurchased portion of the shares of Series A Preferred Stock surrendered (or transferred by book-entry transfer).

(B) On the Change of Control Payment Date, the Company shall, to the extent lawful, (1) accept for payment all shares of Series A Preferred Stock or portions thereof properly tendered pursuant to the Change of Control Offer, (2) deposit with the Company or its transfer agent an amount equal to the Change of Control Payment in respect of all shares of Series A Preferred Stock or portions thereof so tendered, and (3) deliver or cause to be delivered to the Trustee the shares of Series A Preferred Stock so accepted together with an Officers' Certificate stating the aggregate liquidation preference (both permanent and conditional as then in effect) of such Series A Preferred Stock or portions thereof being repurchased by the Company. The Company or its transfer agent, as the case may be, shall promptly mail to each Holder of shares of Series A Preferred Stock so tendered the Change of Control Payment for such shares or portions thereof. The Company shall promptly issue a certificate representing shares of Series A Preferred Stock and mail (or cause to be transferred by book entry) to each Holder a new certificate representing shares of Series A Preferred Stock equal in liquidation

preference (both permanent and conditional as then in effect) to the then liquidation preference (both permanent and conditional as then in effect) of any unpurchased portion of such shares surrendered by such Holder, if any.

If the Change of Control Payment would be prohibited or restricted by the documents governing the Company's indebtedness as in effect immediately prior to the Change of Control or by applicable requirements of the Delaware General Corporation Law, the Company's obligation to consummate the Change of Control Offer shall be delayed until such time as such prohibition or restriction is no longer applicable or in effect; provided, however, that any prohibition or restriction contained in the documents governing the Company's indebtedness incurred or agreed to in anticipation of the Change of Control shall have no effect on the Company's obligation to consummate the Change of Control Offer. The Company shall publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

(C) The Company shall comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of shares of Series A Preferred Stock in connection with a Change of Control.

(i) Conversion or Exchange.

The Holders of shares of Series A Preferred Stock shall not have any rights hereunder to convert such shares into or exchange such shares for shares of any other class or classes or of any other series of any class or classes of Capital Stock of the Company.

(j) Preemptive Rights.

No shares of Series A Preferred Stock shall have any rights of preemption whatsoever as to any securities of the Company, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities or such warrants, rights or options may be designated, issued or granted.

(k) Reissuance of Series A Preferred Stock.

Shares of Series A Preferred Stock that have been issued and reacquired in any manner, including shares purchased or redeemed or exchanged, shall (upon compliance with any applicable provisions of the General Corporation Law of the State of Delaware) have the status of authorized but unissued shares of preferred stock of the Company undesignated as to Series And may be designated or redesignated and issued or reissued, as the case may be, as part of any series of preferred stock of the Company, provided that such shares may not in any event be reissued as Series A Preferred Stock.

(l) Business Day.

If any payment, redemption or exchange shall be required by the terms hereof to be made on a day that is not a Business Day, such payment, redemption or exchange shall be made on the immediately succeeding Business Day.

(m) Reports.

So long as any shares of Series A Preferred Stock are outstanding, the Company shall furnish to each Holder of Series A Preferred Stock (at such Holder's address listed in the register of Holders maintained by the transfer agent and registrar of the Series A Preferred Stock): (i) beginning at the end of the Company's first fiscal year ending after the Preferred Stock Issue Date, all quarterly and annual financial information that would be required to be contained in a filing with the SEC on Forms 10-Q and 10-K if the Company were required to file such forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to the annual information only, a report thereon by the Company's certified independent accountants, and (ii) all current reports that would be required to be filed with the SEC on Form 8-K if the Company were required to file such reports.

(n) Definitions.

As used in this Section 1, the following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa), unless the context otherwise requires:

"Beneficial Owner" for purposes of the definition of Change of Control has the meaning attributed to it in Rules 13d-3 and 13d-5 under the Exchange Act (as in effect on the Preferred Stock Issue Date), whether or not applicable.

"Board of Directors" means, with respect to any person, the board of directors of such person or any committee of the board of directors of such person authorized, with respect to any particular matter, to exercise the power of the board of directors of such person.

"Business Day" means any day other than a Legal Holiday.

"Capital Stock" means (i) in the case of a corporation, corporate stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (iii) in the case of a partnership, partnership interests (whether general or limited) and (iv) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Change of Control" means (i) any merger or consolidation of the Company or Principal Subsidiary with or into any person or any sale, transfer or other

conveyance, whether direct or indirect, of all or substantially all of the assets of the Company or Principal Subsidiary on a consolidated basis, in one transaction or a series of related transactions, if, immediately after giving effect to such transaction(s), any "person" or "group" (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act, whether or not applicable), other than any Excluded Person or Excluded Persons or (in the case of Principal Subsidiary) the Company, is or becomes the Beneficial Owner, directly or indirectly, of more than 50% of the total voting power in the aggregate normally entitled to vote in the election of directors, managers, or trustees, as applicable, of the transferee(s) or surviving entity or entities, (ii) any "person" or "group," other than any Excluded Person or Excluded Persons or (in the case of Principal Subsidiary) the Company, is or becomes the Beneficial Owner, directly or indirectly, of more than 50% of the total voting power in the aggregate of all classes of Capital Stock of Principal Subsidiary then outstanding normally entitled to vote in elections of directors; provided, however, that any "person" or "group" will be deemed to be the Beneficial Owner of any Capital Stock of Principal Subsidiary held by the Company so long as such person or group is the Beneficial Owner of, directly or indirectly, in the aggregate a majority of the Capital Stock of the Company then outstanding normally entitled to vote in elections of directors, (iii) during any period of 12 consecutive months after the Preferred Stock Issue Date, individuals who at the beginning of any such 12-month period constituted the Board of Directors of either the Company or Principal Subsidiary (together, in each case, with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Company or Principal Subsidiary was approved by LGP or a Related Party of LGP or by the Excluded Persons or by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Company or Principal Subsidiary then in office, as applicable, or (iv) at any time after the Preferred Stock Issue Date, Principal Subsidiary no longer continues, for Federal income tax purposes, to be a member of the affiliated group of the Company under circumstances that would accelerate the unrealized gain in respect of the Company's investment account in Principal Subsidiary.

"Certificate of Incorporation" means the Company's Restated Certificate of Incorporation.

"CIT Credit Facility" means the financing agreement, dated March 8, 1996, between Principal Subsidiary, as borrower, the CIT Group/Business Credit, Inc., as agent and lender, and the other lenders thereunder, as amended through the date hereof.

"Company" means this corporation.

"Dividend Payment Date" means the fifteenth day of June and December.

"Dividend Period" means the Initial Dividend Period and, thereafter, each Semiannual Dividend Period.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Exchange Date" means a date on which shares of Series A Preferred Stock are exchanged by the Company for Exchange Notes.

"Exchange Notes" means the 13.45% Subordinated Exchange Debentures due 2009 of the Company to be issued at the option of the Company in exchange for the Series A Preferred Stock.

"Excluded Person" means GEI, Robert W. Miller, Steven G. Miller, Michael D. Miller and their respective Related Parties.

"GEI" means Green Equity Investors, L.P., a Delaware limited partnership.

"Holder" means a Person in whose name a share of Series A Preferred Stock is registered.

"Initial Dividend Period" means the dividend period commencing on the Preferred Stock Issue Date and ending on June 14, 1998.

"Legal Holiday" means a Saturday, a Sunday or a day on which banking institutions in the Company's principal place of business, the City of New York or at a place of payment are authorized by law, regulation or executive order to remain closed. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

"LGP" means Leonard Green & Partners, L.P., a Delaware limited partnership.

"Person" means any individual, corporation, partnership, joint venture, association, limited liability company, joint-stock company, trust, unincorporated organization or government or agency or political subdivision thereof (including any subdivision or ongoing business of any such entity or substantially all of the assets of any such entity, subdivision or business).

"Preferred Stock Issue Date" means the date on which the Series A Preferred Stock is originally issued by the Company under this Certificate of Designation.

"Principal Subsidiary" means Big 5 Corp., a Delaware corporation.

"Redemption Date" with respect to any shares of Series A Preferred Stock means the date on which such shares of Series A Preferred Stock are redeemed by the Company.

"Related Party" means (i) with respect to any Excluded Person, (A) any controlling stockholder, 80% or more owned Subsidiary, partner or spouse or immediate family member (in the case of an individual) of such Excluded Person or

(B) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or persons beneficially holding an 80% or more controlling interest of which consist of such Excluded Person and/or such other persons referred to in the immediately preceding clause (A), and (ii) only with respect to GEI (and in addition to the persons described in the foregoing clause (i)) any partnership or corporation which is managed by or controlled by LGP or any affiliate thereof.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"Semiannual Dividend Period" shall mean the semiannual period commencing on each June 15 and December 15 and ending on the day before the following Dividend Payment Date.

"Series A Preferred Stock" means the Company's Series A 13.45% Senior Exchangeable Preferred Stock, par value $0.01 per share, with an initial liquidation preference of $100.00 per share, consisting of 350,000 shares.

"Subsidiary" means, with respect to any Person, (i) any corporation, association or other business entity of which more than 50.0% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof) and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

"Wholly Owned Subsidiary" of any Person means a Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which shall at the time be owned (i) by such Person, (ii) by one or more Wholly Owned Subsidiaries of such Person or (iii) by such Person and one or more Wholly Owned Subsidiaries of such Person.

CERTIFICATE ELIMINATING
THE CERTIFICATE OF DESIGNATION OF THE
SERIES A 13.45% SENIOR EXCHANGEABLE
PREFERRED STOCK
FROM THE
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
BIG 5 SPORTING GOODS CORPORATION

Pursuant to the provisions of Section 151(g) of the General Corporation Law of the State of Delaware, it is hereby certified that:

1. The name of the corporation (hereinafter referred to as the "CORPORATION") is Big 5 Sporting Goods Corporation.

2. The designation of shares of stock of the Corporation to which this certificate relates is the Series A 13.45% Senior Exchangeable Preferred Stock.

3. The voting powers, designations, preferences, and the relative, participating, optional, or other rights, and the qualifications, limitations, and restrictions of the Series A 13.45% Senior Exchangeable Preferred Stock were provided for in a resolution adopted by the Board of Directors of the Corporation pursuant to authority expressly vested in it by the provisions of the Amended and Restated Certificate of Incorporation of the Corporation. An Amended and Restated Certificate of Incorporation setting forth said resolution has been heretofore filed with the Secretary of State of the State of Delaware pursuant to the provisions of Section 151(g) of the General Corporation Law of the State of Delaware.

4. The Board of Directors of the Corporation has adopted the following resolutions:

RESOLVED, that none of the authorized shares of stock of the Series A 13.45% Senior Exchangeable Preferred Stock designated are outstanding,

RESOLVED FURTHER, that none of the Series A 13.45% Senior Exchangeable Preferred Stock of the shares of stock of the Corporation will be further issued and

RESOLVED FURTHER, that the proper officers of the Corporation be, and hereby are, authorized and directed to file a certificate setting forth this resolution with the Secretary of State of the State of Delaware pursuant to the provisions of Section 151(g) of the General Corporation Law of the State of Delaware for the purpose of eliminating from the Amended and Restated

Certificate of Incorporation of the Corporation all reference to the Series A 13.45% Senior Exchangeable Preferred Stock.

5. The effective time of this certificate shall be upon its filing with the office of the Delaware Secretary of State.

Dated as of October 29, 2002.

/s/ Gary S. Meade

Gary S. Meade, Senior Vice President,
Secretary and General Counsel

EXHIBIT 3.2

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BIG 5 SPORTING GOODS CORPORATION

AMENDED AND RESTATED BYLAWS

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TABLE OF CONTENTS

AMENDED AND RESTATED BYLAWS

OF

BIG 5 SPORTING GOODS CORPORATION
(hereinafter called the "Corporation")

ARTICLE I

OFFICES

Section 1. Registered Office. The registered office of the Corporation shall be in the City of Dover, County of Kent, State of Delaware.

Section 2. Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. Place of Meetings. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings.

(1) An annual meeting of the stockholders, for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place, on such date and at such time as the Board of Directors shall each year fix, which date shall be within thirteen (13) months of the last annual meeting of stockholders.

(2) Nominations of persons for election to the Board of Directors and the proposal of business to be transacted by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice with respect to such meeting, (b) by or at the direction of the Board of Directors or (c) by any stockholder of record of the Corporation who was a stockholder of record at the time of the giving of the notice provided for in the following paragraph, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this section.

(3) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of the foregoing paragraph, (1) the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation, (2) such business must be a proper matter for stockholder action under the General Corporation Law of the State of Delaware, (3) if the stockholder, or the beneficial owner on whose behalf any such proposal or nomination is made, has provided the

Corporation with a Solicitation Notice, as that term is defined in subclause (c)(iii) of this paragraph, such stockholder or beneficial owner must, in the case of a proposal, have delivered a proxy statement and form of proxy to holders of at least the percentage of the Corporation's voting shares required under applicable law to carry any such proposal, or, in the case of a nomination or nominations, have delivered a proxy statement and form of proxy to holders of a percentage of the Corporation's voting shares reasonably believed by such stockholder or beneficial holder to be sufficient to elect the nominee or nominees proposed to be nominated by such stockholder, and must, in either case, have included in such materials the Solicitation Notice and (4) if no Solicitation Notice relating thereto has been timely provided pursuant to this section, the stockholder or beneficial owner proposing such business or nomination must not have solicited a number of proxies sufficient to have required the delivery of such a Solicitation Notice under this section. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than 45 or more than 75 days prior to the first anniversary (the "Anniversary") of the date on which the Corporation first mailed its proxy materials for the preceding year's annual meeting of stockholders (provided, that during the year 2003, such notice shall be delivered to the Secretary no earlier than February 15th and no later than March 15th); provided, however, that if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not later than the close of business on the later of (i) the 90th day prior to such annual meeting or (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "Exchange Act"), and such person's written consent to serve as a director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of such business, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class and number of shares of the Corporation that are owned beneficially and of record by such stockholder and such beneficial owner, and (iii) whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of, in the case of a proposal, at least the percentage of the Corporation's voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of the Corporation's voting shares to elect such nominee or nominees (an affirmative statement of such intent, a "Solicitation Notice").

(4) Notwithstanding anything in the second sentence of the third paragraph of this Section 2 to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least 55 days prior to the Anniversary, a stockholder's notice

required by this bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

(5) Only persons nominated in accordance with the procedures set forth in this Section 2 shall be eligible to serve as directors and only such business shall be conducted at an annual meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this section. The chairman of the meeting shall have the power and the duty to determine whether a nomination or any business proposed to be brought before the meeting has been made in accordance with the procedures set forth in these Amended and Restated Bylaws, as they may be amended from time to time (these "Bylaws") and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defectively proposed business or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

(6) For purposes of these Bylaws, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(7) Notwithstanding the foregoing provisions of this Section 2, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this Section 2. Nothing in this Section 2 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 3. Special Meetings.

(1) Special meetings of the stockholders, other than those required by statute, may be called at any time by the Chairman of the Board, the Chief Executive Officer or the President or by the Board of Directors acting pursuant to a resolution duly adopted by a majority of the Whole Board. For purposes of these Bylaws, the term "Whole Board" shall mean the total number of authorized directors whether or not there exist any vacancies in previously authorized directorships. The Board of Directors may postpone or reschedule any previously scheduled special meeting.

(2) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of record of the Corporation who is a stockholder of record at the time of giving of notice provided for in this paragraph, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in Section 2 of this Article II.

Nominations by stockholders of persons for election to the Board of Directors may be made at such a special meeting of stockholders if the stockholder's notice required by the third paragraph of Section 2 of this Article II shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

(3) Notwithstanding the foregoing provisions of this Section 3, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this Section 3. Nothing in this Section 3 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 4. Notice of Meetings. Notice of the place, if any, date and time of all meetings of the stockholders, and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting, and in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given not less than ten (10) nor more than sixty (60) days before the date on which the meeting is to be held, to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the Delaware General Corporation Law) or the Amended and Restated Certificate of Incorporation of the Corporation, as it may be amended from time to time (the "Certificate of Incorporation"). The Board of Directors may postpone, reschedule or cancel any previously scheduled special meeting.

When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than thirty (30) days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, notice of the place, if any, date and time of the adjourned meeting and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting, shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

Section 5. Quorum; Adjournment. At any meeting of the stockholders, the holders of a majority of all of the shares of the stock entitled to vote at the meeting, present in person or by proxy, shall constitute a quorum for all purposes, unless or except to the extent that the presence of a larger number may be required by law or the Certificate of Incorporation. Where a separate vote by a class or classes or series is required, a majority of the outstanding shares of such class or classes or series, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter and the affirmative vote of the majority of shares of such class or classes or series

present in person or represented by proxy at the meeting shall be the act of such class, except as otherwise required by law, the Certificate of Incorporation or these Bylaws.

If a quorum shall fail to attend any meeting, the chairman of the meeting may adjourn the meeting to another place, if any, date or time.

Section 6. Organization. Such person as the Board of Directors may have designated or, in the absence of such a person, the Chairman of the Board or, in his or her absence, the Chief Executive Officer of the Corporation or, in his or her absence, the President of the Corporation or, in his or her absence, such person as may be chosen by the holders of a majority of the shares entitled to vote who are present, in person or by proxy, shall call to order any meeting of the stockholders and act as chairman of the meeting. In the absence of the Secretary of the Corporation, the secretary of the meeting shall be such person as the chairman of the meeting appoints.

Section 7. Conduct of Business. The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him or her in order. The chairman shall have the power to adjourn the meeting to another place, if any, date and time. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting.

Section 8. Proxies and Voting. At any meeting of the stockholders, every stockholder entitled to vote may vote in person or by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this paragraph may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used; provided, however, that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

The Corporation may, and to the extent required by law, shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Corporation may designate one or more alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting may, and to the extent required by law, shall, appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. Every vote taken by ballots shall be counted by a duly appointed inspector or inspectors.

Each stockholder shall have one vote for every share of stock entitled to vote which is registered in his, her or its name on the record date for the meeting, except as otherwise provided herein or required by law or the Certificate of Incorporation.

All voting, including on the election of directors but excepting where otherwise provided herein or required by law or the Certificate of Incorporation, may be by a voice

vote; provided, however, that upon demand therefor by a stockholder entitled to vote or such stockholder's proxy, a stock vote shall be taken. Every stock vote shall be taken by ballots, each of which shall state the name of the stockholder or proxy voting and such other information as may be required under the procedure established for the meeting. Every vote taken by ballots shall be counted by an inspector or inspectors appointed by the chairman of the meeting.

All elections shall be determined by a plurality of the votes cast, and except as otherwise required by law or the Certificate of Incorporation or herein, all other matters shall be determined by a majority of the votes cast affirmatively or negatively.

Section 9. Stock List. A complete list of stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order for each class of stock and showing the address of each such stockholder and the number of shares registered in such stockholder's name, shall be open to the examination of any such stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of at least ten (10) days prior to the meeting in the manner provided by law.

The stock list shall also be open to the examination of any stockholder during the whole time of the meeting as provided by law. This list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

ARTICLE III

BOARD OF DIRECTORS

Section 1. Duties and Powers. The business of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law or by the Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

Section 2. Number and Term of Office. The Board of Directors shall consist of one (1) or more members. Subject to the rights of the holders of any series of preferred stock to elect directors under specified circumstances, the number of directors shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the Whole Board. The directors, other than those who may be elected by the holders of any series of preferred stock under specified circumstances, shall be divided, with respect to the time for which they severally hold office, into three classes consisting of Class A Directors, Class B Directors and Class C Directors. The terms of office of the Class A Directors, Class B Directors and Class C Directors will expire at the Corporation's first, second and third annual meeting of stockholders, respectively, following adoption of these Bylaws. Each director shall hold office until his or her successor shall have been duly elected and qualified. At each annual meeting of stockholders, commencing with the next succeeding annual meeting, (i) directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until his or her

successor shall have been duly elected and qualified, and (ii) if authorized by a resolution of a majority of the Whole Board, directors may be elected to fill any vacancy on the Board of Directors, regardless of how such vacancy shall have been created. Any director may resign at any time upon written notice to the Corporation. Directors need not be stockholders.

Section 3. Vacancies. Subject to the rights of the holders of any series of preferred stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause shall, unless otherwise required by law or by resolution of the Board of Directors, be filled only by a majority vote of the directors then in office, though less than a quorum (and not by stockholders), and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires or until such director's successor shall have been duly elected and qualified. No decrease in the number of authorized directors shall shorten the term of any incumbent director.

Section 4. Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors shall be held at such place or places, on such date or dates and at such time or times as shall have been established by the Board of Directors and publicized among all directors. A notice of each regular meeting shall not be required. Special meetings of the Board of Directors may be called by the Chairman of the Board, the Chief Executive Officer, the President or by a majority of the Whole Board and shall be held at such place, on such date and at such time as they or he or she shall fix. Notice of the place, date and time of the special meeting shall be given to each director by whom it is not waived either by mail not less than forty-eight (48) hours before the date of the meeting, by telephone, facsimile, telegram or electronic transmission on not less than twenty-four (24) hours' notice, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances. Meetings may be held at any time without notice if all the directors are present or if all those not present waive such notice in accordance with Section 2 of Article VII of these Bylaws. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

Section 5. Quorum. Except as may be otherwise specifically provided by law, the Certificate of Incorporation or these Bylaws, at all meetings of the Board of Directors, a majority of the Whole Board shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 6. Actions of Board Without a Meeting. Unless otherwise provided by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of

Directors or such committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 7. Meetings by Means of Conference Telephone. Unless otherwise provided by the Certificate of Incorporation or these Bylaws, members of the Board of Directors of the Corporation, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 7 shall constitute presence in person at such meeting.

Section 8. Compensation. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board of Directors shall have the authority to fix the compensation of directors, which may be paid in cash, property, securities of the Corporation or other consideration. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary or other compensation as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV

COMMITTEES

Section 1. Committees of the Board of Directors. The Board of Directors may from time to time, by a resolution duly adopted by a majority of the Whole Board designate committees of the Board of Directors, with such lawfully delegable powers and duties as it thereby confers, to serve at the pleasure of the Board of Directors and shall, for those committees and any others provided for herein, elect a director or directors to serve as the member or members, designating, if it desires, other directors as alternate members who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of any committee and any alternate member in his or her place, the member or members of the committee present at the meeting and not disqualified from voting, whether or not he or she or they constitute a quorum, may by unanimous vote appoint another member of the Board of Directors to act at the meeting in the place of the absent or disqualified member.

Section 2. Conduct of Business. Each committee may determine the procedural rules for meeting and conducting its business and shall act in accordance therewith, except as otherwise provided herein or required by law. Adequate provision shall be made for notice to members of all meetings; a majority of the members shall constitute a quorum; and all matters shall be determined by a majority vote of the members present. Action may be taken by any committee without a meeting if all members thereof consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of the proceedings of such committee. Such filing

shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

ARTICLE V

OFFICERS

Section 1. General. The officers of the Corporation shall consist of a Chairman of the Board, a President, one or more Vice Presidents, a Secretary and a Treasurer. The Board of Directors may also appoint one (1) or more vice presidents and one (1) or more assistant secretaries and such other officers as the Board of Directors, in its discretion, shall deem necessary or appropriate from time to time. Any number of offices may be held by the same person, unless the Certificate of Incorporation or these Bylaws otherwise provide. The salaries of officers elected by the Board of Directors shall be fixed from time to time by the Board of Directors or by such officers as may be designated by resolution of the Board of Directors.

Section 2. Election; Term of Office. The Board of Directors at its first meeting held after each annual meeting of stockholders shall elect a Chairman of the Board, a President, one or more Vice Presidents, a Secretary and a Treasurer, and may also elect at that meeting or any other meeting, such other officers and agents as it shall deem necessary or appropriate. Each officer of the Corporation shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors together with the powers and duties customarily exercised by such officer; and each officer of the Corporation shall hold office until such officer's successor is elected and qualified or until such officer's earlier resignation or removal. Any officer may resign at any time upon written notice to the Corporation. The Board of Directors may at any time remove any officer, with or without cause, by the affirmative vote of a majority of the Whole Board.

Section 3. Chairman of the Board. The Chairman of the Board, if there shall be such an officer, shall be the chief executive officer of the Corporation. The Chairman of the Board shall preside at all meetings of the stockholders and the Board of Directors. Subject to the provisions of these Bylaws and to the direction of the Board of Directors, he or she shall have the responsibility for the general management and control of the business and affairs of the Corporation and shall perform all duties and have all powers which are commonly incident to the office of chief executive or which are delegated to him or her by the Board of Directors. He or she shall have power to sign all stock certificates, contracts and other instruments of the Corporation which are authorized and shall have general supervision and direction of all of the other officers, employees and agents of the Corporation.

Section 4. President. The President shall be the chief operating officer of the Corporation, shall have general and active management of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. The President shall perform all duties and have all powers which are commonly incident to the office of the President or the chief operating officer and shall have and exercise such further powers and duties as may be specifically delegated to or vested in the President from time to time by these Bylaws or the Board of Directors. Subject to the direction of the

Board of Directors and the Chairman of the Board, the President shall have the power to sign all stock certificates, contracts and other instruments of the Corporation which are authorized and shall have general supervision of all of the other officers (other than the Chairman of the Board or any Vice Chairman), employees and agents of the Corporation. In the absence of the Chairman of the Board or in the event of his inability or refusal to act, or if the Board of Directors has not designated a Chairman of the Board, the President shall perform the duties of the Chairman of the Board, and when so acting, shall have all of the powers and be subject to all of the restrictions upon the Chairman of the Board.

Section 5. Vice President. In the absence of the President or in the event of his inability or refusal to act, the Vice President (or in the event there be more than one vice president, the vice presidents in the order designated by the directors, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The vice presidents shall perform such other duties and have such other powers as the Board of Directors or the President may from time to time prescribe.

Section 6. Secretary. The Secretary shall issue all authorized notices for, and shall keep minutes of, all meetings of the stockholders and the Board of Directors. He or she shall have charge of the corporate books and shall perform such other duties as the Board of Directors may from time to time prescribe.

Section 7. Chief Financial Officer. The Chief Financial Officer shall be the Treasurer of the Corporation and shall have the responsibility for maintaining the financial records of the Corporation. He or she shall make such disbursements of the funds of the Corporation as are authorized and shall render from time to time an account of all such transactions and of the financial condition of the Corporation. The Chief Financial Officer shall also perform such other duties as the Board of Directors may from time to time prescribe.

Section 8. Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

ARTICLE VI

STOCK

Section 1. Certificates of Stock. Every holder of stock in the Corporation shall be entitled to have a certificate signed by, or in the name of, the Corporation by (i) the Chairman of the Board or the Vice Chairman of the Board, or the President or a Vice President, and (ii) the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, certifying the number of shares owned by such holder in the Corporation.

Section 2. Signatures. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile

signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 3. Transfers. Transfers of stock shall be made only upon the transfer books of the Corporation kept at an office of the Corporation or by transfer agents designated to transfer shares of the stock of the Corporation. Except where a certificate is issued in accordance with Section 7 of Article VI of these Bylaws, an outstanding certificate for the number of shares involved shall be surrendered for cancellation before a new certificate shall be issued.

Section 4. Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may, except as otherwise required by law, fix, in advance, a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which record date shall not be more than sixty (60) days nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action; provided, however, that if no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at any meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and, for determining stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for any other purpose, the record date shall be at the close of business on the day on which the Board of Directors adopts a resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 5. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

Section 6. Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities of any other entity owned by the Corporation may be executed in the name of and on behalf of the Corporation by the Chairman of the Board, the Chief Executive Officer, the President or the Secretary and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own

securities and at any such meeting shall possess and may exercise any and all rights and power incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 7. Lost, Stolen or Destroyed Certificates. In the event of the loss, theft or destruction of any certificate of stock, another may be issued in its place pursuant to such regulations as the Board of Directors may establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond or bonds of indemnity.

Section 8. Regulations. The issue, transfer, conversion and registration of certificates of stock shall be governed by such other regulations as the Board of Directors may establish.

ARTICLE VII

NOTICES

Section 1. Notices to Stockholders. If mailed, notice to stockholders shall be deemed given when deposited in the mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the Corporation. Without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders may be given by electronic transmission in the manner provided in Section 232 of the Delaware General Corporation Law.

Section 2. Waiver of Notice. Whenever any notice is required by law, the Certificate of Incorporation or these Bylaws to be given to any director, member of a committee or stockholder, a waiver thereof in writing, signed by the person or persons entitled to such notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such person. Neither the business nor the purpose of any meeting need be specified in such a waiver. Attendance at any meeting shall constitute waiver of notice except attendance for the sole purpose of objecting to the timeliness of notice.

ARTICLE VIII

GENERAL PROVISIONS

Section 1. Facsimile Signatures. In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these Bylaws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

Section 2. Disbursements. All notes, checks, drafts and orders for the payment of money issued by the Corporation shall be signed in the name of the Corporation by such officers or such other persons as the Board of Directors may from time to time designate.

Section 3. Corporation Seal. The corporate seal, if the Corporation shall have a corporate seal, shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 4. Reliance Upon Books, Reports and Records. Each director, each member of any committee designated by the Board of Directors and each officer of the Corporation shall, in the performance of his or her duties, be fully protected in relying in good faith upon the books of account or other records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of its officers or employees, or committees of the Board of Directors so designated or by any other person as to matters which such director or committee member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

Section 5. Fiscal Year. The fiscal year of the Corporation shall be as fixed by the Board of Directors.

Section 6. Time Periods. In applying any provision of these Bylaws which requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded and the day of the event shall be included.

ARTICLE IX

DIRECTORS' LIABILITY AND INDEMNIFICATION

Section 1. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or an officer of the Corporation or is or was serving at the request of the Corporation as a director, officer or trustee of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer or trustee or in any other capacity while serving as a director, officer or trustee, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith; provided, however, that, except as provided in Section 3 of this Article IX with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

Section 2. Right to Advancement of Expenses. In addition to the right to indemnification conferred in Section 1 of this Article IX, an indemnitee shall also have the right to be paid by the Corporation the expenses (including attorneys' fees) incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that, if the Delaware General Corporation Law requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Section 2 or otherwise.

Section 3. Right of Indemnitee to Bring Suit. If a claim under Section 1 or 2 of this Article IX is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (20) days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) in any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard for indemnification set forth in the Delaware General Corporation Law. Neither the failure of the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article IX or otherwise shall be on the Corporation.

Section 4. Non-Exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred in this Article IX shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Corporation's

Certificate of Incorporation, Bylaws, agreement, vote of stockholders or directors or otherwise.

Section 5. Insurance and Trust Fund. In furtherance and not in limitation of the powers conferred by statute:

(1) the Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law; and

(2) the Corporation may create a trust fund, grant a security interest and/or use other means (including, without limitation, letters of credit, surety bonds and/or other similar arrangements), as well as enter into contracts providing indemnification to the fullest extent permitted by law, and including as part thereof provisions with respect to any or all of the foregoing, to ensure the payment of such amounts as may become necessary to effect indemnification as provided therein, or elsewhere.

Section 6. Indemnification of Employees and Agents of the Corporation. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Article IX with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

Section 7. Nature of Rights. The rights conferred upon indemnitees in this Article IX shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director, officer or trustee and shall inure to the benefit of the indemnitee's heirs, executors and administrators. Any amendment, alteration or repeal of this Article IX that adversely affects any right of an indemnitee or its successors shall be prospective only and shall not limit or eliminate any such right with respect to any proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place prior to such amendment or repeal.

ARTICLE X

AMENDMENTS

In furtherance and not in limitation of the powers conferred by law, the Board of Directors, with the approval of the majority of the Whole Board, is expressly authorized to adopt, amend and repeal these Bylaws subject to the power of the holders of capital stock of the Corporation to adopt, amend or repeal the Bylaws; provided, however, that, with respect to the power of holders of capital stock to adopt, amend and repeal Bylaws of the Corporation, notwithstanding any other provision of these Bylaws or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law, these Bylaws or any preferred stock, the affirmative vote of the holders of at least eighty percent (80%) of the voting power of all of the then-outstanding shares

entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt, amend or repeal any provision of these Bylaws.

THIS IS TO CERTIFY:

That I am the duly elected, qualified and acting Secretary of Big 5 Sporting Goods Corporation and that the foregoing Bylaws were adopted as the Bylaws of said corporation as of the 31st day of May, 2002, by the Board of Directors of said corporation and as to Article III, Section 2, by the holders of at least a majority of the Common Stock, $.01 par value, as of the 24th day of June, 2002.

Dated as of June 24, 2002.

/s/ Gary S. Meade

Gary S. Meade, Secretary

EXHIBIT 10.7

AMENDED AND RESTATED
INDEMNIFICATION IMPLEMENTATION AGREEMENT

This Amended and Restated Indemnification Implementation Agreement ("this Agreement") is entered into as of April 20, 1994 by and between Thrifty PayLess Holdings, Inc. (formerly TCH Corporation), a Delaware corporation ("TPH"), and United Merchandising Corp., a California corporation (and successor by merger to the rights and obligations of Big 5 Holdings, Inc., a Delaware corporation) ("UMC"). All capitalized terms used but not elsewhere defined in this Agreement shall have the meanings set forth in the Glossary attached to, and forming part of, this Agreement.

RECITALS

The purpose of this Agreement is to implement and supplement, as between TPH and UMC, the provisions of the Acquisition Agreements relating to PE Indemnification Claims. In particular, this Agreement is intended to supplement:

(a) those provisions of the Big 5 Agreement which preclude UMC from asserting its PE Indemnification Claims against PE directly and requires them to be asserted exclusively through TPH as Agent; and

(b) those provisions of the Acquisition Agreements that impose dollar limitations on PE Indemnification Claims, specifically the Minimum PE Claim Amount and the Maximum PE Claim Limitations.

This Agreement is not intended to affect or modify either Party's rights or obligations with respect to indemnifications for Federal Tax Liability, Indemnified Other Income Tax Liability or ERISA Liability, as such terms are defined, and because such matters are governed by, the Tax Indemnity Agreement referred to in the Acquisition Agreements.

ARTICLE 1
PROVISIONS RELATING TO PE INDEMNIFICATION CLAIMS

1.1 Right to Assert PE Indemnification Claim.

1.1.1 The Parties acknowledge that the Minimum PE Claim Amount is applicable to the PE Indemnification Claims of both of them in the aggregate (including, in case of TPH, "Gart Claims and "MC Claims" as defined in the Allocation

Agreement), as well as of each of them individually, so that the failure of either Party to assert a PE Indemnification Claim against PE may have the practical effect of delaying or precluding the ability of the other Party to assert against PE a separate PE Indemnification Claim that does not itself result in the Minimum PE Claim Amount being exceeded.

1.1.2 The Parties further acknowledge that the Maximum PE Claim Limitations are applicable to the PE Indemnification Claims of both Parties in the aggregate, as well as of each of them individually, so that the assertion by either of them of a PE Indemnification Claim against PE may have the practical effect of limiting the amount of, or precluding the assertion of, PE Indemnification Claims the other Party may otherwise have against PE.

1.1.3 Notwithstanding Sections l.1.1 and 1.1.2 or this Agreement, but subject to Section 1.2 of this Agreement, each Party shall be free to determine for itself whether or not to assert on its own behalf any PE Indemnification Claim and shall have no contractual, fiduciary or other obligation to the other with respect to any such determination except for those contractual obligations expressly set forth below in this Agreement.

1.2 Agency of TPH with Respect to UMC's PE Indemnification Claims.

1.2.1 Pursuant to Section 5.5(b) of the Big 5 Agreement, UMC hereby appoints TPH as its exclusive agent and attorney-in-fact (the "Agent"), with no power of substitution or re-delegation, for the purpose of making, pursuing, settling, compromising, negotiating with PE with respect to, and otherwise disposing of all of BFH's PE Indemnification Claims. UMC further agrees that all of its PE Indemnification Claims shall be asserted on its behalf by the Agent. However, the foregoing appointment, and the powers of the Agent, are expressly subject to the other provisions of this Section 1.2.

1.2.2 UMC shall have the right to direct the Agent as to all aspects of its activities as Agent (including, without limitation, the selection of counsel) and the Agent shall take no action except as expressly directed or approved in writing by UMC. Without limiting the foregoing:

(a) as promptly as practicable, and in no event later than three Business Days, after receipt thereof from UMC, the Agent shall execute such documents as UMC shall direct in writing for the purpose of asserting a PE Indemnification Claim against PE on behalf of UMC (an "Agency Claim") and forward such documents to PE in the manner specified in the Thrifty Agreement;

(b) the Agent shall promptly comply with all further written instructions from UMC relating to the prosecution of an Agency Claim, including, without limitation, instructions as to amendments, modifications and supplements thereto, any settlement or compromise thereof, any arbitration of a dispute with PE with respect thereto, and the execution and filing or delivery of any documents in connection therewith;

(c) the Agent shall not amend, modify, supplement, settle, compromise or discharge an Agency Claim without the prior written consent of UMC;

(d) the Agent shall immediately remit to UMC all monies or property it receives from PE or any third party that were paid or delivered to it as payment (in whole or in part) of an Agency Claim; and

(a) the Agent shall keep UMC apprised on a current basis of all developments regarding a pending Agency Claim.

1.2.3 UMC shall reimburse all of TPH's reasonable and documented out-of-pocket costs and expenses incurred in the performance of its duties as Agent (including, without limitation, reasonable attorneys' fees) ("Agent Expenses"). Agent Expenses shall be billed no more frequently than monthly and shall be payable by UMC within ten Business Days of billing. UMC shall have the right to request reasonably detailed substantiation of any Agent Expense and the purpose for which it was incurred. In addition, UMC shall indemnify and hold the Agent and its directors, officers, shareholders, agents and representatives harmless from and against any and all losses, damages, liabilities, claims, demands, judgments and settlements of any nature resulting from or arising out of its conduct as Agent ("Agent Losses"). Notwithstanding the foregoing, however, UMC shall have no reimbursement or indemnification obligation to the extent that an Agent Expense or an Agent Loss is determined, by agreement between the Parties or by arbitration pursuant to Article 3 of this Agreement, to have been caused by the Agent's gross negligence or willful misconduct.

1.2.4 TPH shall indemnify and hold harmless UMC and its directors, officers, shareholders, agents and representatives from and against any and all losses, damages, liabilities, claims, demands, judgments, settlements, costs and expenses of any nature resulting from or arising out of any action taken by it as Agent without prior written authorization from, or in violation of written instructions received from, UMC or otherwise in violation of the terms of

the agency created by this Section 1.2 ("Principal Losses") to the extent that a Principal Loss is determined, by agreement between the Parties or by arbitration pursuant to Article 3 of this Agreement, to have been caused by the Agent's gross negligence or willful misconduct.

1.2.5 In the event of any dispute between the Parties as to the appropriate allocation of out-of-pocket costs and expenses or losses, damages, liabilities, claims, demands or settlements, in any case incurred in connection with their respective PE Indemnification Claims (collectively "Claim Costs"), such dispute shall be determined by mutual agreement between the Parties or, if they are unable to agree within thirty days of either Party giving written notice under this Agreement of its desire to engage in negotiations over the allocation of such Claim Costs, by arbitration pursuant to Article 3 of this Agreement.

1.3 Payment of PE Indemnification Claims. Without limiting Section 1.2.4 of this Agreement, but subject to Section 1.5 of this Agreement, TPH shall have no obligation to make any payment from its own funds to UMC in respect of any of UMC's PE Indemnification Claims and UMC's sole remedy in respect thereof shall be to pursue such PE Indemnification Claims directly against PE (or its successors and assigns) through TPH as Agent. Without limiting Section 1.2.3 of this Agreement, UMC shall have no obligation to make any payment from its own funds to TPH in respect of TPH's PE Indemnification Claims and TPH's sole remedy in respect thereof shall be to pursue such PE Indemnification Claims directly against PE (or its successors or assigns).

1.4 Notice of Certain Matters. Without limiting the Agent's obligations under Section 1.2.2(e) of this Agreement, each Party shall give the other prompt written notice of the assertion and disposition of PE Indemnification Claims and keep the other Party promptly apprised of material developments with respect thereto, subject to its right to preserve the attorney/client and other privileges. However, no failure by either Party to comply with its obligations under this section 1.4 shall impair its rights against the other Party under this Agreement.

1.5 Certain Effects of Amendatory Agreement. Each of the Parties acknowledges that, pursuant to the Amendatory Agreement, certain claims that would or might otherwise have been PE Indemnification Claims have been irrevocably waived and released in favor of PE and, as a result, will not give rise to Indemnification Re-Allocation Claims under this Agreement. Neither Party shall have any rights or remedies against the other Party under this Agreement as a result of the execution, delivery or performance of the Amendatory Agreement by TPH, all of which rights and remedies (if any) are hereby fully and irrevocably waived and released.

ARTICLE 2
PROVISIONS RELATING TO INDEMNIFICATION RE-ALLOCATION CLAIMS

2.1 General Provisions.

2.1.1 It is not the intention of the Parties that either of them should be substituted for PE as indemnitor vis-a-vis the other or otherwise be subject to unlimited liability with respect to any Indemnification Re-Allocation Claim the other may have. Rather, it is their intention that, except for the provisions for re-allocation of Final PE Recoveries expressly set forth in this Article 2, neither of them should have any recourse against the other, any subsidiary of the other or any director, officer, shareholder, agent or representative of the other or of the other's, respective subsidiaries solely on the basis that an otherwise-valid claim against PE is precluded by a Maximum PE Claim Limitation.

2.1.2 In Order to give effect to the re-allocation provisions, of this Article 2, TPH and UMC shall establish an intercompany account (the "Intercompany Indemnity Re-Allocation Account"). Each of TPH and UMC shall designate from time to time one of its officers to collaborate with the other's designated officer for the purpose of documenting all transactions in the Intercompany Indemnity Re-Allocation Account and verifying the accuracy thereof on a periodic basis.

2.1.3 The only amounts which shall be subject to re-allocation pursuant to this Article 2 shall be Final PE Recoveries. Each of TPH and UMC shall notify the other of the receipt of Final PE Recoveries, which shall be recorded in the Intercompany Indemnity Re-Allocation Account.

2.1.4 In the event that either Party, pursuant to this Article 2, wishes to assert an Indemnification Re-Allocation Claim, it shall give notice to the other Party of such Indemnification Re-Allocation Claim, setting forth with reasonable particularity the basis therefor, and shall, without having to waive any attorney/client or other privilege and subject to its right to require reasonable protection with respect to confidential information and any confidentiality obligations it may have under applicable law or contracts to which it is a party, furnish to the other such additional information about the nature, basis and value of Indemnification Re-Allocation Claim as the other may reasonably request. All defenses which would have been available to PE (other than the preclusive effect of the applicable Maximum PE Claim Limitation) shall be available to either Party in any dispute involving an Indemnification Re-Allocation Claim by the other Party.

2.1.5 Upon the resolution, as between the Parties, of any Indemnification Re-Allocation Claim, by agreement or

arbitration, if the outcome of such resolution is that a re-allocation of any Final PE Recoveries is required an appropriate entry shall be made in the Intercompany Indemnity Re-Allocation Account. Subject to Section 2.1.6 of this Agreement, all amounts which either Party may owe to the other Party as a result of the resolution of Indemnification Re-Allocation Claims shall be netted against one another on the last day of each calendar quarter and whichever Party is determined to owe the other Party any amount as a result of such calculation shall pay the amount within ten Business Days.

2.1.6 Notwithstanding any other provision of this Article 2, neither Party shall be required to make any payment to the other in respect of any Indemnification Re-Allocation Claims unless and until the aggregate of all Indemnification Re-Allocation Claims which have been resolved adversely to that Party and which, but for this Section 2.1.6, would have resulted in an obligation of that Party to pay any amount to the other under Section 2.1.5 of this Agreement, exceeds $125,000 (the "Minimum Re-Allocation Claim Amount"). However:

(a) the foregoing requirement relating to the Minimum Re-Allocation Claim Amount shall not toll any statutory, contractual or equitable statute of limitation or other time bar relating to the initial assertion of an Indemnification Re-Allocation Claim by one Party against the other pursuant to Section 2.1.4 of this Agreement nor prevent either Party from asserting or prosecuting against the other to final resolution an Indemnification Re-Allocation Claim;

(b) all recoveries to which either Party becomes entitled, but for the Minimum Re-Allocation Claim Amount as a result of the resolution of an Indemnification Re-Allocation Claim shall be recorded in the Intercompany Indemnity Re-Allocation Amount; and

(c) once such recoveries of either Party exceed the Minimum Re-Allocation Claim Amount, that Party shall be entitled, as soon as payment becomes due from the other pursuant to Section 2.1.5 of the Agreement, to be paid the full amount of the recoveries to which it has become entitled, not only the portion thereof in excess of the Minimum Re-Allocation Claim Amount.

2.2 Entitlement to Assert Indemnification Re-Allocation Claims

2.2.1 Subject to the other provisions of this Article 2, UMC shall be entitled to assert all of its Indemnification Re-Allocation Claims against TPH, including Potential Indemnification Re-Allocation Claims.

2.2.2 Subject to the other provisions of this Article 2, but notwithstanding any provision thereof to the contrary, the only Indemnification Re-Allocation Claims which TPH shall be entitled to assert against BFH shall be Potential Indemnification Re-Allocation Claims.

2.2.3 Notwithstanding any other provision of this Article 2, to the extent that the subsequent adverse disposition of one or more PE Indemnification Claims pending against PE, and being disputed by it, at the time either Party asserts against the other Party a Potential Indemnification Re-Allocation Claim results in the claimant Party becoming entitled, under the applicable Acquisition Agreement, to assert such Potential Indemnification Re-Allocation Claim against PE as a PE Indemnification Claim:

(a) such Party shall cease to be entitled to pursue such Potential Indemnification Re-Allocation Claim against the other Party;

(b) if such Potential Indemnification Re-Allocation Claim has by then been resolved in favor of the claimant Party, the entry in the Intercompany Indemnification Re-Allocation Account reflecting such resolution shall be reversed and any payment made to the claimant Party on account thereof by the other Party shall be immediately repaid; and

(c) such Potential Indemnification Re-Allocation Claim may not thereafter be reasserted against the other Party (although the foregoing shall not impair the claimant Party's right to assert any other Indemnification Re-Allocation Claim against the other Party to the extent otherwise permitted by this Article 2).

2.3 Calculation of Re-Allocations of Final PE Recoveries

2.3.1 Whenever a re-allocation is required with respect to Final PE Recoveries under Sections 2.1 and 2.2 of this Agreement as a result of the resolution in favor of the claimant Party of an Indemnification Re-Allocation Claim (a "Re-Allocable Claim"), the amount of the re-allocation shall be calculated on the following basis:

(a) First: a determination shall be made as to which Maximum PE Claim Limitation precluded (or potentially precludes) the assertion of such

Indemnification Re-Allocation Claim directly against PE as a PE Indemnification Claim.

(b) Second: all Final PE Recoveries theretofore realized by TPH shall be aggregated with all re-allocations to which TPH has theretofore become entitled in respect of previously-asserted and resolved Potential Indemnification Re-Allocation Claims which have not been reversed under Section 2.2.3 of this Agreement.

(c) Third: all Final PE Recoveries theretofore realized by UMC shall be aggregated with all re-allocations to which UMC has theretofore become entitled in respect of previously-asserted and resolved Indemnification Re-Allocation Claims which have not been reversed under Section 2.2.3 of this Agreement.

(d) Fourth: The amount of the Re-Allocable Claim shall be added to the aggregate amount determined with respect to the successful claimant under (b) or (c), as applicable.

(e) Fifth: the aggregate amounts determined under (b) or (c), as applicable, with respect to the non-claimant shall be added together and aggregated with the amount determined under (d).

(f) Sixth: the amount determined under (d) shall be divided by the total amount determined with respect to the successful claimant under (e) to determine the total amount of the successful claimant's resolved Indemnification Claims as a percentage of the total amount of all resolved Indemnification Claims.

(g) Seventh: the percentage determined under (f) shall be multiplied by the amount of the applicable Maximum PE Claim Limitation determined under (a).

(h) Eighth: to the extent that the amount determined under (g) exceeds the actual amount of Final PE Recoveries theretofore realized by the successful claimant, such excess shall constitute the amount of the re-allocation required as a result of the Re-Allocable Claim and the successful claimant shall be entitled to receive, in accordance with section 2.1.5 of this Agreement, a payment from the other Party in such amount.

2.3.2 For illustrative purposes only, the following examples of the calculation specified in Section 2.3.1 of this Agreement are set forth below:

FIRST EXAMPLE

(a) The applicable Maximum PE Claim Limitation is the general $25,000,000 limitation specified in Section 5.5(b) of the Thrifty Agreement (as made applicable to the Big 5 Agreement by Section 5.5(b) thereof and as preserved by Section 3(a) of the Amendatory Agreement with respect to the PE Indemnification Claims expressly excluded by said Section 3(a) from the release set forth therein).

(b) TPH has heretofore realized Final PE Recoveries of $15 million and no Potential Indemnification Re-Allocation Claims have been made by it.

(c) UMC has heretofore realized Final PE Recoveries of $10 million and no Indemnification Re-Allocation Claims have been made by it except for the Re-Allocable Claim that is the subject of this example, which is in the amount of $3 million.

(d) The sum of the Re-Allocable Claim and UMC's Final PE recoveries is $13 million.

(e) The total amounts determined under (b) and (d) is $28 million.

(f) The amount determined under (d) (namely $13 million), divided by the total amount determined under (e) (namely $28 million) computes to a percentage of 46.43%.

(g) 46.43% of the applicable Maximum PE Claim Limitation of $25 million equals $11,607,500.

(h) $11,607,500 exceeds UMC's actual Final PE Recoveries of $10 million by $1,607.500. Accordingly, subject to possible further re-allocations pursuant to this Article 2, an entry shall be made in the Intercompany Indemnity Re-Allocation Account to reflect UMC's entitlement, at the next payment date applicable under Section 2.1.5 of this Agreement, to be paid by TPH $1,607,500.

SECOND EXAMPLE

(a) The applicable Maximum PE Claim Limitation is the $40,000,000 limitation specified in Section 5.5(b) of the Thrifty Agreement (as made applicable to the Big 5 Agreement by Section 5.5(b) thereof and as preserved by Section 3(a) of the Amendatory Agreement with respect to the PE Indemnification Claims expressly excluded by said Section 3(a) from the release set forth therein) with respect to Section 2.19(b) of the Thrifty Agreement (as made applicable to the Big 5 Agreement by Section 2.9 thereof).

(b) TPH has heretofore realized Final PE Recoveries of $30 million and no Potential Indemnification Re-Allocation claims have been made by it.

(c) UMC has heretofore realized Final PE Recoveries of $10 million and no Indemnification Re-Allocable Claims have been made by it except for the Re-Allocable Claim that is the subject of this example, which is in the amount of $8 million.

(d) The sum of the Re-Allocable Claim and UMC's Final PE recoveries is $18 million.

(e) The total amount determined under (b) and (d) is $48 million.

(f) The amount determined under (d) (namely $18 million), divided by the total amount determined under (e) (namely $48 million) computes to a percentage of 37.5%.

(g) 37.5% of the applicable Maximum PE Claim Limitation of $40 million equals $15,000,000.

(h) $15,000,000 exceeds UMC's actual Final PE Recoveries of $10 million by $5,000,000. Accordingly, subject to possible further re-allocations pursuant to this Article 2, an entry shall be made in the Intercompany Indemnity Re-Allocation Account to reflect UMC' s entitlement, at the next payment date applicable under Section 2.1.5 of this Agreement, to be paid by TPH $5,000,000.

2.3.3 In the event that Final PE Recoveries are realized with respect to a PE Indemnification Claim which is, or is claimed by either Party to be, attributable to both Parties, the allocation of such Final PE Recoveries between

the Parties shall be as determined by mutual agreement between the Parties or, if they are unable to agree within thirty days of either Party giving written notice under this Agreement of its desire to engage in negotiations upon the allocation of such Final PE Recoveries, by arbitration pursuant to Article 3 of this Agreement.

ARTICLE 3
ARBITRATION

3.1 Agreement to Arbitrate Disputes.

3.1.2 Subject to Section 3.1.2 of this Agreement, any and all disputes between the Parties arising out of or relating to a claim by either Party against the other Party pursuant to this Agreement shall be finally settled by arbitration in the City of Los Angeles, California in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect (except as otherwise specified below in this Article 3), and judgment upon the award rendered by the Arbitrator(s) may be entered in any court having jurisdiction thereof. The Parties hereby submit to the in personam jurisdiction of the Superior Court of the State of California for purposes of confirming any such award and entering judgment thereon.

3.1.2 Notwithstanding Section 3.3.1 of this Agreement, neither Party may initiate any arbitration under this Article 3 more frequently than once in any twelve-month period measured from the date of this Agreement and subsequent anniversaries thereof, and all claims and disputes then pending between the Parties and covered by said Section 3.3.1 shall be consolidated and arbitrated in a single arbitration proceeding; provided, however, that either Party may initiate any arbitration under this Article 3 at any time when either (i) such Party seeks arbitration with respect to one or more claims or disputes which, individually or in the aggregate, involve at least $2 million, as determined by a signed certification accompanying its notice of intent to arbitrate and setting forth its good faith estimate of the aggregate amount of such claim(s) or dispute(s) and the basis for such estimate, or (ii) such Party's ability effectively to present its case could be materially adversely affected by any delay in the initiation of such arbitration and such Party so states in a signed certification accompanying its notice of intent to arbitrate and setting forth the nature of such material adverse effect.

3.2 Certain Rules Governing Arbitration. Notwithstanding anything to the contrary which may now or hereafter be contained in the Commercial Arbitration Rules of the American Arbitration Association:

3.2.1 Any arbitration under this Article 3 shall be conducted before one or more arbitrators (an "Arbitrator"). Arbitrators shall be compensated for their services at a rate to be determined by the American Arbitration Association in the event the Parties are not able to agree upon the rate of compensation. Arbitrators shall be chosen in accordance with the following provisions:

(a) In the event the Parties agree on the designation of a single Arbitrator within ten Business Days from the date when the Party initiating an arbitration files and delivers a notice of intent to arbitrate, such arbitration shall be conducted by such single Arbitrator.

(b) In the event the Parties fail to agree upon the designation of a single Arbitrator within the period of the ten Business Days specified in Section 3.2.1(a) of this Agreement, than: (i) each Party shall have the right, within a further period of ten Business Days, to designate one Arbitrator and if, within such period, either Party has failed to appoint an Arbitrator, the American Arbitration Association shall make the appointment; and (ii) the two Arbitrators designated pursuant to clause (ii) above shall agree upon and designate a third Arbitrator within five Business Days from the date of the designation of the later-designated of such two Arbitrators and if they fail to do so the American Arbitration Association shall appoint the third Arbitrator.

3.2.2 In any arbitration proceedings under this Article 3:

(a) all testimony of witnesses shall be taken under oath;

(b) it is specifically contemplated and agreed by the Parties that the provisions of Section 1283.05 of the California Code of Civil Procedure, as presently in force, be incorporated into and made a part of, and be applicable to, the arbitration agreement set forth in this Article 3;

(c) without limiting the generality of Section 3.2.2(c) of this Agreement, neither Party shall object to the issuance of orders by the Arbitrator(s) granting access to relevant books and records of PE and compelling relevant testimony from PE to the extent such orders are

permissible under said Section 1283.05 and the relevant information is not otherwise available to the applicable Party; and

(d) upon conclusion of any arbitration proceedings under this Article 3, the Arbitrator(s) shall render findings of fact and conclusions of law in a written opinion setting forth the basis and reasons for any decision reached and deliver such documents to each Party along with a signed copy of the award in accordance with Section 1283.6 of the California Code of Civil Procedure.

3.3 Certain Powers of Arbitrators.

3.3.1 Arbitrators shall have the power to issue any award, and order any relief, which they adjudge appropriate to give effect to their findings as to the purpose of this Agreement and to effect a fair and equitable resolution of the dispute. However, they shall not have the power to award any punitive damages and the limitations set forth on their powers in Sections 3.3.2 and 3.4.2 shall also apply.

3.3.2 Arbitrators shall not have the power to alter, amend or otherwise affect the provisions of this Article 3.

3.4 Costs of Arbitration.

3.4.1 The prevailing Party shall be entitled to recover all costs incurred in preparation for and as a result of any arbitration pursuant to this Article 3, including without limitation filing fees, attorneys' fees, the compensation to be paid to the Arbitrator(s) in any such arbitration and costs of transcripts.

3.4.2 In an award of any such costs, Arbitrators shall not have power or competence to allocate between the Parties expenses, fees or shares of Arbitrators' compensation except as provided in Section 3.4.1 of this Agreement.

ARTICLE 4
MISCELLANEOUS

4.1 Notices. All notices and other communications under this Agreement shall be in writing and shall be deemed given upon receipt if delivered personally or sent by facsimile transmission (receipt of which is confirmed) or by courier service promising overnight delivery (with delivery confirmed the next day) or three Business Days after deposit in the U.S. mails, first class postage prepaid. Notices to either Party shall be addressed as follows:

To TPH: Thrifty PayLess Holdings, Inc.

9275 SW Peyton Lane
Wilsonville, Oregon 97070
Attention: Chief Financial Officer
Facsimile: (503) 685-6064

To UMC: United Merchandising Corp.
2525 East El Segundo Boulevard
El Segundo, California 90245
Attention: Kathleen Reid-Seidner, Esq.
General Counsel
Facsimile: (310) 297-7592

In Each Case
With Copies To: Leonard Green & Partners
333 South Grand Avenue
Suite 5400
Los Angeles, California 90071
Attention: Jonathan D. Sokoloff
Facsimile: (213) 625-2043

and

Irell & Manella
333 South Hope Street, 33rd Floor
Los Angeles, California 90071
Attention: Edmund N. Kaufman, Esq.
Facsimile: (213) 229-0515

Either Party may from time to time change its address for the purpose of notices by a similar notice specifying the new address but no such change shall be effective as against the other Party until such other Party shall have actually received it.

4.2 Entire Agreement.

4.2.1 Subject to Section 4.2.2 of this Agreement, this Agreement (including the Glossary) contains the entire agreement between the Parties with respect to the subject matter of this Agreement and supersedes all written or verbal representations, warranties, commitments and other understandings prior to the date of this Agreement.

4.2.2 All rights and obligations existing between the Parties, immediately prior to the effectiveness of this Agreement, pursuant to the terms of the Indemnification Implementation Agreement dated as of September 25, 1992 (the "Original Agreement") between TPH and BFH (including the rights and obligations to which UNC succeeded upon the merger of BFH with and into UMC) are hereby expressly preserved and made subject to the terms of the Agreement as if they arose hereunder and all actions taken by either Party (or by BFH as predecessor to UMC) under the Original Agreement shall, to the

extent they were effective under the Original Agreement for all purposes continue to be effective hereunder.

4.3 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

4.4 Severability. If any provision of this Agreement shall be held to be, or shall hereafter become, unenforceable or invalid by any court of competent jurisdiction or as a result of future legislative action, such holding or action shall be strictly construed and shall not alter the enforceability, validity or effect of any other provision hereof.

4.5 Assignability. This Agreement shall be binding upon and shall inure to the benefit of the successors and assigns of the Parties. However, neither this Agreement nor any right or obligation hereunder may be assigned by either Party without the prior written consent of the other.

4.6 Captions. The descriptive headings herein are inserted for convenience only and are intended to be part of or to affect the meaning or interpretation of this Agreement.

4.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to any principles of conflict of laws.

4.8 Amendment and Waiver. This Agreement may be amended, modified or supplemented only by an instrument in writing signed by both Parties. No waiver by either Party of any of the provisions of this Agreement shall be effective unless set forth in writing and executed by the Party so waiving.

4.9 Confidentiality. Each Party shall maintain, and instruct its agents and representatives to maintain, as confidential information both the existence and terms of this Agreement except to the extent that such information (a) was known by a third party recipient when received, (b) is or hereafter becomes lawfully obtainable from other sources, (c) as may otherwise be required by law or (d) to the extent such duty as to confidentiality is waived in writing by the other Party; provided, however, that (i) the existence and terms of this Agreement may be made known to the "Lender Parties" as defined in the Credit Agreement dated as of the date hereof among TPI and the other parties set forth therein, and (ii) the existence of this Agreement may be made known to PE.

4.10 Acknowledgment. UMC hereby acknowledges the fact that, in connection with a distribution by TPH to its stockholders of the stock of Gart Sports Company, a Delaware corporation ("GSC") that will own all of the outstanding stock of Gart Bros. Sporting Goods Company, a Colorado corporation ("Gart"), and MC Sports Company, a Delaware corporation ("MCSC") that will own all of the outstanding stock of Michigan Sporting Goods Distributors, Inc., a Michigan corporation ("MC"), TPH, GSC and MCSC are concurrently herewith entering into an Indemnification Allocation Agreement (the "Allocation Agreement") pursuant to which TPH is conferring on GSC and MSCS, respectively, all of TPH's beneficial interest in the economic benefit of "Gart Claims" and "MC Claims" (as therein defined), and agreeing to act as agent for GSC and MCSC in pursuing such claims against PE. It is expressly agreed that nothing contained in the Allocation Agreement shall amend or modify, impair any rights or either Party under, or give rise to any claim by either Party against the other under or with respect to, this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed by their respective officers therewith duly authorized as of the date first written above.

THRIFTY PAYLESS HOLDINGS, INC.	UNITED MERCHANDISING CORP.
By: /s/ Daniel A. Seigel	By: /s/ Kathleen Reid-Seidner
Name: Daniel A. Seigel	Name: Kathleen Reid-Seidner
Title: President	Title: Vice President and Secretary

GLOSSARY

Each capitalized term used and not defined in this Agreement shall have the meaning set forth below or, in the case of a capitalized terms not listed below, the meaning set forth in the Thrifty Agreement, and in each case shall include the plural as well as the singular.

"Acquisition Agreements" means the Big 5 Agreement and the Thrifty Agreement.

"Allocation Agreement" has the meaning set forth in Section 4.9 of this Agreement.

"Amendatory Agreement" means the Agreement and Release dated as of March 11, 1994 among PE, TPH, TPI and UMC.

"Agency Claim" has the meaning set forth in Section 1.2.2(a) of this Agreement.

"Agent" has the meaning set forth in Section 1.2.1 of this Agreement.

"Agent Expenses" has the meaning set forth in Section 1.2.4 of this Agreement.

"Agent Losses" has the meaning set forth in Section 1.2.4 of this Agreement.

"Arbitrator" has the meaning set forth in Section 3.2.1 of this Agreement.

"Big 5 Agreement" means the Purchase and Sale Agreement dated as of May 22, 1992 by and between Big 5 Holdings, Inc., a Delaware corporation, PE and Thrifty Corporation, a California corporation, as amended, (including pursuant to the Amendatory Agreement) through and including the date of this Agreement and as affected and interpreted (other than by way of amendment) by the Amendatory Agreement.

"Claim Costs" has the meaning set forth in Section 1.2.5 at this Agreement.

"Final PE Recoveries" means amounts which either TPH or BFH have recovered from PE in respect of PE Indemnification Claims and as to which any dispute with PE has been finally resolved by arbitration, agreement or the preclusive effect of any statutory, contractual or equitable statute of limitation or time bar.

"GSC" has the meaning set forth in Section 4.9 of this Agreement.

"Indemnification Claim" means an Indemnification Re-Allocation Claim and a PE Indemnification Claim.

"Indemnification Re-Allocation Claim" means a claim which one party has against the other Party, the sole remedy for which is re-allocation of Final PE Recoveries under Article 2 of this Agreement, to assert a claim (or a portion of a claim) which would be assertable against PE as a PE Indemnification Claim but for the fact that such assertion is precluded by a Maximum Claim Limitation. A claim which is precluded from assertion against PE by any other bar, including, without limitation, any statutory, contractual or equitable statute of limitation or time bar, shall not constitute an Indemnification Re-Allocation Claim. A Potential Indemnification Re-Allocation Claim shall constitute an Indemnification Re-Allocation Claim except as otherwise provided in Section 2.2.3 of this Agreement.

"Intercompany Indemnity Re-Allocation Account" has the meaning set forth in Section 2.1.2 of this Agreement.

"Maximum PE Claim Limitation" means, with respect to any claim for indemnification that would otherwise be a PE Indemnification Claim, the limitation on the aggregate amount of claims of that category for which PE is required to provide indemnification under Article 5 of the Thrifty Agreement that is applicable under section 5.5 of the Thrifty Agreement (as made applicable to the Big 5 Agreement by Section 5.5(b) thereof).

"MCSC" has the meaning set forth in Section 4.9 of this Agreement.

"Maximum Re-Allocation Claim Amount" has the meaning set forth in Section 2.1.6 of this Agreement.

"Minimum PE Claim Amount" means the amount of $1,500,000 specified in Section 5.5(a) of the Thrifty Agreement and Section 5.5(a)(i) of the Big 5 Agreement (in each case, as amended by Section 4(d) of the Amendatory Agreement) as the minimum aggregate amount of PE Indemnification Claims which must be exceeded before PE is required to indemnify either TPH under Article 5 of the Thrifty Agreement or UMC under Article 5 of the Big 5 Agreement.

"Party" means either TPH or UMC as a party to this Agreement.

"PE" means Pacific Enterprises, a California corporation.

"PE Indemnification Claim" means a claim arising against PE either (i) by TPH under Article 5 of the Thrifty Agreement or (ii) by UMC under Article 5 of the Big 5 Agreement, but

does not, under either clause (i) or clause (ii) of this definition, include an Indemnification Re-Allocation Claim.

"Potential Indemnification Re-Allocation Claim" means a claim (or a portion of a claim): (i) the assertion of which against PE is potentially precluded by a Maximum PE Claim Limitation as a result of the aggregate amount of all other PE Indemnification Claims of TPH and UMC which are subject to the same applicable Maximum PE Claim Limitation and which are pending against PE and being disputed by it at the time the status of such claim is required to be determined under Article 2 of this Agreement; but (ii) which has not by then become definitively precluded by such Maximum PE Claim Limitation because the final resolution of much pending PE Indemnification Claims has not yet occurred. However: (a) no such claim (or portion of a claim) is a Potential Indemnification Re-Allocation Claim during any period when it is in fact being asserted against PE; and (b) no claim of TPH arising under Section 5.2(c) of the Thrifty Agreement shall constitute a Potential Indemnification Re-Allocation Claim.

"Preserved UMC Claims" bee the meaning set forth in Section 1.5.2 of this Agreement.

"Principal Lones" has the meaning set forth in Section 1.2.5 of this Agreement.

"Re-Allocable Claim" has the meaning set forth in Section 2.3.1 of this Agreement.

"Thrifty Agreement" means the Purchase and Sale Agreement dated as of May 22, 1992 by and between TPH and PE, as amended (including pursuant to the Amendatory Agreement) through and including the date of this Agreement and as affected and interpreted (other than by way of amendment) by the Amendatory Agreement.

"TPI" means Thrifty PayLess, Inc. (formerly Thrifty Holdings, Inc.), a California corporation.

EXHIBIT 10.8

AGREEMENT AND RELEASE

This Agreement and Release is entered into as of March 11, 1994, among Pacific Enterprises, a California corporation ("PE"), TCH Corporation, a Delaware corporation ("TCH"), Thrifty Holdings, Inc., a California corporation ("THI"), Thrifty Corporation, a California corporation ("Thrifty"), and United Merchandising Corp., a California corporation ("Big 5").

RECITALS

PE and TCH are parties to a Purchase and Sale Agreement dated as of May 22, 1992, as amended (the "Thrifty Acquisition Agreement"), pursuant to which TCH purchased from PE all of the outstanding capital stock of THI (the "Thrifty Acquisition").

In connection with the Thrifty Acquisition and to provide additional consideration to PE for the sale of the capital stock of THI, PE and TCH entered into an ESOP Adjustment Agreement dated as of May 22, 1992 (the "ESOP Adjustment Agreement") pursuant to which TCH reimburses PE for certain liabilities and expenses incurred by PE in connection with the Thrifty Corporation Profit Sharing Plan and Trust, now named the Pacific Enterprises Employee stock Ownership Plan and Trust (the "ESOP").

PE, THI and Thrifty have entered into an Indemnity Agreement (the "PE Indemnity") dated as of May 22, 1992 pursuant to which PE indemnifies THI and Thrifty with respect to certain obligations relating to the ESOP including obligations of Thrifty pursuant to three separate Note Facility Agreements dated as of December 13, 1989, as amended (the "Note Facility Agreements"), among Thrifty, the ESOP and The Chase Manhattan National Bank (National Association), as trustee, and pursuant to which the ESOP has issued its Series A, B and C Tailored Rate ESOP Notes an Demand (the "Trend Notes") guaranteed by Thrifty.

In payment of a portion of its obligations to PE under the ESOP Adjustment Agreement, THI has issued to PE a promissory note dated January 25, 1993 and due October 30, 1995 (the "ESOP Adjustment Note") in the principal amount of $1,175,142.

The performance by TCH of its obligations to PE under the ESOP Adjustment Agreement have been guaranteed by Thrifty pursuant to that certain Guaranty dated as of May 22, 1992 (the "Thrifty Guaranty") in favor of PE, and by THI pursuant to that certain Guaranty and Waiver dated as of October 1, 1993 (the "THI Guaranty") among TCH, THI and PE.

In connection with the Thrifty Acquisition and as additional consideration to PE for the sale of the capital stock of THI, TCH also issued to PE a warrant represented by that certain TCH Corporation Warrant Certificate No. 1 issued on September 25, 1992 (the "TCH Warrant") to purchase shares of its Common Stock and Series A 9% Cumulative Redeemable Preferred Stock.

PE, Thrifty and Big 5 Holdings, Inc., a Delaware corporation ("Big 5 Holdings"), are parties to a Purchase and Sale Agreement dated as of May 22, 1992, as amended (the "Big 5 Acquisition Agreement"), pursuant to which Big 5 Holdings purchased from Thrifty all of the outstanding capital stock of Big 5 (the "Big 5 Acquisition").

In connection with the Big 5 Acquisition, Big 5 issued to PE a warrant (the "Big 5 Warrant") to purchase shares of its Common Stock and Series A 9% Cumulative Redeemable Preferred Stock.

In connection with the Thrifty Acquisition and the Big 5 Acquisition, PE, TCH, Thrifty and Big 5 Holdings entered into a Tax Indemnity Agreement dated as of September 25, 1992 (the "Tax Indemnity") pursuant to which PE, TCH, Thrifty and Big 5 Holdings indemnify one another in respect of certain taxes.

Big 5 Holdings has been merged with and into Big 5 and Big 5 has succeeded to all of the rights and obligations of Big 5 Holdings under the Big 5 Acquisition Agreement, the Tax Indemnity and the Big 5 Warrant.

TCH and THI propose to acquire all or substantially all of the outstanding stock (the "PayLess Acquisition") of Pay Less Drug stores Northwest, Inc., a Maryland corporation.

Concurrently with and subject to the consummation of the PayLess Acquisition, PE, TCH, THI, Thrifty and Big 5 desire to settle and release one another from certain obligations and to amend other obligations relating to the Thrifty Acquisition and the Big S Acquisition.

Accordingly, in consideration of the mutual promises contained herein and intending to be legally bound, the parties agree as follows:

1. REPRESENTATIONS AND WARRANTIES.

(a) Each of TCH, THI, Thrifty and Big 5 represents and warrants to PE as follows:

(i) It has full power and authority to enter into this Agreement and Release and to carry out its obligations hereunder.

(ii) The execution and delivery of this Agreement and Release has been duly authorized by all necessary action required on its part.

(iii) This Agreement and Release has been duly executed by it and constitutes its valid and legally binding obligation, enforceable against it in accordance with its terms except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws and equitable principles relating to or limiting creditors' rights generally.

(b) Big 5 additionally represents and warrants to PE that Big 5 is the successor by merger to Big 5 Holdings and has succeeded to all of the rights and obligations of Big 5 Holdings under the Big 5 Acquisition Agreement and the Tax Indemnity.

(c) PE represents end warrants to each of TCH, THI, Thrifty and Big 5 as follows:

(i) PE has full power and authority to enter into this Agreement and Release and to carry out its obligation hereunder.

(ii) The execution and delivery of this Agreement and Release has been duly authorized by all necessary action required on the part of PE.

(iii) This Agreement and Release has been duly executed by PE and constitutes a valid and legally binding obligation at PE enforceable against PE in accordance with its terms except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws and equitable principles relating to or limiting creditors' rights generally.

(iv) PE is the owner and holder of the TCH Warrant and has all rights to surrender the same for cancellation pursuant to the provisions of this Agreement and Release.

2. ESOP REIMBURSEMENT AGREEMENT AND TCH WARRANT. TCH and PE agree that concurrently with and subject to the consummation of the PayLess Acquisition, TCH will pay in immediately available funds to PE, and PE agrees to accept:

(a) In full satisfaction of TCH's obligations under the ESOP Adjustment Agreement and the ESOP Adjustment Note, the sum of $53.1 million less any amounts paid by TCH to PE after the date hereof pursuant to the ESOP Adjustment Agreement; and

(b) In full satisfaction of TCH's obligations under the TCH Warrant, the sum of $11.9 million.

Concurrently with its receipt of the above payments, PE will deliver to TCH the original ESOP Adjustment Note and the original certificate evidencing the TCH Warrant. Upon the completion of such payments and deliveries, all further obligations of TCH and PE under the ESOP Adjustment Agreement, the ESOP Adjustment Note and the TCH Warrant, of Thrifty under the Thrifty Guaranty and of PE, TCH and THI under the THI Guaranty shall immediately and automatically terminate without the necessity for any further action by any of the parties hereto or thereto.

3. RELEASE.

(a) Concurrently with and subject to the completion of the payments contemplated by Section 2 of this Agreement and Release, PE, TCH and Big 5 (each on behalf of itself and each of its direct and indirect subsidiaries, and their respective agents, successors and assigns) hereby effect the irrevocable waivers, discharges and releases set forth below with respect to and from any and all claims, demands, rights, actions, suits, causes of action, settlements, breaches, inaccuracies, obligations, costs, expenses, damages, liabilities and indemnities of any nature whatsoever (collectively, "Claims") and indemnification with respect to Claims, as otherwise available pursuant to Sections 5.2(a) and 5.3(a) of the Thrifty Acquisition Agreement and Sections 5.2(a) and 5.3(a) of the Rig 5 Acquisition Agreement:

(i) TCH fully and irrevocably waives, discharges and releases PE and its direct and indirect subsidiaries and their respective agents, successors and assigns with respect to and from any and all Claims by or on

behalf of TCH or any of its direct or indirect subsidiaries and their respective agents, successors and assigns relating to:

(A) Each and every matter described or referred to in the letters from TCH to PE dated September 24, 1993, September 22, 1993, July 20, 1993, June 25, 1993, June 21, 1993 (two letters), May 27, 1993, May 20, 1993, May 17, 1993 and September 25, 1992, (a copy of each of which is attached hereto) and the letters, reports and other documents described or referred to therein (including, without limitation, the matter with respect to Thrifty's site located at 1320 Railroad Avenue, Livermore, California) but expressly excluding each of the matters described or referred to in numbered paragraph 16 of such letter dated September 22, 1993 and each of the matters described or referred to in numbered paragraph 3 (including the letter with respect to and synopsis of the environmental report of McLaren Hart referred to therein) and numbered paragraph 4 (with respect to the LaBrea distribution center) of such letter dated September 25, 1992;

(B) Each and every "other" representation and warranty referred to in Section 5.1(c) of the Thrifty Acquisition Agreement determined without reference to the proviso contained therein; and

(C) The ESOP Adjustment Agreement.

(ii) Big 5, fully and irrevocably, waives, discharges and releases PE and its direct and indirect subsidiaries, and their respective agents, successors and assigns with respect to and from any and all Claims by or on behalf of Big 5 or any of its direct or indirect subsidiaries and their respective agents, successors or assigns relating to;

(A) Each and every matter described or referred to in the letters from TCH to PE dated September 24, 1993, September 22, 1993, July 20, 1993, June 25, 1993, June 21, 1993 (two letters), May 27, 1993, May 20, 1903, May 17, 1993 and September 25, 1992 (a copy of each of which is attached hereto), the letter from Big 5 Holdings to PE dated September 25, 1992 (a copy of which is attached hereto) and, in each case, the letters, reports and other documents described or referred to therein (including, without limitation, the matter with respect to Thrifty's site located at 1320 Railroad Avenue, Livermore, California) but expressly excluding each of the matters described or referred to in numbered paragraph 16 of such letter dated September 22, 1993 from

TCH to Pacific Enterprises and each of the matters described or referred to in numbered paragraph 3 (including the letter with respect to and synopsis of the environmental report of McLaren Hart referred to therein) and numbered paragraph 4 (with respect to the Labrea distribution center) of such letter dated September 25, 1992 from TCH to Pacific Enterprises; and

(B) Each and every `other' representation and warranty referred to in Section 5.1(c) of the Big 5 Acquisition Agreement determined without reference to the proviso contained therein.

(iii) PE, fully and irrevocably waives, discharges and releases TCH and its direct and indirect subsidiaries, and their respective agents, successors and assigns with respect to and from any and all Claims by or on behalf of PE or any of its direct or indirect subsidiaries and their respective agents, successors or assigns relating to:

(A) The ESOP Adjustment Agreement;

(B) The TCH Warrant;

(C) The Thrifty Guaranty;

(D) The THI Guaranty:

(E) The ESOP Adjustment Note; and

(F) Each and every "other" representation and warranty referred to in Section 5.1(c) of the Thrifty Acquisition Agreement determined without reference to the proviso contained therein.

(iv) PE, fully and irrevocably waives, discharges and releases Big 5 and its direct and indirect subsidiaries, and their respective agents, successors and assigns with respect to and from any and all Claims by or on behalf of PE or any of its direct or indirect subsidiaries and their respective agents, successors or assigns relating to each end every "other" representation and warranty referred to in Section 5.1(c) of the Big 5 Acquisition Agreement determined without reference to the proviso contained therein.

(b) It is the intention of PS, TCH and Big 5 that the release contained in paragraph (a) of this Section be effective as a bar to each and every Claim with respect to the matters covered thereby, whether known or unknown, asserted or unasserted or suspected or unsuspected. In furtherance of this intention, PE, TCH and and Big 5 (each on behalf of itself and each of its direct and indirect subsidiaries and their

respective agents, successors and assigns) hereby expressly waive any and all rights and benefits conferred upon them by the provisions of Section 1542 of the California Civil Code which provides:

> "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

PE, TCH and Big 5 understand and acknowledge the significant legal consequences of the releases effected hereby and the foregoing specific waiver of California Civil Code Section 1542.

(c) PE, TCH and Big 5 agree that the release contained in paragraph (a) of this Section shall become effective immediately and automatically upon the completion of the payments contemplated by Section 2 of this Agreement and Release and without the necessity for any further action by any of the parties hereto.

(d) Each of the parties hereto acknowledges, understands and agrees that this Agreement and Release shall have absolutely no effect whatsoever on their respective obligations under the Tax Indemnity, and the Tax Indemnity shall remain in full force end effect following the execution of this Agreement and Release and the effectuation of the releases contemplated herein. PE acknowledges and agrees that this Agreement and Release shall have no effect whatsoever on the PE Indemnity, ant the PE Indemnity shall continue in full force and effect following the execution of this Agreement and Release and the effectuation of the releases contemplated hereunder, except as expressly provided herein in Section 5 with respect to the termination of Sections 3 and 5.14 of the PE Indemnity following the release of Thrifty from all obligations under the Note Facility Agreements.

4. THRIFTY AND BIG 5 ACQUISITION AGREEMENTS.

(a) PE agrees that, effective immediately and automatically upon the completion of the payments contemplated by Section 2 of this Agreement and Release and without the necessity for any further action by any of the parties hereto or thereto, (i) TCH shall have no further obligations under Sections 4.16, 4.21 and 8.12 of the Thrifty Acquisition Agreement and numbered paragraph 11(c) of the amendatory letter agreement thereto dated September 24, 1992 between PE

and TCH, (ii) Big 5 shall have no further obligations under Section 8.12 of the Big 5 Acquisition Agreement and (iii) PE fully and irrevocably waives, discharges and releases TCH and Big 5 of any obligations of any nature whatsoever under the aforesaid provisions.

(b) PE acknowledges to TCH and Big 5 that, upon the termination of the ESOP Adjustment Agreement contemplated by Section 2 of this Agreement and Release, Section 5.6 of the Thrifty Acquisition Agreement will no longer be applicable and, following such termination, TCH on behalf of itself and Big 5 may assert claims for indemnification from PE pursuant to Section 5.2 of the Thrifty Acquisition Agreement and Section 5.2 of the Big 5 Acquisition Agreement (to the extent such claims have not been released pursuant to Section 3 hereof) without reference to the provisions at such Section 5.6.

(c) PE and TCH agree that, effective immediately and automatically upon completion of the payments contemplated by Section 2 of this Agreement and Release and without the necessity for any further action on the part of any of the parties hereto or thereto, Section 5.7 of the Thrifty Acquisition Agreement is amended to read in its entirety as follows:

> "The amount of any claim by Buyer or Seller for which they or any of their respective subsidiaries have realized out-of-pocket costs, expenses or losses shall accrue interest at the rate of Prime plus 1-1/2% per annum from the date when due to the date of payment (if ultimately payable)."

(d) PE, TCH, Big 5 end Thrifty agree that the fair value of the claims against PE to be released by TCH and Big 5 pursuant to Section 3 of this Agreement and Release is $1 million and further agree that, effective immediately and automatically upon the effectiveness of such release and without the necessity for any further action by any party hereto, such $1 million amount shall be included in calculating the $2.5 million threshold for, but shall not affect the $25 million and $40 million limitations on, indemnification set forth in Section 5.5 of the Thrifty Acquisition Agreement or Section 5.5 of the Big 5 Acquisition Agreement and, upon giving effect to such inclusion, such threshold and limitation amounts are $1.5 million, $35 million and $40 million, respectively.

5. NOTE FACILITY AGREEMENTS. PE agrees with TCH and Thrifty to use reasonable commercial efforts to cause PE to be substituted for Thrifty and Thrifty to be released from all of its obligations under the Note Facility Agreements

(including, upon and following but flat before the completion of the payments contemplated by Section 2 of this Agreement and Release, Thrifty's guarantee obligations under Section 7 of the Note Facility Agreements) provided, however, that PE shall not be required to incur any out-of-pocket expenses (other than fees and disbursements of counsel and trustees) to obtain such substitution and release and PE shall not be required to obtain or to effect such substitution and release if, in the opinion of tax counsel to PE, doing so could adversely affect the tax status of the Trend Notes or interest thereon. Thrifty agrees with PE to cooperate with PE in securing said substitution and release; provided, however, PE acknowledges, understands end agrees that Thrifty shall be at no further or other cost or expense, except for costs and expenses which Thrifty may incur in connection with the review of the relevant documents and agreements for the effectuation of said substitution and release and/or the implementation thereof, and the costs and expenses Thrifty may incur in providing any reasonably required legal opinions respecting the due authorization and execution of the relevant substitution and release documents and agreements by Thrifty. PE, Thrifty and TCH agree that upon such substitution and release being fully obtained (including, without limitation, with respect to Thrifty's guarantee obligations under Section 7 of the Note Facility Agreements) the obligations of PE, Thrifty and TCH under Sections 3 and 5.14 of the PE Indemnity shall immediately and automatically terminate without the necessity for any further action on the part of any of the parties hereto or thereto. PE acknowledges, understands and agrees that except for the termination of Sections 3 and 5.14 of the PE Indemnity as contemplated and provided for in the preceding sentence, the PE Indemnity shall remain in full force and effect and shall not be affected by this Agreement and Release.

6. BIG 5 FINANCIAL STATEMENTS. Big 5 agrees with and for the benefit of PE and each subsequent holder of the Big 5 Warrant (including any additional or substituted warrants issued upon any exercise, transfer or substitution thereof or upon successive exercises, transfers or substitutions) that, following the completion of the payments contemplated by Section 2 of this Agreement and Release, Big 5 will furnish to each such holder (not later than the date on which such information would be required to be filed with the Securities and Exchange Commission and whether or not Big 5 is required so to file such information) all periodic, quarterly and annual financial information that would be required to be contained in a filing with the Securities and Exchange Commission on Forms 1O-Q and 10-K (and any successor forms) if Big 5 were required to file such forms and, with respect to annual information only, a report thereon of Big 5's independent certified public accountants.

7. TERMINATION. In the event that the PayLess Acquisition shall not have been consummated on or before June 30, 1994, this Agreement and Release and all of the obligations of the parties hereunder shall immediately and automatically terminate without the necessity for further action on the part of any of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement and Release to be signed by their respective officers thereunto duly authorized as at the date first above written.

PACIFIC ENTERPRISES

By /s/

Title: Executive Vice President

TCH CORPORATION

By /s/

Title: President

THRIFTY HOLDINGS, INC.

By /s/

Title: Senior Vice President

THRIFTY COPORATION

By /s/

Title: Senior Vice President

UNITED MERCHANDISING CORP.

By /s/

Title: V.P. & Secretary

EXHIBIT 10.9

FINANCING AGREEMENT

The CIT Group/Business Credit, Inc.

(as Agent and as Lender)

And

UNITED MERCHANDISING CORP.
[as Borrower)

Dated: March 8, 1996

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THE CIT GROUP/BUSINESS CREDIT, INC., a New York corporation (hereinafter "CITBC") with offices located at 300 South Grand Avenue, Los Angeles, CA 90071, and the other lenders that may, subsequent to the date hereof, purchase from CITBC a portion of CITBC's rights and obligations under this Financing Agreement (CITBC and such other lenders each individually sometimes referred to as a "Lender" and collectively as the "Lenders") and CITBC as agent for the Lenders (hereinafter the "Agent") are pleased to confirm the terms and conditions under which the Lenders acting through the Agent shall make revolving loans, advances and other financial accommodations to United Merchandising Corp., a California corporation (hereinafter referred to as the "Company") having a principal place of business at 2525 East El Segundo Boulevard, El Segundo, CA 90245.

SECTION 1. DEFINITIONS

Accounts shall mean all of the Company's now existing and future: (a) accounts receivable, including any Trade Accounts Receivable, all rights to payment under bank or non-bank credit cards (whether or not specifically listed on schedules furnished to the Agent) and any and all instruments, documents, contract rights, chattel paper, created by or arising from the Company's sales of Inventory or rendition of services to its customers, and all accounts arising from sales or rendition of services made under any trade names or styles of the Company, or through any divisions of the Company; (b) unpaid seller's rights (including rescission, replevin, reclamation and stoppage in transit) relating to the foregoing or arising therefrom; (c) rights to any Inventory represented by any of the foregoing, including rights to returned or repossessed Inventory; (d) credit balances arising hereunder; (e) guarantees or collateral for any of the foregoing; (f) credit or property insurance policies or rights relating to any of the foregoing; and (g) cash and non-cash proceeds of any and all the foregoing.

Affiliate shall mean, as to any Person, any other Person (other than a Subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person and the term "control" shall have the meaning set forth in respect thereof in Rule 105 promulgated under the Securities Act of 1933, as amended.

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

Assignment and Transfer Agreement shall mean the Assignment and Transfer Agreement in the form of Exhibit A hereto.

Availability shall mean at any time of determination the amount by which the lesser of a) the Line of Credit or b) the amount determined by multiplying the then sum of Eligible Inventory by the percentage provided for in paragraph 1 of Section 3 of this Financing Agreement exceeds the sum of x) the outstanding aggregate amount of all Obligations (excluding all obligations in respect of the outstanding amounts of any Letters of Credit) and y) the Availability Reserve.

Availability Reserve shall mean at any time of determination an amount equal to the sum of a) the then undrawn amount of all outstanding Letters of Credit, b) the amount of all unpaid sales taxes due any state and which sales taxes have been collected by the Company, and c) commencing June 14, 1996, an amount equal to three times the monthly rent for leased facilities in lieu of landlord waivers which have not been obtained in favor of the Agent for leased locations at which Inventory is located, provided, however, that such reserve required under this clause c shall cease upon receipt of landlord's waivers for the distribution centers and not less than eighty-five (85) retail outlets.

Blocked Account shall mean any Concentration Account owned by the Company which is governed by a blocked account or similar agreement in form substantially similar to Exhibit B attached hereto and which account is subject to written instructions only from the Company unless and until the Agent shall give the institution holding such Concentration Account written instructions to the contrary in accordance with the terms of paragraph 4 of Section 3 of this Financing Agreement.

Business Day shall mean any date on which both the Agent and Chemical Bank are open for business.

Capital Expenditures for any period shall mean the aggregate of all expenditures of the Company during such period that in conformity with GAAP are required to be included in or reflected by the property, plant or equipment or similar fixed asset account reflected in the balance sheet of the Company, reduced, to the extent otherwise included therein, by the aggregate principal amount of all Indebtedness (including obligations under capitalized lease obligations) assumed or incurred after the date of this Financing Agreement in connection with the acquisition of any capital asset after the date of this Financing Agreement, other than the aggregate amount of principal payments (including the principal component of payments under capitalized lease obligations) made during such period on such Indebtedness, provided, however, that the following shall in any event be excluded from the definition of Capital Expenditures: (i) any such expenditures for Designated Sale-Leaseback Properties, provided that to the extent any such Designated Sale-Leaseback Property shall not have been financed pursuant to a sale-leaseback or mortgage financing permitted hereunder within eighteen (18) months after the Company has designated the subject capital asset as a Designated Sale-Leaseback Property, such expenditures shall be deemed to be Capital Expenditures incurred on and as of the date of the expiration of

such eighteen (18)-month period, (ii) any such expenditures made with (or, to the extent of the receipt during the same fiscal year, expenditures in the amount of) the proceeds of sales of Real Estate, or Equipment or similar fixed assets or the proceeds of insurance, condemnation awards (or payments in lieu thereof) or indemnity payments received from third parties for purposes of replacing or repairing the assets in respect of which such proceeds, awards or payments were received, so long as such expenditures are made within eighteen (18) months of receipt by the Company of such proceeds, awards or payments and (iii) any such expenditures for the purchase of assets pursuant to the terms of the MLTC Documents, provided that if such assets shall not have been resold or refinanced within nine (9) months after the purchase thereof, such expenditures shall be deemed to be Capital Expenditures incurred on and as of the date of the expiration of such nine (9) month period.

Capital Lease shall mean any lease of property (whether real, personal or mixed) which, in conformity with GAAP, is accounted for as a capital lease or a Capital Expenditure on the balance sheet of the Company, but excluding leases of property by the Company under the MLTC Documents.

Chemical Bank Rate shall mean the rate of interest per annum announced by Chemical Bank, or its successor in interest, from time to time as its prime rate in effect at its principal office in the County, City and State of New York. The prime rate is not intended to be the lowest rate of interest charged by Chemical Bank to its borrowers).

Collateral shall mean all present and future Accounts, Inventory, Documents of Title and General Intangibles of the Company.

Commitment Letter shall mean the commitment letter, dated January 23, 1996, issued by CITBC to, and accepted by, the Company.

Concentration Account shall mean any account owned by the Company which receives funds from i) the Depository Accounts and ii) the credit card companies.

Collateral Management Fee shall mean the sum of $100,000.00 per annum which shall be paid to the Agent in accordance with Section 7, Paragraph 7 of this Financing Agreement to offset the expenses and costs of the Agent in connection with record keeping, periodic examinations, analyzing and evaluating the Collateral.

Consolidated Balance Sheet shall mean a consolidated balance sheet for the Company and its Subsidiaries, if any, eliminating all intercompany transactions and prepared, in the case of any such quarterly or annual balance sheet, in accordance with GAAP consistently applied.

Current Assets shall mean, whenever used throughout this Financing Agreement, those assets of the Company and its Subsidiaries, on a consolidated basis, which in accordance with GAAP, consistently applied, are classified as "current".

Current Liabilities shall mean, wherever used throughout this Financing Agreement, those liabilities of the Company and its Subsidiaries, on a consolidated basis, which in accordance with GAAP, consistently applied, are classified as "current", provided, however, that notwithstanding GAAP, i) the Revolving Loans and ii) the current portion of long term Permitted Indebtedness.

Customarily Permitted Liens shall mean

(a) liens of local or state authorities for franchise or other like taxes provided the aggregate amounts of such liens shall not exceed $500,000.00 in the aggregate at any one time;

(b) statutory liens of landlords and liens of carriers, work-men, repairmen, warehousemen, mechanics, materialmen, vendors (other than Inventory vendors or suppliers) and other like liens imposed by law, created in the ordinary course of business and for amounts not yet due (or which are being contested in good faith by appropriate proceedings or other appropriate actions which are sufficient to prevent imminent foreclosure of such liens) and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with GAAP;

(c) deposits made (and the liens thereon) in the ordinary course of business including, without limitation, security deposits for leases, surety bonds and appeal bonds, deposits in connection with utilities, workers' compensation, unemployment insurance and other types of social security benefits or to secure the performance of tenders, bids, contracts (other than for the repayment or guarantee of borrowed money or purchase money obligations), statutory obligations and other similar obligations; and

(d) easements (including, without limitation, reciprocal easement agreements and utility agreements), licenses, leases, restrictions, covenants, rights of way, encroachments, minor defects or irregularities in title, variation and other restrictions, liens, mortgage, charges or other encumbrances (whether or not recorded) affecting the Company's Real Estate which do not prohibit the use of the Real Estate for the retail sale of Inventory at the Company's retail locations or the storage of Inventory at the Inventory distribution centers.

Default shall mean any event specified in Section 9 hereof, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition, event or act, has been satisfied.

Default Rate of Interest shall mean a rate of interest per annum equal to the sum of: i) two percent (2%) and ii) the then applicable rate of interest, which Default Rate of Interest Rate CITBC shall be entitled to charge the Company on all Obligations due CITBC by the Company to the extent provided in Section 9, Paragraph 2 of this Financing Agreement.

Depository Accounts shall mean those accounts (other than Concentration Accounts) owned by the Company and designated for the deposit of proceeds of Collateral.

Designated Sale-Leaseback Property means a capital asset developed or to be developed by the Company after the date of this Financing Agreement and as to which the Company has notified ClTBC in writing that such capital asset is, at such time, a Designated Sale-Leaseback Property and as to which the Company intends to enter into construction, sale-leaseback or mortgage financing, provided that such Designated Sale-Leaseback Property shall cease to be a Designated Sale-Leaseback property upon the earlier to occur of eighteen (18) months after the date of such notice and the date on which such Designated Sale-Leaseback Property is financed pursuant to a sale-leaseback or mortgage financing permitted hereunder.

Documentation Fee shall mean i) the amount of $15,000.00 which is intended to compensate the Agent for the use of the Agent's in-house Legal Department and facilities in documenting, in whole or in part, the initial transaction solely on behalf of the Agent, exclusive of Out-of-Pocket Expenses, and ii) the Agent's standard and reasonable fees relating to any and all modifications, waivers, releases, amendments or additional collateral with respect to this Financing Agreement, the Collateral and/or the Obligations.

Document of Title shall mean all present and future warehouse receipts, bills of lading, shipping documents, instruments and similar documents, all whether negotiable or not, and all Inventory relating thereto and all cash and non-cash proceeds of the foregoing.

Early Termination Date shall mean the date on which the Company terminates this Financing Agreement or the Line of Credit which date is prior to the third Anniversary Date.

Early Termination Fee shall: i) mean the fee the Agent for the account of the Lenders is entitled to charge the Company in the event the Company terminates the Line of Credit or this Financing Agreement on a date prior to the third Anniversary Date; and ii) be determined by calculating the sum of (a) the average daily balance of the Revolving Loans for the period from the date of this Financing Agreement to the Early Termination Date and (b) the average daily undrawn face amount of the Letters of Credit outstanding for the period from the date of the Financing Agreement to the Early Termination Date and multiplying that sum by x) one percent (1%) per annum

for the number of days from the Early Termination Date to the third Anniversary Date if such Early Termination Date is on or before the first Anniversary Date; and y) one half of one percent (1/2%) per annum for the number of days from the Early Termination Date to the third Anniversary Date if such Early Termination Date is after the first Anniversary Date but prior to the third Anniversary Date.

EBITDA shall mean, in any period, the net income (or net loss) of the Company and its Subsidiaries, on a consolidated basis plus i) all amounts deducted in determining net income in respect of Interest Expense, income tax obligations (paid or accrued), depreciation expense and amortization expense, non-cash straight line rent expense and all other non-cash items, each determined in accordance with GAAP consistently applied and ii) any extraordinary loss associated with the extinguishment of the debt due General Electric Capital Corporation by the Company.

Eligible Inventory shall mean the gross cost of the Company's finished goods Inventory that conforms to the warranties herein less any i) supplies, ii) Inventory not present in the United States of America, iii) Inventory retuned or rejected by the Company's customers other than Inventory that is undamaged and resalable in the normal course of business, iv) Inventory to be returned to the Company's suppliers, v) Inventory in transit to third parties, vi) shrinkage, and vii) reserves required by the Agent in accordance with the standard set forth below and without duplication but only for the following: (a) Inventory specially ordered for specific customers which Inventory is uniquely different in size, shape, quality or color and which uniquely different Inventory is not customarily sold by the Company; (b) market value declines, to the extent the Inventory's value is below its cost; (c) bill and hold (deferred shipment or consignment sales); (d) markdowns, to the extent the Inventory's value is below its cost; (e) Inventory which is not located at the Company's retail store locations or warehouses (other than Inventory in transit between the Company's facilities); (f) demonstration items, to the extent the Inventory's value is below its cost; (g) damaged or defective Inventory; (h) obsolete Inventory (but not including undamaged Inventory which is solely out-of-season); (i) inventory at outlet locations not owned or operated by the Company; (j) Inventory held for lease, but only to the extent such Inventory held for lease exceeds twenty-five percent (25%) of the then aggregate gross cost of Inventory; and k) Inventory imported under letters of credit issued without the assistance of the Letter of Credit Guaranty and then only until the bank issuing such letters of credit has been reimbursed by the Company for any drafts under such letters of credit. The amount of such reserves shall be determined solely by the Agent in its reasonable discretion and in the exercise of its reasonable business judgment using standards customarily applied by the Agent to transactions involving retail clients and taking into account the nature of the Company's business, consistently applied by the Agent. Such standards shall take into consideration amounts representing, historically, the Company's reserves, discounts, returns, claims, credit and allowances.

Equipment shall mean all present and hereafter acquired machinery, equipment, furnishings and fixtures, and all additions, substitutions and replacements thereof, wherever located, together with all attachments, components, parts, equipment and accessories installed thereon or affixed thereto and all proceeds of whatever sort.

ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time and the rules and regulations promulgated thereunder from time to time, as applicable.

Event(s) of Default shall have the meaning provided for in Section 9 of this Financing Agreement.

Fixed Charge Coverage RATIO shall mean a ratio determined as of the relevant calculation date by dividing EBITDA by the sum of i) Capital Expenditures and ii) Interest Expense, for the relevant period.

GAAP shall mean generally accepted accounting principles in the United States of America as in affect from time to time and for the period as to which such accounting principles are to apply. Except as otherwise provided in this Financing Agreement, all computations end determinations as to accounting or financial matters and all quarterly and annual consolidated financial statements to be delivered pursuant to this Financing Agreement shall be made and prepared in accordance with GAAP (including principles of consolidation where appropriate), and all accounting or financial terms shall have the meanings ascribed to such terms by GAAP. If any change in accounting principles from those effective December 31, 1995 and used in preparation of the financial statements required hereunder occurs or are hereafter occasioned by promulgation of rules, regulations, pronouncements or opinions by or are otherwise required by the Financial Accounting Standards Board or the American Institute of Certified Public Accountants (or successors thereto or agencies with similar functions), and any such changes results in a change of the method of calculation of, or affect the results of such calculation of, any financial covenant, standard or term found herein, then the parties shall amend such financial covenants, financial standards or terms so as to equitably reflect such changes, with the desired result that the criteria for evaluating the financial condition and results of operations of the Company shall be the same after such changes as if such changes had not been made.

General Intangibles shall have the meaning set forth in the Uniform Commercial Code as in effect in the State of California and include, without limitation, all present and future right, title and interest in and to all tradenames, trademarks (together with the goodwill associated therewith), patents, licenses, customer lists, distribution agreements, supply agreements and tax refunds, together with an monies and claims for monies now or hereafter due and payable in connection with any of the foregoing or otherwise, and all cash and non-cash proceeds thereof.

Guarantor shall mean Parent.

Indebtedness shall mean, without duplication, all liabilities, contingent or otherwise, which are any of the following: (a) obligations in respect of borrowed money or for the deferred purchase price of property, services or assets, other than Inventory, and (b) lease obligations which, in accordance with GAAP, have been, or which should be capitalized, but excluding leases of property by the Company under the MLTC Documents.

Interest Expenses shall mean i) total cash interest obligations (paid or accrued) of the Company and its Subsidiaries determined in accordance with GAAP on a basis consistent with the latest audited statements of the Company, excluding amortization of financing fees related hereto and to other Indebtedness of the Company and its Subsidiaries, prepayment penalties, fees or premiums related to the payment, in whole or in part, of Indebtedness of the Company and its Subsidiaries and original issue discounts, if any, minus ii) interest income, if any.

Inventory shall mean all of the Company's present and hereafter acquired merchandise and inventory held for sale or lease and all additions, substitutions and replacements thereof, wherever located, together with all packaging or shipping materials and all proceeds thereof of whatever sort.

Issuing Bank shall mean any bank issuing Letters of Credit for the Company.

Letters of Credit shall mean all letters of credit issued with the assistance of the Lenders acting through the Agent by the Issuing Banks for or on behalf of the Company.

Letter of Credit Guaranty shall mean any guaranty delivered by the Agent to the Issuing Bank of the Company's reimbursement obligations under the Issuing Bank's reimbursement agreement, application for Letters of Credit or other like documents.

Letters of Credit Guaranty Fee shall mean the fee the Agent may charge under paragraph 2 of Section 7 of this Financing Agreement for: i) issuing the Letter of Credit Guaranty or ii) otherwise aiding the Company in obtaining Letters of Credit pursuant to Section 4.

Leverage Ratio shall mean the ratio determined by dividing Total Liabilities by Net Worth.

Libor shall mean, at any time of determination, and subject to availablility, the London Interbank Offered Rate paid in London by Chemical Bank on one month, two month, three month six month or nine month dollar deposits and if such rates are not otherwise available, then those rates as published, under "Money Rates", in the New

York City edition of the Wall Street Journal or if there is no such publication or statement therein as to Libor, then in any publication used in the New York City financial community.

Libor Loan shall mean the loans for which the Company has elected to use Libor for interest rate computations.

Libor Period shall mean the Libor for one month, two month, three month, six month or nine month dollar deposits, as selected by the Company.

Libor Processing Fee shall mean the sum of $500.00 which the Agent, for its own account, shall be entitled to charge the Company in accordance with, but subject to, the provisions of Section 7 of this Financing Agreement upon the election of a Libor Loan.

Line of Credit shall mean the commitment of the Lenders acting through the Agent to make loans and advances and issue Letter of Credit Guaranties, all pursuant to and in accordance with, but subject to, Sections 3 and 4 of this Financing Agreement, in the aggregate amount of $100,000,000.00 or such lesser amount as the Company may elect in accordance with Section 7 of this Financing Agreement.

Loan Credit Fee shall: mean the fee due CITBC at the end of each month for the Line of Credit, and ii) be determined by multiplying x) the difference between the Line of Credit less the sum of a) the average daily Revolving Loans outstanding during such month and b) the average daily undrawn face amount of all outstanding Letters of Credit, for said month by y) three eights of one percent (.375%) per annum for the number of days in said month during which this Financing Agreement was in effect.

Loan Facility Fee shall mean the fee payable to the Agent for the account of the Lenders in accordance with, and pursuant to, the provisions of Section 7 of this Financing Agreement.

Loan Syndication Fee shall mean the fee payable to CITBC and solely for the account of CITBC, in accordance with, and pursuant to, the provisions of Section 7 of this Financing Agreement

Margin Securities shall have the meaning assigned to such term in Regulation G of the Board of Governors of the Federal Reserve System (12 C.F.R. 207, as amended).

MLTC Documents means the Amended and Restated Master Lease Agreement dated April 20, 1994 between MLTC Funding, Inc. and Thrifty Corporation, the Amended and Restated Master Lease Agreement dated April 20, 1994 between MLTC Funding, Inc. and Thrifty Realty Company, and all other documents and instruments delivered

or to be delivered pursuant thereto or in connection therewith, in each case, as may be amended or otherwise modified from time to time in accordance with its terms.

NET WORTH shall mean Total Assets of the Company and its Subsidiaries, on a consolidated basis, in excess of Total Liabilities, and determined in accordance with GAAP, on a consistent basis with the latest audited statements of the Company and its Subsidiaries but without giving any effect to the prepayment penalties, fees, expenses or premiums related to the extinguishment of the debt due General Electric Capital Corporation by the Company.

OBLIGATIONS shall mean all obligations of the Company to pay, as and when due and payable, all amounts from time to time owing by and in respect of this Financing Agreement or any of loan documents related to this Financing Agreement, including, without limitation, all loans and advances made or to be made by the Agent on behalf of the Lenders to the Company, or to others for the Company's account under this Financing Agreement or any loan document related to this Financing Agreement; any and all indebtedness and obligations which may at any time be owing by the Company under this Financing Agreement or any other loan document related to this Financing Agreement, whether now in existence or incurred by the Company from time to time hereafter; whether secured by pledge, lien upon or security interest in the Company's assets or property or the assets or property of any other person, firm, entity or corporation; whether such indebtedness is absolute or contingent, matured or unmatured, direct or indirect and whether the Company is liable for such indebtedness as principal, surety, endorser, guarantor or otherwise. Obligations shall also include, without duplication of the foregoing, all indebtedness owing by the Company under this Financing Agreement or under any other agreement or arrangement hereafter entered into between the Company and the Agent on behalf of the Lenders, including, but not limited to, obligations to the Agent on behalf of the Lenders in respect of Letters of Credit issued with the assistance of the Letter of Credit Guaranty, indebtedness or obligations incurred by, or imposed on, the Agent or the Lenders as a result of environmental claims arising out of the Company's operations, premises or waste disposal practices or sites, the Company's ability to the Agent on behalf of the Lenders under any instrument of guaranty or indemnity, or arising under any guaranty, endorsement or undertaking which the Agent on behalf of the Lenders may make or issue to others for the Company's accounts, all at the Company's request hereafter, but in no event shall Obligations include any obligations due any affiliate of a Lender.

OUT-OF-POCKET-EXPENSES shall mean all of the Agent's reasonable and documented expenses incurred relative to the commitment letter or the closing of this Financing Agreement and any amendment, modification or waiver thereof, whether incurred heretofore or hereafter, and, in any case, at the Company's request, with appropriate documentation delivered to the Company, which expenses shall include, without being limited to, the cost of record searches, all costs and expenses incurred by the Agent in opening bank accounts, depositing checks, receiving and transferring funds, and

any charges imposed on the Agent due to "insufficient funds" of deposited checks the Agent's standard fee relating thereto, any amounts paid by the Agent on behalf of the Lenders to an Issuing Bank or incurred by or charged to the Agent on behalf of the Lenders by the Issuing Bank under the Letter of Credit Guaranty or the Company's reimbursement agreement, application for letter of credit or other like document which pertain either directly or indirectly to such Letters of Credit, and the Agent's standard and reasonable fees relating to the Letters of Credit and any drafts thereunder, local counsel fees, if any, fees and taxes relative to the filing of financing statements, and all expenses, costs and fees set forth in paragraph 3 of Section 9 of this Financing Agreement.

PARENT shall mean Big 5 Corporation, a Delaware corporation.

PERMITTED ENCUMBRANCES shall mean: i) liens expressly permitted, or consented to, by the Agent on behalf of the Lenders; ii) Customarily Permitted Liens; iii) liens granted the Agent on behalf of the Lenders by the Company; iv) liens of judgment creditors, provided such liens do not exceed, in the aggregate, at any time, $ 1,000,000.00 (other than liens stayed, satisfied, bonded or insured to the reasonable satisfaction of the Agent within a) fifteen (15) calendar days of the date the Company acquired actual knowledge of such judgment lien or b) fifteen (15) calendar days of the date such lien attached by levy, whichever first occurs); or; v) liens for taxes, levies or assessments not yet due and payable or which are being diligently contested in good faith by the Company by appropriate proceedings, and which liens are not a) senior to the lien of the Agent on behalf of the Lenders; or b) for taxes due the United States of America; vi) liens, if any, given to an Issuing Bank in connection with a Letter of Credit obtained with the assistance of the Letter of Credit Guaranty; vii) liens securing Purchase Money Obligations; viii) liens and other encumbrances in existence on the date hereof; ix) liens given to issuers of letters of credit issued without the assistance of the Letter of Credit Guaranty provided such liens a) do not secure Indebtedness in excess of $1,000,000.00 in the aggregate at any one time and b) attach only to the Inventory and/or Equipment acquired with the assistance of such letter of credit; x) liens on assets, other than the Collateral, of the Company, to secure the Indebtedness referenced in clause x of the definition of Permitted Indebtedness; xi) liens on the Margin Securities; and xii) any extension, renewal or replacement of any of the foregoing, provided that any extension, renewal or replacement lien shall be limited to the property or assets covered by the lien extended, renewal or replaced and the obligation secured by such extension, renewed or replacement lien shall be in an amount not greater than the obligations secured by the lien extended, renewed or replaced plus the amount of all expenses, fees, premiums and penalties paid in connection with such extension, renewals or replacement.

PERMITTED INDEBTEDNESS shall mean: i) Indebtedness incurred in the ordinary course of business for Inventory, services, taxes or labor; ii) Indebtedness arising in connection with Letters of Credit, this Financing Agreement and the loan documents

related to this Financing Agreement; iii) deferred taxes and other expenses incurred in the ordinary course of business; iv) other Indebtedness existing on the date of execution of this Financing Agreement and listed in the most recent financial statement delivered to the Agent or otherwise disclosed to the Agent in writing; v) Indebtedness arising in connection with or secured by, the Permitted Encumbrances; vi) Indebtedness under any letters of credit issued without the assistance of the Letter of Credit Guaranty provided such Indebtedness does not exceed $1,000,000 in the aggregate at any one time; vii) Indebtedness of the Company to the Parent or the Company's Subsidiaries in an amount not to exceed $5,000,000 in the aggregate at any one time; viii) the Subordinated Debt; ix) Indebtedness incurred in the form of surety, customs and appeal bonds and other obligations of a similar nature; x) other Indebtedness of the Company in an amount not to exceed $7,500,000.00 in the aggregate at any time outstanding, provided such Indebtedness is a) not secured by the Collateral and b) not due the Parent or any Subsidiaries of the Company or the Parent xi) Indebtedness in an aggregate amount not to exceed $10,000,000 at any time which is subordinated to the Obligations, provided such Indebtedness shall (a) have an amortization schedule that results in the same or longer average life to maturity than the Subordinated Debt and (b) contain subordination provisions which are substantially similar to those in the documents evidencing the Subordinated Debt ("Additional Subordinated Debt"); and xii) any extension, renewal or replacement of any of the foregoing, provided that any extension, renewal or replacement shall (a) be in an amount not greater than the Indebtedness so extended, renewed or replaced (plus the amount of expenses, fees and any premium or penalty paid in connection with such extension, renewal or replacement), and (b) in the case of Subordinated Debt and Additional Subordinated Debt, shall (1) have an amortization schedule that results in the same or longer average life to maturity than the Subordinated Debt or Additional Subordinated Debt, as applicable, and (2) contain subordination provisions which are substantially similar to those in the documents evidencing the Subordinated or Debt or Additional Subordinated Debt, as applicable.

PERMITTED INVESTMENTS shall mean (i) commercial paper and municipal bonds, in each case issued or guaranteed by a Person rated P-l or better by Moody's Investors Service, Inc. ("Moody's") or A-1 or MIG-1 or better by Standard & Poor's Corporation ("S & P"), (ii) certificates of deposit, time deposits, Eurodollar deposits or bankers' acceptances maturing not more then one year after the date of issue, issued by any commercial banking institution, which is a member of the Federal Reserve System and has a combined capital and surplus and undivided profits of not less than $100,000,000 (iii) repurchase agreements having maturities of not more than one year and which are secured by readily marketable direct obligations of the Government of the United States of America or any agency thereof, (iv) readily marketable obligations of the Government of the United States of America or any agency thereof; (v) readily marketable obligations issued by any state of the United States or any political subdivision thereof having a rating by Moody's or S & P of "A" or its equivalent or better; (vi) Margin Securities and (vii) mutual funds regularly traded in

the United States of America whose investments are limited to those described in clauses (i) through (v) above.

PERSON shall mean an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

PURCHASE MONEY OBLIGATIONS shall mean the Indebtedness (a) incurred to construct, purchase or lease Equipment and/or Real Estate and ii) secured solely by a lien on the Equipment and/or Real Estate, including construction, sale leaseback and mortgage financing incurred in connection with Designated Sale-Leaseback Property; (b) of a Person existing at the time such Person is acquired by, merged into or consolidated with the Company in accordance with this Financing Agreement provided such Indebtedness is not secured by Collateral; or c) secured by property (other than Collateral) acquired by the Company existing at the time such property is or was acquired by the Company.

REAL ESTATE shall mean the Company's leasehold and fee interests in real property.

REPORTING DATE shall mean any date on which the Company is to deliver to the Agent any Collateral report pursuant to paragraph 2 of Section 3 of this Financing Agreement, any financial statement or any other information requested of the Company pursuant to the terms of this Financing Agreement.

REQUIRED LENDERS shall mean Lenders holding more than fifty percent (50%) of the outstanding loans. advances, extensions of credit and commitments of the Company hereunder.

RETAINED CASH shall mean an amount of cash sufficient to provide the Company with cash in an amount necessary to stock the Company's cash registers at its retail locations and consistent with the business practices of the Company.

REVOLVING LOANS shall mean the loans and advances made, from time to time, to or for the account of the Company by the Lenders acting through the Agent pursuant to Section 3 of this Financing Agreement.

SETTLEMENT DATE shall mean the date, weekly, and more frequently, at the discretion of the Agent, upon the occurrence of an Event of Default or a continuing decline or increase of the Revolving Loans that the Agent and the Lenders shell settle amongst themselves so that x) the Agent shall not have, as Agent, any money at risk and y) on such Settlement Date the Lenders shall have a pro rata amount of all outstanding Revoking Loans and Letters of Credit, provided that each Settlement Date for a Lender shall be a Business Day on which such Lender and its bank are open for business.

SUBORDINATED DEBT shall mean the senior subordinated debt of the Company in the original amount of $55,000,000.00 of which there is, as of the date hereof, an unpaid balance of $36,450,000.00 due the holders (exclusive of that portion of the Subordinated Debt held by the Company for its own account) of the Subordinated Debt in September 2002 which is subordinate, by its terms, to the prior payment and satisfaction of the Obligations.

SUBSIDIARY shall mean as to any Person, a corporation, partnership or other entity of which shares of stock or other ownership interest having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Financing Agreement shall refer to a Subsidiary or Subsidiaries of the Company or the Parent.

TOTAL ASSETS shall mean total assets of the Company and its Subsidiaries, on a consolidated basis, determined in accordance with GAAP, on a basis consistent with the latest audited statements of the Company and its Subsidiaries.

TOTAL LIABILITIES shall mean total liabilities of the Company and its Subsidiaries, on a consolidated basis, determined in accordance with GAAP, on a basis consistent with the latest audited statements of the Company and its Subsidiaries, provided, however, that for the purpose of computing Net Worth for the covenant in Section 6 hereof and the Leverage Ratio in Section 6 hereof, Total Liabilities shall not include any amount with respect to leases of property by the Company under the MLTC Documents.

TRADE ACCOUNTS PAYABLE shall mean, at any time of determination, the amounts due any supplier for inventory sold to the Company.

TRADE ACCOUNTS RECEIVABLE shall mean, at any time of determination, the amounts due the Company by any i) credit card issuer and ii) any customer obligated an invoice, in each instance due as a result of a sale of inventory or the rendition of services by the Company.

WORKING CAPITAL shall mean Current Assets in excess of Current Liabilities.

SECTION 2. CONDITIONS PRECEDENT

The obligation of the Lenders acting through the Agent to make loans hereunder is subject to the satisfaction of, or waiver of, immediately prior to or concurrently with the making of such loans, the following conditions precedent:

a) LIEN SEARCHES - The Agent shall have received tax, judgment and Uniform Commercial Code searches satisfactory to the Agent for all locations presently occupied or used by the Company.

b) CASUALTY INSURANCE - The Company shall have delivered to the Agent evidence satisfactory to the Agent that casualty insurance policies covering the Inventory listing the Agent on behalf of the Lenders as loss payee are in full force and effect, all as set forth in Section 6, paragraph 4 of this Financing Agreement.

c) UCC FILINGS - Any documents {including without limitation, financing statements) required to be filed in order to create, in favor of the Agent on behalf of the Lenders, subject to the Permitted Encumbrances, a first and exclusive perfected security interest in the Collateral with respect to which a security interest may be perfected by a filing under the Uniform Commercial Code shall have been properly filed in each office in each jurisdiction required in order to create in favor of the Agent on behalf of the Lenders a perfected lien on the Collateral. The Agent shall have received acknowledgement copies of all such filings (or, in lieu thereof, CITBC shall have received other evidence satisfactory to the Agent that all such filings have been made); and the Agent shall have received evidence that all necessary filing fees and all taxes or other expenses related to such filings have been paid in full.

d) EXAMINATION & VERIFICATION - The Agent, for the benefit of the Lenders, shall have completed to its satisfaction an examination and verification of the Accounts, Inventory, books and records of the Company.

e) OPINIONS - Counsel for the Company shall have delivered to the Agent on behalf of the Lenders opinions satisfactory to the Agent opining, inter alia, that, subject to the i) filing, priority and remedies provisions of the Uniform Commercial Code, ii) the provisions of the Bankruptcy Code, insolvency statutes or other like laws, iii) the equity powers of a court of law and iv) such other matters as may be agreed upon with the Lenders, the Financing Agreement of the Company and the Guaranty of the Guarantor x) are valid, binding and enforceable according to their terms, y) are duly authorized and z) do not violate any terms, provisions, representations or covenants in the charter or by-laws of the Company or the Guarantor, or, to the knowledge of such counsel, after reasonable inquiry, of any loan agreement, mortgage, deed of trust, note, security or pledge agreement or indenture, identified by the Company and the Guarantor to such counsel as material, to which the Company and/or the Guarantor is a signatory or by which the Company or the Guarantor or its assets are bound.

f) ADDITIONAL DOCUMENTS - The Company shall execute and deliver to the Agent for the benefit of the Lenders all loan documents necessary to consummate the lending arrangement contemplated between the Company and the Lenders.

g) COMMITMENT LETTER - The Company shall have fully complied, to the satisfaction of CITBC, with all of the material terms and conditions of the Commitment letter. To the extent that any terms of the Commitment Letter conflict with the terms of this Financing Agreement, the terms of this Financing Agreement shall apply.

h) BOARD RESOLUTION - The Agent for the benefit of the Lenders shall have received a copy of the resolutions of the Board of Directors of the Company, authorizing the execution, delivery and performance of (i) this Financing Agreement and (ii) any related agreements, certified by the Secretary or Assistant Secretary of the Company, as of the date hereof, together with a certificate of the Secretary or Assistant Secretary of the Company as to the incumbency and signature of the officers of the Company executing this Financing Agreement and any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary or Assistant Secretary.

i) CORPORATE ORGANIZATION - The Agent for the benefit of the Lenders shall have received (i) a copy of the Certificate of Incorporation of the Company certified by the Secretary of State of its incorporation, and (ii) a copy of the By-Laws (as amended through the date hereof) of the Company and certified by the Secretary or Assistant Secretary of the Company.

j) OFFICER'S CERTIFICATE - The Agent for the benefit of the Lenders shall have received an executed Officer's Certificate of the Company, satisfactory in form and substance to the Agent, certifying that: (i) the representations and warranties contained herein are true and correct in all material respects on and as of the date hereof; (ii) the Company is in compliance with all of the terms and provisions set forth herein; and (iii) no Event of Default or Default has occurred.

k) ABSENCE OF DEFAULT - No material adverse change in the financial condition, business, prospects, profits (after giving affect to the seasonal nature of the Company's business), operations or assets of the Company shall have occurred since January 23, 1996. No Default or Event of Default shall exist as of the date of this Financing Agreement.

l) LEGAL RESTRAINTS/LITIGATION - At the data of execution of this Financing Agreement, there shall be, to the actual knowledge of the management of the Company or to the actual knowledge of any Lender, no x) litigation, investigation or proceeding (judicial or administrative) pending or threatened against the Company or its assets, by any agency, division or department of any county, city, state, province or federal government arising out of this Financing Agreement, or the financing arrangement contemplated under this Financing Agreement, y) injunction, writ or restraining order restraining or prohibiting the consummation of the financing arrangements contemplated under this Financing Agreement or z) suit, action, investigation or proceeding (judicial or administrative) pending or threatened against

the Company, or its assets, which, is reasonably likely to result in a material adverse effect on the business, operation, assets or financial condition of the Company or the Collateral.

m) DISBURSEMENT AUTHORIZATION - The Company shall have delivered to the Agent all information necessary for the Lenders acting through the Agent to issue wire transfer instructions on behalf of the Company for the initial and subsequent loans and/or advances to be made under this Financing Agreement including, but not limited to, disbursement authorizations in a form acceptable to the Agent.

n) BANKING AND/OR CREDIT CARD ARRANGEMENTS - As of the date of execution of this Financing Agreement the Company shall have converted all of its Concentration Accounts (other than operating accounts) into Blocked Accounts and will have required the credit card companies to remit balances, when due, to a Blocked Account.

o) GUARANTY - The Guarantor shall have executed and delivered to the Agent for the benefit of the Lenders, a guaranty, in form and substance reasonably acceptable to the Agent, under which the Guarantor has unconditionally guaranteed the Obligations.

Upon the execution of this Financing Agreement and the initial disbursement of loans hereunder, all of the above Conditions Precedent shall have been deemed satisfied except as the Company and the Agent shall otherwise agree herein or in a separate writing It is understood and agreed that as of the date hereof the Company is unable to i) arrange for its Concentration Accounts to become Blocked Accounts and ii) require the credit card companies to remit balances, when due, to a Blocked Account. Notwithstanding such, the Agent will waive such requirements for purposes of closing provided the Company within ten (10) Business Days from the date hereof, delivers to the Agent executed agreements, in form and substance reasonably satisfactory to the Agent, pursuant to which the Concentration Accounts become Blocked Accounts and the credit card companies have agreed to remit balances, when due, to a Blocked Account.

SECTION 3. REVOLVING LOANS

1. Lenders, acting through the Agent, agree, subject to the terms and conditions of this Financing Agreement from time to time, and within x) the Availability and y) the Line of Credit, but subject to the Agent's and the Lenders' (acting through the Agent) rights to make "Overadvances", to make loans and advances to the Company on a revolving basis, and subject to the limitations set forth herein, the Company may borrow, repay and re-borrow Revolving Loans. Such loans and advances shall be in amounts up to sixty-five percent (65%) of the aggregate value of the Company's Eligible Inventory. The value of Eligible Inventory shall be

determined at cost, by the cost inventory method, using a valuation on a first in, first out basis in accordance with GAAP excluding capitalized buying, handling and distribution costs, as reflected on the Company's books and records. All requests for loans and advances (other than LIBOR Loans) must be received by an officer of the Agent no later than 2:OO p.m. New York time on the Business Day on which such loans and advances are required. Should the Agent for any reason honor requests for advances in excess of the limitations set forth herein, such advances shall be considered "Overadvances" and shall be made in the Agent's sole discretion, subject to any additional terms the Agent deems necessary.

2. In furtherance of the continuing collateral assignment and security interest in the Company's Accounts and Inventory, the Company shall deliver to the Agent not later than: 1) thirty (30) days after the end of each month an aging of the Company's Trade Accounts Receivable in such form and manner as the Agent may reasonably require but consistent with the current practices of the Company (provided, however, that such aging reports shall not be required in any month when the amount of the Trade Accounts Receivable are less than $2,500,000.00); 2) fourteen (14 days after the end of each month (other than October, November and December, a monthly inventory confirmation statement stating the aggregate amount of Eligible Inventory of the Company; and 3) five (5) Business Days after each Sunday in the months of October, November and December, a weekly Inventory confirmation statement stating the aggregate amount of Eligible Inventory of the Company. With respect to all such reports, the Company will provide to the Agent such additional information and material as the Agent may reasonably request to effectively evaluate the Trade Accounts Receivable and the collectability thereof and the mix of the Inventory and such other information as the Agent may reasonably require to evaluate the Company's Trade Accounts Receivable and Inventory, such as returns, claims, credits, allowances and information identifying and describing the Trade Accounts Receivable. Failure to provide the Agent with the foregoing information will in no way effect, diminish, modify, or limit the security interest granted herein. Such reports are to be executed by a responsible officer of the Company.

3. The Company hereby represents and warrants that: a) sales of Inventory are, and shall be, based upon actual and bona fide sales and deliveries of Inventory x) in the ordinary course of the Company's business, y) in connection with the liquidation of an immaterial portion of the Inventory, or z) after the occurrence of a casualty loss, bulk sales of salvageable Inventory, and that, in any instance, the Inventory being sold and the proceeds thereof are the exclusive property of the Company and are not and shall not be subject to any lien, charge, arrangement, encumbrance, security interest, or financing statement whatsoever other than the permitted Encumbrances, provided, however that if there is then no Default or Event of Default, the Company may make charitable transfers of Inventory in an amount not to exceed $500,000.00 in any fiscal year; b) invoices representing Trade Accounts Receivable or credit card receipts evidencing credit card sales are in the name of the

Company and except for disputes, offsets, defenses, counterclaims, contras, returns or credits, all arising in the normal course of the Company's business or except as may be promptly disclosed to the Agent, the purchasers of such Inventory owe and are obligated to pay the amount stated in the invoices or credit card receipts; and c) except for the Permitted Encumbrances, any and all taxes and fees relating to its business are the Company's sole responsibility and that same will be paid when due (except as otherwise provided in this Financing Agreement), and that none of said taxes or fees represent a lien on or claim against the proceeds of any sale of Inventory. The Company agrees to issue credit memoranda promptly. The Company also warrants and represents that it is a duly and validly existing corporation and is qualified to transact business in all states where the failure to so qualify would have a material adverse effect on the business of the Company or the ability of such Company to enforce collection of Trade Accounts Receivable due from Persons residing in that state.

4. During the term of this Financing Agreement, the Company may and will, at its expense, consistent with the Company's existing business practices, enforce, collect and receive all amounts owing on the Accounts. Except for the Retained Cash, all checks or cash from the sale of Inventory must be deposited promptly to the Depository Accounts, and promptly thereafter and therefrom, to a Blocked Account. The Company shall require that all amounts due under credit card sales be remitted by the credit card companies to a Blocked Account. The Company agrees that it will only direct the flow of funds from the Depository Accounts and the credit card remitters to the Blocked Accounts. The institutions holding such Blocked Accounts will be instructed that when it is satisfied that such funds on deposit are "good funds", such institution will remit such "good funds" to the Company's operating account. Notwithstanding anything herein contained to the contrary, if x) there is then an Event of Default or y) the Company has Availability of less than zero ($0) for three (3) consecutive Business Days, then the Agent, acting on behalf of the Lenders, may advise the banks holding the Blocked Accounts to remit all proceeds of Collateral to the Agent for the account of the Lenders. The Agent will immediately rescind these instructions a) upon the waiver of the Event of Default and b) when the Company has Availability of zero ($0) or greater. All amounts received by the Agent for the account of the Lenders will be credited to the Obligations upon the Agent's receipt of "good funds" at its bank account in New York, New York on the Business Day of receipt if received no later than 2 p.m. New York time or on the next succeeding Business Day if received after 2 p.m. New York time. No checks, drafts or other instruments received by the Agent will constitute final payment unless and until such instruments have actually been collected. If the loan account reflects a zero Revolving Loan balance and there is then no Event of Default, then the Agent shall promptly remit to the operating account of the Company any credit balances in the loan account.

5. The Agent shall maintain a separate account on its books in the Company's name in which the Company will be charged with loans, advances and payments under the Letter of Credit Guaranty, made to the Company or for its account, and with any other Obligations, including any and all reasonable costs, expenses and reasonable and documented attorney's fees which the Agent may incur in connection with the exercise of any of the rights or powers herein conferred or in the prosecution or defense of any action or proceeding to enforce or protect any rights of the Agent or of any Lender in connection with this Financing Agreement or the Collateral assigned hereunder, or any Obligations owing by the Company. The Company will be credited with all amounts received by the Agent from the Company or from others for the Company's account, including, as above set forth, all amounts received by the Agent in payment of Accounts and such amounts will be applied to payment of the Obligations. In no event shall prior recourse to any Accounts or other security granted to or by the Company be a prerequisite to the Agent's right to demand payment of any Obligation. Further, it is understood that neither the Agent nor any Lender shall have no obligation whatsoever to perform in any respect any of the Company's contracts or obligations relating to the Accounts.

6. After the end of each month, the Agent, on its own behalf and/or acting on behalf of the tenders, shall promptly send the Company a statement showing the accounting for the charges, loans, advances, payments under the Letter of Credit Guaranty, and other transactions occurring between the Agent, on its own behalf, and/or on its own behalf or acting on behalf of the Lenders and the Company during that month. The monthly statement shall be deemed correct and binding upon the Company and shall constitute an account stated between the Company, the Agent, and the Lenders unless the Agent receives a written statement of the exceptions within thirty (30) days of the date of the monthly statement.

SECTION 4. LETTERS OF CREDIT

In order to assist the Company in establishing or opening i) documentary Letters of Credit with an Issuing Bank to cover the purchase and importation of Inventory and ii) standby Letters of Credit with an Issuing Bank to cover such other matters as the Company may so decide, other than for the purchase of Inventory or to secure present or future Trade Accounts Payable, the Company has requested the Agent, acting on behalf of the Lenders, to join in the applications for such Letters of Credit and/or guarantee payment or performance of such Letters of Credit and any drafts or acceptances thereunder through the issuance of the Letters of Credit Guaranty, thereby lending the Lenders' credit to the Company and the Lenders, acting through the Agent, have agreed to do so. These arrangements shall be handled by the Agent acting on behalf of the Lenders, subject to the terms and conditions set forth below.

1. Within the Line of Credit, the Lenders, acting through the Agent, shall assist the Company in obtaining such Letters of Credit in an amount not to exceed $15,000,000.00 in the aggregate outstanding at any one time. The Agent's assistance with respect to Letters of Credit for amounts in excess of the limitations set forth herein shall at all times and in all respects be in the Agent's sole discretion. Notwithstanding anything herein to the contrary, upon the occurrence of a Default and/or an Event of Default, the Agent's assistance with respect to any Letters of Credit shall be in the Agent's sole discretion unless such Event of Default is waived in writing, or such Default is cured to the Agent's satisfaction in the exercise of its reasonable business judgment during any applicable grace or cure period.

2. The Agent, acting on behalf of the Lenders, shall have the right, without notice to the Company, to charge the loan account with the amount of any and all indebtedness, liability or obligation of any kind paid or incurred under the Letters of Credit Guaranty at the earlier of: a) payment by the Agent under the Letters of Credit Guaranty, or b) termination of this Financing Agreement in accordance with Section 10 of this Financing Agreement. Any mount so charged to the loan account shall be charged against any credit balances then in the loan account, and if there are then insufficient credit balances then to the extent of such insufficiency such amount shall be deemed a Revolving Loan hereunder and shall incur interest at the rate provided for in Section 7, paragraph 1 of this Financing Agreement.

3. The Company unconditionally indemnifies the Agent and each Lender and holds the Agent and each Lender harmless from any and all loss, claim or liability incurred by the Agent and/or any Lender arising from any transactions or occurrences relating to Letters of Credit established or opened for the Company's account, the collateral relating thereto and any drafts or Acceptances thereunder, and all Obligations thereunder, including any such loss or claim due to any errors or actions taken by, or any omissions, negligence or misconduct of, any Issuing Bank, other than for any such loss, claim or liability arising out of the gross negligence or willful misconduct of the Agent and/or any Lender. The Company's unconditional obligation to the Agent and each Lender hereunder shall not be modified or diminished for any reason or in any manner whatsoever, other than as a result of the gross negligence or willful misconduct of the Agent and/or any Lender. The Company agrees that any charges of the Issuing Bank incurred for the Company's account shall be conclusive on CITBC and shall be charged to the loan account.

4. In connection with any Letter of Credit, neither the Agent nor any Lender shall be responsible for: the existence, character, quality, quantity, condition, packing, value or delivery of the goods purporting to be represented by any documents; any difference or variation in the character, quality, quantity, condition, packing, value or delivery of the goods from that expressed in the documents; the validity, sufficiency or genuineness of any documents or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid,

insufficient, fraudulent or forged, other than as a result of the gross negligence of the Agent and/or any Lender; the time, place, manner or order in which shipment is made: partial or incomplete shipment, or failure or omission to ship any or all of the goods referred to in the Letters of Credit or documents; any deviation from instructions; delay, default, or fraud by the shipper and/or anyone else in connection with any Inventory which is the subject of any Letter of Credit or the shipping thereof; or any breach of contract between the shipper or vendors and the Company. Furthermore, without being limited by the foregoing, neither the Agent nor any Lender shall be responsible for any act or omission with respect to or in connection with any Inventory which is the subject of any Letter of Credit.

5. In connection with any Letter of Credit, the Company agrees that any action taken by the Agent, if taken in good faith, or any action taken by any Issuing Bank, under or in connection with the Letter of Credit, the guarantees. the drafts or acceptances, or the Collateral, shall, as between the Company and the Agent, be binding on the Company and shall not put the Agent or any Lender in any resulting liability to the Company other than as a result of the gross negligence or willful misconduct of the Agent or such Lender. After the occurrence of an Event of Default which is not waived, the Agent shall have the full right and authority to clear and resolve any questions of non-compliance of documents; to give any instructions as to acceptance or rejection of any documents or goods; to execute any and all steamship or airways guaranties (and applications therefor), indemnities or delivery orders; to grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances, or documents; and to agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letters of Credit, drafts or acceptances; all in the Agent's sole name, and the Issuing Bank shall be entitled to comply with and honor my and all such documents or instruments executed by or received solely from the Agent, all without any notice to or any consent from the Company, provided, however, that the Agent shall give the Company notice of the acceptance or rejection of any goods.

6. In connection with any Letter of Credit, without the Agent's express consent (which consent shall not be unreasonably withheld) and, where applicable, endorsement in writing, the Company agrees: a) not to execute any and all applications for steamship or airway guaranties, indemnities or delivery orders; to grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances of documents; or to agree to any amendments, renewals, extensions, modifications or changes of any of the terms of conditions of any of the Letters of Credit, applications, drafts or acceptances; and b) after the occurrence of an Event of Default which is not waived, not to i) clear and resolve any questions of non-compliance of documents, or ii) give any instructions as to acceptance or rejection of any documents or goods.

7. In connection with any Letter of Credit, the Company agrees that any necessary import, export or other licenses or certificates for the import or handling of the Inventory will have been promptly procured, and all foreign and domestic governmental laws and regulations in regard to the shipment and importation of the Inventory, or the financing thereof will have been promptly and fully complied with, except to the extent that any such non-procurement of non-compliance will not have a material adverse effect on such Inventory; and any certificates in that regard that the Agent, on behalf of the Lenders, may at any time reasonably request will be promptly furnished. In this connection, the Company warrants and represents that, to its actual knowledge, all shipments made under any of the Letters of Credit are in accordance with the laws and regulations of the countries in which the shipments originate and terminate, and are not prohibited by any such laws and regulations, except to the extent that any failure to so comply will not have a material adverse effect on such shipments. The Company assumes all risk, liability and responsibility for, and agrees to pay and discharge, all present and future local, state, federal or foreign taxes, duties, or levies in connection with any Inventory or goods purchased, imported or acquired under the Letter of Credit. Any embargo, restriction, laws, customs or regulations of any country, state, province, city, or other political subdivision, where the Inventory is or may be located or wherein payments are to be made, or wherein drafts may be drawn, negotiated, accepted, or paid, shall be solely the Company's risk, liability and responsibility.

8. Upon any payments made to the Issuing Bank under the Letter of Credit Guaranty, the Agent, for the benefit of the Lenders, shall acquire by subrogation, any rights, remedies, duties or obligations granted or undertaken by the Company to the Issuing Bank in any application for Letters of Credit, any standing agreement relating to Letters of Credit or otherwise, all of which shall be deemed to have been granted, to the Agent for the benefit of the Lenders and apply in all respects to the Agent and the Lenders and shall be in addition to any rights, remedies, duties or obligations contained herein.

9. Nothing in this Financing Agreement is intended to relieve any Issuing Bank from any liability to any Person.

SECTION 5. COLLATERAL

1. As security for the prompt payment in full of all loans and advances made and to be made to the Company from time to time by the Agent on behalf of the Lenders pursuant hereto, as well as to secure the payment in full of the other Obligations, the Company hereby pledges and grants to the Agent for the benefit of the Lenders a continuing general lien upon and security interest in all of its:

(a) present and hereafter acquired Inventory;

(b) present and future Accounts;

(c) present and future Documents of Title: and

(d) present and future General Intangibles.

2. The security interests granted hereunder shall extend and attach to:

(a) All Collateral which is presently in existence and which is owned by the Company or in which the Company has any interest (but only to the extent of such interest), whether held by the Company or others for its account;

(b) All Inventory and any portion thereof which may be returned, rejected, reclaimed or repossessed by either the Agent or the Company from any of the Company's customers.

3. The Company agrees to take reasonable steps, consistent with current business practices, to safeguard, protect and hold all Inventory and make no disposition thereof except in the manner or for the purpose described in paragraph 3 of Section 3 of this Financing Agreement. Inventory may be sold and shipped by the Company to its customers in the ordinary course of the Company's business, and the Company will collect all proceeds of such sales, consistent with reasonable business practices in existence on the date of execution of this Financing Agreement or consistent with the business practices of like companies in the retail Industry, provided, however, that all proceeds of all such sales (including cash, check and instruments for the payment of money), other than the Retained Cash, are promptly deposited in accordance with paragraph 4 of Section 3 of this Financing Agreement. Upon the sale, exchange, or other disposition of Inventory, as herein provided, the security interest in the Inventory provided for herein shall, without break in continuity and without further formality or act, continue in, and attach to, the proceeds, including any instruments for the payment of money, accounts receivable, contract rights, documents of title, shipping documents, chattel paper and all other cash and non-cash proceeds of such sale, exchange or disposition. As to any such sale, exchange or other disposition, the Agent on behalf of the Lenders shall have a security interest in all of the rights of the Company as an unpaid seller, including stoppage in transit, replevin, rescission and reclamation.

4. The rights and security interests granted to the Agent for the benefit of the Lenders hereunder are to continue in full force and effect, notwithstanding the termination of this Financing Agreement or the fact that the loan account on the books of the Agent may from time to time be temporarily in a credit position, until the satisfaction in full of all Obligations and the termination of this Financing Agreement. Any delay or omission by the Agent to exercise any right hereunder, shall not be deemed a waiver thereof, or be deemed a waiver of any other right, unless such

waiver shall be in writing and signed by the Agent. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion. Upon satisfaction in full of all Obligations and the termination of this Financing Agreement, the Agent will take, at the Company's request and expense, all actions and do all things reasonably necessary to release the rights and security interests in the Collateral, and upon any partial release of Collateral, the Agent will take, at the Company's request and expense, all actions and do all things reasonably necessary to release the rights and security interests in the Collateral that is the subject of such partial release.

5. To the extent that the Obligations are now or hereafter secured by any assets or property other than the Collateral or by the guarantee, endorsement, assets or property of any other person, then the Agent shall have the right in its sole discretion to determine which rights, security, liens, security interests or remedies the Agent shall at any time pursue, foreclose upon, relinquish, subordinate, modify or take any other action with respect to, without in any way modifying or affecting any of them, or any of the Agent's or any Lenders' rights hereunder.

6. Any reserves or credit balances in the loan account and any other property or assets of the Company in the possesion of the Agent may be held by the Agent as security for any Obligations and applied in whole or partial satisfaction of such Obligations when due. The liens and security interests granted herein and any other lien or security interest the Agent may have in any other assets of the Company, shall secure payment and performance of all now existing and future Obligations.

SECTION 6. REPRESENTATIONS, WARRANTIES AND COVENANTS

1. The Company hereby warrants and represents that: i) the fair value of its assets exceed the book value of its liabilities; ii) the Company is generally able to pay its debts as they become due and payable; and iii) the Company does not have unreasonably small capital to carry on its business as it is currently conducted absent extraordinary and unforeseen circumstances. The Company further warrants and represents that except for the Permitted Encumbrances and liens of which the Agent is aware on the date hereof, each of the security interests granted herein constitute and shall at all times constitute the first and only liens on the Collateral. Further, that except for the Permitted Encumbrances, the Company is or will be at the time additional Collateral is acquired by it, the absolute owner of the Collateral with full right to pledge, sell, consign, transfer and create a security interest therein, free and clear of any and all claims, consignments, or liens in favor of others, that the Company will, at its expense, defend the same from any and all claims and demands (other than the Permitted Encumbrances) of any other person.

2. The Company agrees to maintain accurate books and records pertaining to the Collateral. Prior to the occurrence of an Event of Default, the Agent or its agents may, from time to time (but no more than once per fiscal quarter of the Company) upon reasonable notice, enter upon the Company's premises at any time during normal business hours, or at such other times as the Agent and the Company may agree upon, for the purpose of inspecting the Collateral and any and all records pertaining thereto, all at the Agent's expense. During the continuance of an Event of Default, the Agent or its agents may, at the Company's expense, enter the Company's premises, upon reasonable notice and during normal business hours, and as often as it deems reasonably necessary, to inspect the Collateral and the books and records of the Company. The Company agrees to afford the Agent prior written notice of any change in the location of any Collateral, other than to locations that are known to the Agent and at which the Agent has filed financing statements and otherwise fully perfected its liens thereon.

3. The Company agrees to comply with the requirements of all state and federal laws in order to grant to the Agent for the benefit of the Lenders valid and perfected first security interests in the Collateral, subject only to the Permitted Encumbrances. The Agent is hereby authorized by the Company, to the extent permitted by applicable law, to file any financing statements covering the Collateral whether or not the Company's signature appears thereon and the Agent agrees to provide the Company with copies of such financing statements. The Company agrees to do whatever the Agent may reasonably request, from time to time, by way of: filing notices of liens, financing statements, amendments, renewals and continuations thereof; cooperating with the Agent's employees and agent's keeping Inventory stock records; transferring proceeds of Collateral to the Agent's possession in accordance with the terms of this Financing Agreement; and performing such further acts as the Agent on behalf of the Lenders may reasonably require in order to effect the purposes of this Financing Agreement.

4. The Company agrees to i) maintain on Inventory, insurance under such policies of insurance, with such insurance companies, in such reasonable amounts and covering such insurable risks on as is reasonably acceptable to the Agent and ii) maintain or caused to be maintained on Real Estate and Equipment, insurance under such policies of insurance with such insurance companies selected by the Company, on terms no less favorable than the insurance coverage in place as of the date hereof (other than with respect to the deductible amounts and limits of such coverage). All policies covering the Inventory are, subject to the rights of any holders of Permitted Encumbrances holding claims senior to the Agent, to be made payable to the Agent on behalf of the Lenders under a standard non-contributory "mortgage", "lender" or "secured party" clause and are to contain such other provisions as the Agent may reasonably require to fully protect by insurance the Agent's interest in the Inventory and to any payments to be made under such policies with respect to the Inventory. All original policies or true copies thereof or certificates thereof are to be delivered to

the Agent, with all premiums current with the loss payable endorsement in the Agent's favor, and shall provide for not less than ten (10) days prior written notice to the Agent of the exercise of any right of cancellation. If the Company fails to maintain such insurance, the Agent may arrange for such insurance, but at the Company's expense and without any responsibility on the Agent's or any Lender's part for: obtaining the insurance, the solvency of the insurance companies, the adequacy of the coverage, or the collection of claims. Upon the occurrence of an Event of Default which is not waived, the Agent shall, subject to the rights of any holders of Permitted Encumbrances holding claims senior to the Agent, have the sole right, in the name of the Agent or the Company, to file claims under any insurance policies with respect to the Inventory, to receive, receipt and give acquittance for any payments that may be payable thereunder with respect to the Inventory, and to execute any and all endorsements, receipts, releases, assignments, reassignments or other documents that may be necessary to effect the collection, compromise or settlement of any claims With respect to the Inventory under any such insurance policies. In the event of any loss or damage by fire or other casualty, insurance proceeds relating to Collateral shall be deposited in the Depository Accounts in accordance with paragraph 4 of Section 3 of this Financing Agreement.

5. The Company agrees to pay, when due, all local, domestic and foreign (as applicable) taxes, assessments, and other charges (herein "taxes") lawfully levied or assessed upon the Company or the Collateral, provided, however, that such taxes need not be paid on or before the date fixed for payment thereof if: i) such taxes are being diligently contested by the Company in good faith and by appropriate proceedings; ii) the Company establishes such reserves as may be required by GAAP; iii) such taxes are not secured by a filed lien which is senior to the liens of the Agent on the Collateral and iv) such taxes secured by a filed lien are not due the United States of America. To prevent the imminent foreclosure of any tax liens (whether such liens are senior or junior to the liens of the Agent) or in the event the Agent on behalf of the Lenders is exercising its remedies as a secured creditor on Collateral, then the Agent may, on the Company's behalf, pay any taxes then due in secured by a lien on the Collateral and the amount thereof shall be an Obligation secured hereby.

6. Subject to the provisions of paragraph 5 above the Company: (a) agrees to comply with all acts, rules, regulations and orders of any legislative, administrative or judicial body or official, including, but not limited to, the Fair Labor Standards Act, as set forth in Section 201 through Section 219 of Title 29 of the United States Code, which the failure to comply with would have a materially adverse impact on the Collateral, or on the operation of the business of the Company, provided that the Company may contest any acts, rules, regulations, orders and directions of such bodies or officials in any reasonable manner which will not materially adversely effect the Agent's liens or priority in the Collateral; and (b) agrees to comply with all environmental statutes, acts, rules, regulations or orders as presently existing or as

adopted or amended in the future, applicable to the ownership and/or use of its Real Estate and operation of its business, which the failure to comply with would have a materially adverse impact on any material part of the Collateral, or on the operation of the business of the Company. The Company hereby indemnifies the Agent and each Lender and agrees to defend and hold the Agent and each Lender harmless from and against any and all loss, damage, claim, liability, injury or expense which the Agent and each Lender may sustain or incur in connection with: any claim or expense asserted against the Agent and each Lender as a result of any environmental pollution, hazardous material or environmental clean-up of the Company's Real Estate, or any claim or expense which results from the Company's operations (including, but not limited to, the Company's off-site disposal practices). The Company further agrees that this indemnification as to environmental liability shall survive for two (2) years from the date of termination of this Financing Agreement and the payment of all Obligations or amounts payable hereunder. The Company shall not be deemed to have breached any provision of this paragraph 6 if (i) the failure to comply with the requirements of this paragraph 6 resulted from good faith error or innocent omission, (ii) the Company promptly commences and diligently pursues a cure of such breach and such cure is eventually, within a reasonable time frame based upon the circumstances and the amount of work required, completed and (iii) such failure has not resulted in a materially adverse effect on any material portion of the Collateral or the business, financial condition or operations of the Company.

7. Until termination of this Financing Agreement and satisfaction in full of all Obligations due hereunder, the Company agrees that, unless the Agent shall have otherwise consented in writing, the Company will furnish, or cause to be furnished, to the Agent, not later than: (a) one hundred and twenty 120) days after the end of each fiscal year of the Company, an audited Consolidated Balance Sheet as at the close of such year and consolidated statements of operations, cash flows, shareholders' equity and reconciliation of surplus of the Parent, the Company and their Subsidiaries for such year, audited by independent public accountants selected by the Company and satisfactory to the Agent, (the Agent hereby agrees that KPM Peat Marwick is satisfactory to the Agent); (b) forty-five (45) days after the end of each month, other than a month that constitutes a fiscal year end, a Consolidated Balance Sheet as at the end of such period and consolidated statements of operations and cash flows of the Parent, the Company and their Subsidiaries for such period, certified by an authorized financial or accounting officer of the Company; and (c) a reasonable time after request, such further information regarding the business affairs and financial condition of the Company as the Agent may reasonably request, including, without limitation, annual cash flow projections in form reasonably satisfactory to the Agent. Each financial settlement required to be submitted under clauses a and b above must be accompanied by an Officer's Certificate, signed by the President, Senior Vice President, Vice President, Controller, or Treasurer, of the Company pursuant to which such officer must certify that: (i) the financial statement(s) fairly and accurately represent(s) the financial condition of Parent, the Company and their Subsidiaries, at

the end of the particular accounting period, as well as the operating results of Parent the Company and their Subsidiaries, during such accounting period, subject to year end audit adjustments; (ii) during the particular accounting period: (x) there has been no Default or Event of Default under this Financing Agreement, provided, however, that if any such officer has knowledge that any such Default or Event of Default has occurred during such period, the existence of and a detailed description of same shall be set forth in such Officer's Certificate; and (y) a senior officer of the Company has not received any notice of cancellation with respect to its property insurance policies or certifying as to replacement policies therefor; and (iii) the exhibits attached to such monthly and annual financial statement(s) constitute detailed calculations showing compliance with all financial covenants applicable for such period, if any, contained in this Financing Agreement. Notwithstanding anything in this Financing Agreement to the contrary, should the Parent purchase the assets of, or capital stock of, a Person, or create or incorporate another Person of which it owns a majority of such Person's capital stock, then the references to Consolidated Balance Sheet shall mean the Consolidated Balance Sheet of the Company and its Subsidiaries only and all references to Parent and its Subsidiaries shall, without further action, be immediately deleted from this paragraph 7.

8. The Company and its Subsidiaries shall have, as of the end of each fiscal quarter, on a consolidated basis, a Net Worth, as defined herein, of not less than $23,000,000.00:

9. Until termination of this Financing Agreement and satisfaction of all Obligations due hereunder, the Company agrees that, without the prior written consent of the Agent, except as otherwise herein provided, the Company will not:

A. Incur, create, assume or permit any lien, charge, security interest, encumbrance or judgment, (whether as a result of a purchase money or title retention transaction, or other security interest, or otherwise) to exist on i) the collateral, except for the Permitted Encumbrances and ii) any of its other assets whether real, personal or mixed, whether now owned or hereafter acquired, except for the Permitted Encumbrances;

B. Incur or create any Indebtedness other than the Permitted Indebtedness;

C. Except for Permitted Indebtedness, borrow any money on the security of the Collateral from sources other than the Agent acting on behalf of the Lenders;

D. Sell, lease, assign, transfer or otherwise dispose of i) Collateral, except as otherwise specifically permitted by this Financing Agreement, or ii) either all or substantially all of the other assets of the Company;

E. Merge, consolidate or otherwise alter or modify its corporate name, principal place of business, structure or existence, or enter into or engage in any operation or activity materially different from that presently being conducted by the Company or otherwise related to the retail sporting goods industry, provided, however, that on fifteen (15) days prior notice to the Agent, the Company may, without obtaining the consent of the Agent or any Lender i) merge its Subsidiaries or a Person into itself provided x) the Company is the survivor of the mergers; y) no liens on the assets of the Subsidiaries or the Person survive such merger other than liens that constitute Permitted Encumbrances; z) such Person was an entity with its principal place of business, state of formation and assets in the United States of America; aa) such Person was engaged in the retail sporting goods industry; and bb) the Company, immediately after giving effect to such merger, is in full compliance with all of the terms and provisions of this Financing Agreement, provided, however, that such Person's or Subsidiary's Inventory shall not be deemed Eligible Inventory until such time as the Agent has completed to its reasonable satisfaction an examination and review of such inventory and such Person's or Subsidiary's books and records; and ii) alter or modify its corporate name or principal place of business;

F. Assume, guarantee, endorse, or otherwise become liable upon the obligations of any person, firm, entity or corporation, other than i) by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, ii) pursuant to obligations in effect on the date hereof, iii) in connection with subleases pursuant to which the Company is the sub-lessor, iv) in connection with the MLTC documents, v) home relocation loans to or on behalf of employees or vi) in the ordinary course of the Company's business or for purposes deemed reasonable by the Company provided such obligations under this clause vi shall not exceed $5,000,000.00 in the aggregate any one time;

G. Declare or pay any dividend of any kind on, or purchase, acquire, redeem or retire, any of its capital stock or equity interest of any class whatsoever, whether now or hereafter outstanding, except that the Company may declare and pay dividends on its capital stock x) in cash in i) amounts sufficient to enable the Parent to purchase, acquire or redeem the capital stock owned by its employees or its retired, deceased or terminated officers, directors or shareholders which the Parent is contractually obligated or entitled to purchase, acquire or redeem, and ii) additional amounts not to exceed the sum of $3,000,000.00 and the net cash proceeds realized from sales by the Company in such fiscal year of its capital stock in any fiscal year, provided, however, that if the

Company does not declare and pay dividends in any fiscal year of up to the sum of $3,000,000.00 and the net cash proceeds realized from sales by the Company in such fiscal year of its capital stock, the difference may be added to the amount permitted in subsequent fiscal years and further, provided that such dividends may not be declared and paid, on or after May 1, 1996,if a Default or Event of Default is then in existence or will be in existence after giving effect to such dividends; y) in kind; or z) in cash in an amount sufficient to i) enable the Parent to pay income or franchise taxes of the Company due as a result of the filing of a consolidated, combined or unitary tax return in which the operations of the Company are included; or ii) reimburse the Parent for out-of-pocket expenses incurred by the Parent for the joint or several benefit of the Parent and the Company, and fees and expenses of its directors for attending the Board of Directors' meeting;

H. Make any advance or loan to, or any investment in, any Person, except for i) advances, loans or investments in existence on the date of execution of this Financing Agreement, including, without limitation, the portion of Subordinated Debt owned by the Company; ii) Permitted Investments; iii) loans and advances to employees in the ordinary course of business for travel, entertainment and home relocation; iv) loans and advances to employees to enable employees to purchase the capital stock of Parent provided such loans and advances do not exceed $2,000,000.00 in the aggregate at any one time, provided, however, that such $2,000.000.00 limitation shall not be applicable if the cash proceeds of such stock purchases are immediately reinvested by the Parent in the capital stock of the Company or are immediately used to repay indebtedness of Parent to the Company; v) advances or loans to, or investments in, joint ventures or Subsidiaries of the Company, provided, however, that if such loans or advances are not being used to acquire, directly or indirectly, assets for the benefit of the Company, such loans, advances or investments may not exceed $l,000,000.00 in the aggregate at any one time; and vi) other loans, advances and investments to, or with the Parent, provided same do not exceed in the aggregate outstanding at any one time $5,000,000.00.

10. The Company and its Subsidiaries shall have, as of the end of each fiscal quarter, on a quarter, on a consolidated basis, Working Capital, as defined herein, of not less than $55,000,000.00

11. If the Company's Availability on any one (1) Business Day of the sixty (60) days immediately preceding the date on which the Company must deliver to the Agent the Company's Consolidated Balance Sheet as of the relevant quarterend was less than $5,000,000.00, then the Company and its Subsidiaries, shall have, on a

consolidated basis, at all times for the relevant each fiscal period listed below, a Fixed Charge Coverage Ratio of at least:

	Fiscal Period Ending	Ratio
a)	On March 31, 1996 for the fiscal quarter then ended	.15 to 1
b)	On June 30. 1996 for the two fiscal quarters then ended	.75 to 1
c)	On September 30, 1996 for the three fiscal quarters then ended	.90 to 1
d)	On December 31, 1996 for the four fiscal quarters then ended	1.0 to 1
e)	Thereafter, at the end of each fiscal quarter for the four fiscal quarters then ended	1.1 to 1

12. The Company and its Subsidiaries shall have, as of the end of each fiscal quarter, on a consolidated basis, a Leverage Ratio, of not more than 8.0 to 1.

13. The Company agrees to advise the Agent, promptly, in writing of: a) all quantifiable expenditures (actual or anticipated) in excess of $750,000.00 pertaining to the Real Estate and operations in any fiscal year for i) environmental clean-up, ii) environmental compliance or iii) environmental testing and the impact of said expenses on Working Capital; and b) any notices the Company receives from any local, state or federal authority advising the Company of any environmental liability (real or potential) stemming from any of the Company's operations, premises, its waste disposal practices, or waste disposal sites used by the Company and to provide the Agent with copies of all such notices if so required.

14. Without the prior written consent of the Agent, the Company agrees that it will not: a) enter into any transaction, including, without limitation, any purchase, sale, transfer, lease, loan or exchange of property with Parent or any Subsidiary or Affiliate other than i) transactions in the ordinary course of the Company's business and on terms no less favorable than the terms otherwise attainable by the Company from a Person not an Affiliate; ii) as otherwise permitted in this Financing Agreement, including, without limitation, Permitted Indebtedness, to the extent applicable; iii) reimbursement of fees and expenses to directors for the expenses incurred by such directors for attending the Company's Board of Directors' meetings; iv) all customary compensation arrangements, including participation in employee benefit plans; v)

payment to Leonard Green & Partners of its x) management and transaction fees and y) out-of-pocket expenses incurred for the benefit of the Company; and vi) purchases by the Company of assets leased by the Company under the MLTC Documents.

15. The Company shall conduct or cause to be conducted, not less than once in any calendar year, an actual physical count of its Inventory at each store. Such physical inventory count shall, in part, be conducted or reviewed by an entity that is not an Affiliate of the Company and which entity shall be experienced in conducting or reviewing such a physical inventory. The Company shall within forty-five (45) days after the end of each month, provide to the Agent for each Lender a schedule prepared by the Company of the results of the Inventory counts completed at the Company's stores during that month. Concurrently therewith, the Company shall provide the Agent for each Lender with the results of the internally prepared cycle counts completed at the Company's distribution centers during that month. Such cycle counts shall be reviewed by the Company's independent public accountants in their normal annual review process. Upon the Agent's reasonable request, the Company will provide the Agent with further details of Inventory count and review results, so long as the Agent's request is for information readily available to the Company on existing internally or externally prepared Inventory reports.

16. The Company shall remit any and all sales taxes when due to the appropriate sales tax authorities when any such remittances are due, provided, however, that such remittances need not be made on or before such due date if: i) such sales taxes are being diligently contested by the Company in good faith and by appropriate proceedings; ii) the Company establishes such reserves as may be required by GAAP; and iii) the failure to remit such sales taxes does not create a lien in favor of such sales tax authorities or impose upon the Agent or any Lender any obligation to segregate proceeds.

SECTION 7. INTEREST, FEES AND EXPENSES

1. Interest on the Revolving Loans (other than Libor Loans) shall be payable monthly as of the and of each month and shall be an amount equal to the sum of three-quarters of one percent (.75%) and the Chemical Bank Rate, on a per annum basis, on the average of the net balances (other than Libor Loan) owing by the Company in the Company's account at the close of each day during such month. Interest on the Revolving Loans which are Libor Loans shall be payable monthly as of the end of each month and shall be an amount equal to the sum of two and one-half percent (2 1/2%) and the applicable Libor on each then outstanding Revolving Loan which is a Libor Loan, on a per annum basis, on the average of the net balance owing by the Company on such Libor Loan at the close of each day during such month. The Company may elect to use Libor as to any new or then outstanding Revolving Loans provided x) there is then no unwaived Default or Event of Default, and y) the Company has so advised the Agent of its election to use Libor and the Libor Period selected no

later than three (3) Business Days prior to the proposed borrowing or, in the case of a Libor election with respect to a then outstanding Revolving Loan, three (3) Business Days prior to the conversion of any then outstanding Revolving Loans to Libor Loans and z) the election and Libor shall be effective, provided, there is then no unwaived Default or Event of Default, on the fourth Business Day following said notice. The Libor elections must be for $100,000.00 or whole multiples thereof. If no such election is timely made or can be made, then the Agent shall use the Chemical Bank Rate to compute interest. In the event of any change in said Chemical Bank Rate, the rate hereunder shall change, as of the first of the month following any change, so as to remain three quarters of one percent (.75%) above the Chemical Bank Rate. The rates hereunder shall be calculated based on a 365-day year. The Agent shall be entitled to charge the Company's account at the rate provided for herein when due until all Obligations have been paid in full.

2. In consideration of the Letter of Credit Guaranty, the Company shall pay to the Agent the Letter of Credit Guaranty Fee which shall be an amount equal to one and one quarter percent (1 1/4%) per annum, payable a) monthly, on the face amount of each outstanding stand-by Letter of Credit less the amount of any and all amounts previously drawn under such Letters of Credit and b) on the date of issuance on the face amount of each outstanding documentary Letter of Credit.

3. Any charges, fees, commissions, costs and expenses charged to the Agent for the Company's account by any Issuing Bank in connection with or arising out of Letters of Credit issued pursuant to this Financing Agreement or out of transactions relating thereto will be charged to the loan account in full when charged to or paid by the Agent and when made by any such Issuing Bank shall be conclusive on the Agent.

4. The Company shall reimburse or pay the Agent, as the case may be, for: a) all Out-of-Pocket Expenses and b) any applicable Documentation Fees.

5. Upon the last Business Day of each month, commencing with March 29, 1996, the Company shall pay the Agent for the account of the Lenders the Line of Credit Fee.

6. To induce CITBC, both as Lender and as Agent, to enter into this Financing Agreement and to extend to the Company the Revolving Loans, the Company hereby agrees to pay to CITBC a Loan Syndication Fee, in the amount set forth in the Commitment Letter, less the Documentation Fee, payable upon execution of this Financing Agreement.

7. Upon the date of execution of this Financing Agreement and on each Anniversary Date thereafter so long as this Financing Agreement is in effect, the Company shall pay to the Agent for the Agent's account only the Collateral Management Fee which shall be non-refundable. Such fee shall be fully earned when

paid and shall not be refundable or rebateable by reason of prepayment, acceleration upon an Event of Default or any other circumstances and shall be retained notwithstanding any termination of this Agreement.

8. To induce the Lenders (including CITBC) to enter into this Financing Agreement and to extent to the Company the Revolving Loans, the Company hereby agrees to pay to the Agent for the account of the Lenders a Loan Facility Fee in the amount of $500,000.00 payable upon execution of this Financing Agreement. Such fee shall be fully earned when paid and shall not be refundable or rebateable by reason of prepayment, acceleration upon an Event of Default or any other circumstances and shall be retained notwithstanding any termination of this Agreement.

9. Immediately upon the advise to the Agent by the Company of the Company's election of a Libor Loan, the Company shall pay to the Agent for the Agent's account only the Libor Processing Fee which shall be non-refundable.

10. The Company shall pay to the Agent for the account of the Lenders such amount or amounts as shall compensate the Agent, the Lenders or their Participants (as defined below), if any, for any loss, costs or expenses incurred by the Agent, the Lenders or their Participants if any, (as reasonably determined by the Agent, the Lenders or their Participants if any) as a result of: (i) any payment or prepayment on a date other than the last day of a Libor Period for such Libor Loan, or (ii) any failure of the Company to borrow a Libor Loan on the date for such borrowing specified in the relevant notice; such compensation to include, without limitation, an amount equal to any loss or expense suffered by the Agent, the Lenders or their Participants if any, during the period from the date of receipt of such payment or prepayment or the date of such failure to borrow to the last day of such Libor Period if the rate of interest obtained by the Agent, the Lenders or their Participants if any, upon the reemployment of an amount of funds equal to the amount of such payment, prepayment or failure to borrow is less than the rate of interest applicable to such Libor Loan for such Libor Period. The determination by the Agent, the Lenders or their Participants, if any, of the amount of any such loss or expense, when set forth in a written notice to the Company, containing the calculations thereof in reasonable detail, shall constitute prima facie evidence thereof.

11. The Company may at any time, on ten (10) Business Days prior written notice to the Agent, reduce the Line of Credit provided that: i) any reduction shall be permanent and irrevocable; ii) a reduction must be for at least $5,000,000.00 or whole multiples thereof; and iii) the Company shall immediately repay the Agent the amount by which the Obligations exceed Availability.

12. The Company hereby confirms and authorizes the Agent, and the Agent hereby agrees, to charge the loan account with the amount of all Obligations due hereunder as such payment becomes due. In the unlikely event the Agent is unable

or unwilling to charge any such Obligation to the loan account, then the Agent shall so notify the Company in writing and the amount so requested shall be due and payable thirty (30) days after such demand.

SECTION 8. POWERS

Subject to the last paragraph in this Section 8, the Company hereby constitutes the Agent on behalf the Lenders or any person or agent the Agent may reasonably designate as its attorney-in-fact, at the Company's cost and expense, to exercise all of the following powers, which being coupled with an interest, shall be irrevocable until all Obligations to the Agent and the Lenders have been satisfied and this Financing Agreement terminated:

(a) To receive, take, endorse, sign, assign and deliver, all in the name of the Agent or the Company, any and all checks, notes, drafts, and other documents or instruments relating to the Collateral for i) deposit to a Blocked Account (consistent with the terms of paragraphs 4 of Section 3 of this Financing Agreement) or ii) after the acceleration by the Agent of the Obligations for application to satisfaction of the Obligations consistent with the terms of Paragraph 3 of Section 9 hereof;

(b) To request, not more frequently than two (2) times a fiscal year, from customers indebted on Trade Accounts Receivable, in the name of the Company or the Agent's designee, information concerning the amounts owing on the Trade Accounts Receivable provided, however, that such request made be made only if the then aggregate balance of the Trade Accounts Receivable is in excess of $2,500,000.00;

(c) To request from customers indebted on Trade Accounts Receivable at any time, in the name of the Agent, information concerning the amounts owing on the Trade Accounts Receivable;

(d) To transmit to customers indebted on Trade Accounts Receivable notice of the Agent's interest therein and to notify customers indebted on Trade Accounts Receivable to make payment directly to the Agent for the Company's account; and

(e) To take or bring, in the name of CITBC or the Company, all steps, actions, suits or proceedings reasonably deemed by CITBC necessary or desirable to enforce or effect collection of the Accounts.

Notwithstanding anything hereinabove contained to the contrary, the powers set forth in (a), (c), (d) and (e) above may only be exercised after the occurrence of an Event of Default and until such time as such Event of Default is waived.

SECTION 9. EVENTS OF DEFAULT AND REMEDIES

1. Notwithstanding anything hereinabove to the contrary, the Agent acting for the Lenders may terminate this Financing Agreement immediately upon the occurrence of any of the following (herein "Events of Default");

a) cessation of business of the Company or the calling of a general meeting of the creditors of the Company for purposes of compromising the debts and obligations of the Company;

b) the Company admits in writing its inability to generally pay its debts as they mature;

c) the commencement by the Company of any bankruptcy, insolvency, arrangement, reorganization, receivership or similar proceedings under any federal or state law;

d) the commencement against the Company of any bankruptcy, insolvency, arrangement, reorganization, receivership or similar proceedings under any federal or state law provided, however, that such Default shall not be deemed an Event of Default if the proceeding, petition, case or arrangement is dismissed within sixty (60) days of the filing of, or the commencement of, such petition, case, proceeding or arrangement;

e) material breach by the Company of any warranty, representation (representations and warranties referred to in this subparagraph 8 shall be deemed made as of each i) Reporting Date, whether or not any report is in fact given to the Agent or ii) request for a Revolving Loan or iii) request for the Agent's assistance in obtaining a Letter of Credit or iv) the posting of any Obligation to the loan account) or any covenant contained herein (other than those otherwise referred to in this Section 9) or in any other agreement between the Company and the Agent relating to this Financing Agreement, provided THAT such Default by the Company of any of the warranties, representations or covenants referred to in this clause (e) shall not be deemed to be an Event of Default and until such Default shall remain unwaived or unremedied to the Agent's reasonable satisfaction for a period of fifteen (15) days from the date of the Agent's discovery of such breach (the Agent shall endeavor to notify the Company of such breach but the failure to so notify shall not detract from the Agent's rights or give the Company any claim, course of action or defense;

f) breach by the Company of any warranty, representation or covenant of; i) the first sentence of Paragraph 3 of Section 3; or; ii) Paragraph 4 of Section 3 or iii) Paragraph 3 of Section 5; or iv) Paragraphs 4 (only as it relates to insurance

on the Inventory) and 5 of Section 6; or v) Paragraphs 9 (other than sub-paragraphs A (ii), B and F thereof) and 16 of Section 6;

g) breach by the Company of sub-paragraphs A (ii), B or F of Paragraph 9 of Section 6, provided that such Default by the Company shall not be deemed to be an Event of Default unless and until such Default shall remain unwaived or unremedied for a period of fifteen (15) days from the date of such Default;

h) except as otherwise provided in Section 7, Paragraph 12 of this Financing Agreement, failure of the Company to pay any of the Obligations within ten (10) days of the due date thereof;

i) the Company shall i) engage in any "prohibited transaction" as defined in ERISA, ii) have any "accumulated funding deficiency" as defined in ERISA, iii) have any Reportable Event as defined in ERISA, iv) terminate any Plan, as defined in ERISA or v) be engaged in any proceeding in which the Pension Benefit Guaranty Corporation shall seek appointment, or is appointed, as trustee or administrator of any Plan, as defined in ERISA, and with respect to this sub-paragraph i) such event or condition x) remains uncured for a period of ninety (90) days from date of occurrence and y) could reasonably be expected to subject that Company to any tax, penalty or other liability materially adverse to the business, operations or financial condition of the Company and its Subsidiaries taken us a whole;

j) the holder, trustee or beneficiary of any instrument referred to in this subparagraph shall have a then current right to accelerate (whether or not such right is actually exercised) pursuant to any instrument evidencing outstanding recourse Indebtedness of the Company in excess of $3,000,000.00; or

k) without the prior written consent of the Agent, the Company shall i) amend or modify the Subordinated Debt or ii) make any payment on account of the Subordinated Debt not otherwise required pursuant to the terms of the Subordinated Debt, or iii) prepay, in whole or in part, the Subordinated Debt.

2. Upon the occurrence of a Default and/or an Event of Default, at the option of the Agent, all loans and advances provided for in Section 3, Paragraph 1 of this Financing Agreement shall be made thereafter in the Agent's sole discretion and the obligation of the Agent acting for the Lenders to make Revolving loans and/or assist the Company in obtaining Letters of Credit shall cease until such time as the Default is timely cured to the Agent's reasonable satisfaction or the Event of Default is waived. Further, at the option of the Agent, or at the direction of the Required Lenders, upon the occurrence of an Event of Default (unless waived): i) all Obligations shall upon notice (provided, however, that no such notice is required if the Event of Default is the Event of Default listed in paragraph l(c) or l(d) of this Section 9)

become immediately due and payable; ii) the Agent may thereafter charge the Company the Default Rate of Interest on all then outstanding or thereafter incurred Obligations in lieu of the interest provided for in paragraph 1 of Section 7 of this Financing Agreement provided a) the Agent has given the Company written notice of the Event of Default, provided, however, that no notice is required if the Event of Default is the Event of Default listed in paragraph l(c) or 1(d) of this Section 9 and b) the Company has failed to cure the Event of Default within fifteen (15) days after x) the Agent deposited such notice in the United States mail or y) the occurrence of the Event of Default listed in paragraph 1(c) or 1(d) of this Section 9; and ii) the Agent may, and shall at the direction of the Required Lenders, immediately terminate this Financing Agreement upon notice to the Company, provided, however, that no notice of termination is required if the Event of Default is the Event of Default listed in paragraph l(c) or l(d) of this Section 9. Notwithstanding anything herein contained to the contrary, if the Agent waives all Events of Default, then by written notice to the Company, the acceleration of the Obligations will be rescinded and all remedies and actions then being exercised by the Agent shall cease. The exercise of any option is not exclusive of any other option which may be exercised at any time by the Agent.

3. Upon the Occurrence of any Event of Default, the Agent may, to the extent permitted by law: (a) remove from any premises where same may be located copies of any and all documents, instruments, files and records, relating to the Accounts, or the Agent may use such of the Company's personnel, supplies or space at the Company's places of business or otherwise, as may be necessary to properly administer and control the Accounts or the handling of collections and realizations thereon; b) bring suit, in the name of the Company or the Agent, and generally shall have all other rights respecting said Accounts, including without limitation the right to: accelerate or extend the time of payment, settle, compromise, release in whole or in part, any amounts owing on any Accounts and issue credits in the name of the Company or The Agent; (c) sell, assign and deliver the Collateral and any returned, reclaimed or repossessed merchandise, with or without advertisement, at public or private sale, for cash, on credit or otherwise, at the Agent's sole option and discretion, and, to the extent permitted by applicable law, the Agent may bid or become a purchaser at any such sale, free from any right of redemption, which right is hereby expressly waived by the Company; (d) foreclose the security interests created herein by any available judicial procedure, or to take possession of any or all of the Inventory without judicial process, and to enter any premises where any Inventory may be located for the purpose of taking possession of or removing the same; and (a) exercise any other rights and remedies provided in law, in equity, by contract or otherwise. The Agent shall have the right, without notice or advertisement, to sell, lease, or otherwise dispose of all or any part of the Collateral whether in its then condition or after further preparation or processing, in the name of the Company or the Agent, or in the name of such other party as the Agent may designate, either at public or private sale or at any broker's board, in lots or in bulk, for cash or for credit with or without warranties or representations, and upon such

other terms and conditions as the Agent in its sole discretion may deem advisable, and, to the extent permitted by applicable law, the Agent shall have the right to purchase at any such sale. If any Inventory shall require repairing, maintenance or preparation, the Agent shall have the right, at its option, to do such of the aforesaid as is necessary, for the purpose of putting the Inventory in such saleable form as the Agent shall reasonably deem appropriate. The Company agrees, at the request of the Agent, to assemble the Inventory and to make it available to the Agent at premises of the Company or such other location reasonably designated by the Agent for the purpose of the Agent's taking possession of, removing or putting the Inventory in saleable form. However, if notice of intended disposition of any Collateral is required by law, it is agreed that ten (10) days notice shall constitute reasonable notification and full compliance with the law. The net cash proceeds resulting from the Agent's exercise of any of the foregoing rights, (after deducting all reasonable charges, costs and expenses, including reasonable attorneys' fees) shall be applied by the Agent to the payment of the Obligations, whether due or to become due, and the Company shall remain liable to the Agent for any deficiencies, and the Agent in turn agrees to remit to the Company or its successor or assign, any surplus resulting therefrom. The enumeration of the foregoing rights is not intended to be exhaustive and the exercise of any right shall not preclude the exercise of any other rights, all of which shall be cumulative.

SECTION 10. TERMINATION

Except as otherwise permitted herein, the Agent may, and shall at the discretion of the Required Lenders, terminate this Financing Agreement and the Line of Credit only as of the third or any subsequent Anniversary Date and then only by giving the Company at least ninety (90) days prior written notice of termination. Notwithstanding the foregoing, the Agent may terminate the Financing Agreement immediately upon the occurrence of an Event of Default upon notice to the Company, provided, however, that if the Event of Default is an event listed in paragraph 1(c) or 1(d) of Section 9 of this Financing Agreement, the Agent may, and shall at the direction of the Required Lenders, regard the Financing Agreement as terminated and notice to that effect is not required. This Financing Agreement, unless terminated as herein provided, shall automatically continue from Anniversary Date to Anniversary Date. The Company may, at any time, terminate this Financing Agreement and the Line of Credit upon at least thirty (30) days' prior written notice to the Agent, provided, that the Company pay to the Agent for the account of the Lenders, concurrent with payment of the Obligations, the Early Termination Fee, provided, however, that the Agent for the account of the Lenders shall not be entitled to the Early Termination Fee if the termination is on or after the third Anniversary Date. All Obligations shall become due and payable as of any termination hereunder or under Section 9 hereof. All of the Agent's rights, liens and security interests shall continue after any termination until all Obligations have been satisfied in full. Pending payment in full of all Obligations, the Agent can withhold any credit balances in the loan account (unless

supplied with an indemnity satisfactory to the Agent) to cover all of the Obligations, whether absolute or contingent, provided, however, that if the remaining unpaid Obligations arise solely out of the outstanding amounts of Letters of Credit, the Agent will, at the Company's request, retain, solely as collateral, credit balances in an amount equal to one hundred and five percent (105%) of the then outstanding amounts of Letters of Credit unless the Company provides the Agent with back-to-back letters of credit from a financial institution reasonably acceptable to the Agent, on terms reasonably acceptable to the Agent, in an amount equal to one hundred and five percent (105%) of the then outstanding amounts of Letters of Credit. When the outstanding amount of Letters of Credit have been so secured by cash or by the back-to-back letter of credit, in either event in an amount equal to one hundred and five percent (105%) of the than outstanding amounts of Letters of Credit pursuant to a fully executed agreement between the Agent and the Company and pursuant to which the Company agrees to reimburse the Agent for any Letter of Credit claims that exceed the cash collateral or the back to back letter of credit, then for all purposes of this Financing Agreement, this Financing Agreement shall be treated by the parties thereto as terminated and all other Collateral will be released.

SECTION 11. AGREEMENT BETWEEN THE LENDERS

1. a) The Agent, for the account of the Lenders, shall disburse all loans and advances to the Company and shall handle all collection of Collateral and repayment of Obligations. It is understood that for purposes of advances to the Company and for purposes of this Section 11 the Agent is using the funds of the Agent.

b) Unless the Agent shall have been notified in writing by any Lender prior to any advance to the Company that such Lender will not make the amount which would constitute its share of the borrowing on such date available to the Agent, the Agent may assume that such Lender shall make such amount available to the Agent on a Settlement Date, and the Agent may, in reliance upon such assumption, make available to the Company a corresponding amount. A certificate of the Agent submitted to any Lender with respect to any amount owing under this subsection shall be conclusive, absent manifest error. If such Lender's share of such borrowing is not in fact made available to the Agent by such Lender on the Settlement Date, the Agent shall be entitled to recover such amount with interest thereon at the rate per annum applicable to Revolving Loans hereunder, on demand, from the Company without prejudice to any rights which the Agent may have against such Lender hereunder. Nothing contained in this subsection shall relieve any Lender which has failed to make available its ratable portion of any borrowing hereunder from its obligation to do so in accordance with the terms hereof. Nothing contained herein shall be deemed to obligate Agent to make available to the Company the full amount of a requested advance when the Agent has any notice (written or otherwise) that any of the Lenders will not advance its ratable portion thereof.

2. On the Settlement Date, the Agent and the Lenders shall each remit to the other, in immediately available funds, all amounts necessary so as to ensure that, as of the Settlement Date, the Lenders shall have their proportionate share of all outstanding Obligations.

3. The Agent shall forward to each Lender, at the end of each month, a copy of the account statement rendered by the Agent to the Company.

4. The Agent shall, after receipt of any interest and fees earned under this Financing Agreement, promptly remit to the Lenders: a) their pro rata portion of all fees, provided, however, that the Lenders (other than CITBC in its role as Agent) shall x) not share in the Collateral Management Fee, Documentation Fees, Loan Syndication Fee, Letter of Credit Guaranty Fee or Libor Processing Fee; and y) receive their share of the Loan Facility Fee in accordance with their respective agreements with the Agent; b) interest computed at the rate provided for in the Assignment and Transfer Agreement on all outstanding amounts advanced by the Lenders on each Segment Date, prior to adjustment, that are subsequent to the last remittance by the Agent to the Lenders of the Company's interest; and c) their share of the Letter of Credit Guaranty Fee as provided for in the Assignment and Transfer Agreement.

5. (a) The Company acknowledges that the Lenders, with the consent of the Agent, may sell participations in the loans and extensions of credit made and to be made to the Company hereunder (the "Participants"), provided, however, that a Participant may not so purchase a participation in an amount less than $5,000,000 or the then aggregate amount of such Lender's interest in the loans and advances and extensions of credit hereunder. The Company further acknowledges that in doing so, the Lenders may grant to such Participant's certain rights which would require the Participant's consent to certain waivers, amendments and other actions with respect to the provisions of this Financing Agreement, provided that the consent of any such Participant shall not be required except for matters requiring the consent of all Lenders hereunder as set forth in Section 12, Paragraph 10 hereof.

(b) The Company authorizes each Lender to disclose to any Participant or purchasing lender (each, a "Transferee") and any prospective Transferee any and all financial information in such Lender's possession concerning the Company and their affiliates which has been delivered to such Lender by or on behalf of the Company pursuant to this Agreement or which has been delivered to such Lender by or on behalf of the Company in connection with such Lender's credit evaluation of the Company and its affiliates prior to entering into this Agreement, provided, however, that prior to such disclosure, to a then or potential Participant the Lender must first obtain from the then or potential Participant a confidentiality agreement in form and substance similar to the confidentiality paragraph of this Financing Agreement.

6. The Company has made and will, from time to time, make available to the Agent and/or the Lenders certain financial and other business information (the "Confidential Information") relating to its business. By their signatures hereto or to the Assignment and Transfer Agreement, the Agent and each Lender agree to maintain the confidentiality of all Confidential Information, and to disclose such information only (a) to officers, directors or employees of such Agent or Lender and their legal or financial advisors, in each case to the extent necessary to carry out this Financing Agreement and in the case of CITBC, to The CIT Group Holdings, Inc., The CIT Group, Inc., Chemical Bank Corporation or Dai-Ichi Kanygo Bank, but only, in the case of all of the foregoing Persons referred to in this clause (a), after the Agent or the Lender, as the case may be, has advised each such Person to maintain the confidentiality of the Confidential Information, (b) to any other Person to the extent the disclosure of such information to such Person is required in connection with the examination of a Lender's records by appropriate authorities, pursuant to court order, subpoena or other legal process or otherwise as required by law or regulation, and (c) to Transferees or potential Transferees but only after such Transferees or potential Transferees have executed a written confidentiality agreement substantially in the form of this paragraph. The Lenders, the Agent, Transferees and potential Transferees shall not be required to maintain the confidentiality of any portion of the Confidential Information which (a) is known by such Person or its agents, advisors or representatives prior to disclosure or (b) becomes generally available to the public provided that the disclosure of such Confidential Information does not violate a confidentiality agreement of which the Transferees, potential Transferees, the Agent or the Lender, as the case may be, has actual knowledge.

7. The Company hereby agrees that each Lender is solely responsible for its portion of the Line of Credit and that neither the Agent nor any Lender shall be responsible for, nor assume any obligations for, the failure of any Lender to make available its portion of the Line of Credit. Further, should any Lender refuse to make available its portion of the Line of Credit, then another Lender may, but without obligation to do so, increase, unilaterally, its portion of the Line of Credit in which event the Company is so obligated to that other Lender.

8. In the event that the Agent, the Lenders or any one of them is sued or threatened with suit by the Company, or by any receiver, trustee, creditor or any committee of creditors on account of any preference, voidable transfer or lender liability issue, alleged to have occurred or been received as a result of, or during the transactions contemplated under, this Financing Agreement, then in such event any money paid in satisfaction or compromise of such suit, action, claim or demand and any expenses, costs and attorneys' fees paid or incurred in connection therewith, whether by the Agent, the Lenders or any one of them, shall be shared proportionately by the Lenders. In addition, any costs, expenses, fees or disbursements incurred by outside agencies or attorneys retained by the Agent to effect collection or enforcement of any rights in the Collateral, including enforcing, preserving or maintaining rights

under this Financing Agreement shall be shared proportionately between and among the Lenders to the extent not reimbursed by the Company or from the proceeds of Collateral. The provisions of this paragraph shall not apply to any suits, actions. proceedings or claims that are unrelated, directly or indirectly, to this Financing Agreement.

9. Each of the Lenders agrees with each other Lender that any money or assets of the Company held or received by such Lender, no matter how or when received, shall be applied to the reduction of the Obligations (to the extent permitted hereunder) after x) the occurrence of an Event of Default and y) the election by the Required Lenders to accelerate the Obligations. In addition, the Company authorizes, and the Lenders shall have the right, without notice, upon any amount becoming due and payable hereunder, to set-off and apply against any and all property held by, or in the possession of such Lender the Obligations due such Lenders.

10. CITBC shall have the right at any time to assign to one or more commercial banks, commercial finance lenders or other financial institutions all or a portion of its rights and obligations under this Financing Agreement (including, without limitation. its obligations under the Line of Credit, the Revolving Loans and its rights and obligations with respect to Letters of Credit). The initial assignments by CITBC shall be for amounts not less than $10,000,000 each. In any event, CITBC shall retain for its own account (without taking into account Participants) the greater of a) $25,000,000.00 or twenty-five percent (25%) of the Line of Credit, whichever is less or b) an amount equal to the interest held by another Lender pursuant to the initial assignment by CITBC ("CITBC Hold Position"), provided, however, that such CITBC Hold Position shall cease while there is then an Event of Default and only until such Event of Default is waived. Should CITBC during an Event of Default assign additional interests, then the CITBC Hold Position shall be the remaining amount of CITBC's position if and when such Event of Default is waived. Upon execution of an Assignment and Transfer Agreement (i) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such assignment, have the rights and obligations of CITBC as the case may be hereunder and (ii) CITBC shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such assignment, relinquish its rights and be released from its obligations under this Financing Agreement. The Company shall, if necessary, execute any documents reasonably required to effectuate the assignments. No other Lender may assign its interest, in whole or in part, in the loans and advances and extensions of credit hereunder without i) the prior written consent of the Agent; ii) the payment to the Agent (solely for the Agent's account) by the current or prospective Lender of a $5,000.00 fee for processing the assignment: and (iii) if the Transferee is a Foreign Lender (as defined in Section 13, Paragraph 5 hereof), such Foreign Lender first complies with the provisions of Section 13, Paragraph 5 hereof. Additionally, no other Lender shall assign such Lender's interest in the loans and advances and extensions of credit hereunder (or any portion thereof)

unless the interest to be so assigned is either not less than $5,000,000 or all of such Lender's entire interest in the loans and advances and extensions of credit hereunder. Notwithstanding anything to the contrary herein contained, prior to any such assignment and/or the disclosure of the Confidential Information, such Transferee, actual or potential, shall execute a confidentiality agreement in form and substance substantially similar to the confidentiality paragraph of this Financing Agreement.

SECTION 12. Agency

1. Each Lender hereby irrevocably designates and appoints CITBC as the Agent for the Lenders under this Financing Agreement and any ancillary loan documents and irrevocably authorizes CITBC as Agent for such Lender, to take such action on its behalf under the provisions of the Financing Agreement and all ancillary documents and to exercise such powers and perform such duties as are expressly delegated to the Agent by the terms of this Financing Agreement and all ancillary documents together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Financing Agreement, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into Financing Agreement and the ancillary documents or otherwise exist against the Agent.

2. The Agent may execute any of its duties under this Financing Agreement and all ancillary documents by or through agents or attorneys-in-fact and shall be entitled to the advice of counsel concerning all matters pertaining to such duties.

3. Neither the Agent nor any of its officers, directors, employees, agents, or attorneys-in-fact shall be (i) liable to any Lender for any action lawfully taken or omitted to be taken by it or such person under or in connection with the Financing Agreement and all ancillary documents (except for its or such person's own gross negligence or willful misconduct, or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Company or any officer thereof contained in the Financing Agreement and all ancillary documents or in any certificate, report, statement or other document referred to or provided for in, or received by, the Agent under or in connection with the Financing Agreement and all ancillary documents or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of the Financing Agreement and all ancillary documents or for any failure of the Company to perform its obligations thereunder. The Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, the Financing Agreement and all ancillary documents or to inspect the properties, books or records of the Company.

4. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper person or persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Company), independent accountants and other experts selected by the Agent. The Agent shall be fully justified in failing or refusing to take any action under the Financing Agreement and all ancillary documents unless it shall first receive such advice or concurrence from all of the Lenders, or the Required Lenders, as the case may be, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under the Financing Agreement and all ancillary documents in accordance with a request from all of the Lenders, or the Required Lenders, as the case may be, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders.

5. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Agent has received notice from a Lender or the Company describing such Default or Event of Default. In the event that the Agent receives such a notice, the Agent shall promptly give notice thereof to the Lenders. The Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; provided that unless and until the Agent shall have received such direction, the Agent may in the interim (but should not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable and in the best interests of the Lenders.

8. Each Lender expressly acknowledges that neither the Agent nor any of its officers, directors, employees, agents or attorneys-in-fact has made any representations or warranties to it and that no act by the Agent hereinafter taken, including any review of the affairs of the Company, shall be deemed to constitute any representation or warranty by the Agent to any Lender. Each Lender represents to the Agent that it has, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own appraisal of, and investigation into, the business, operations, property, financial and other condition and creditworthiness of the Company and made its own decision to enter into this Financing Agreement. Each Lender also represents that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under the Financing Agreement and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and

other condition or creditworthiness of the Company. The Agent, however, shall provide the Lenders with copies of all financial statements, projections and business plans which come into the possession of the Agent or any of its officers, employees, agents or attorneys-in-fact.

7. The Lenders agree to indemnify the Agent in its capacity as such (to the extent not reimbursed by the Company and without limiting the obligation of the Company to do so), from and against any and all liabilities, obligations. losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever (including negligence on the part of the agent) which may at any time be imposed on, incurred by or asserted against the Agent in anyway relating to or arising out of this Financing Agreement on any ancillary documents or any documents contemplated by or referred to herein or the transactions contemplated hereby or any action taken or omitted by the Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the Agent's gross negligence or willful misconduct. The agreements in this paragraph shall survive the payment of the obligations.

8. The Agent may make loans to, and generally engage in any kind of business with the Company as though the Agent were not the Agent hereunder. With respect to its loans made or renewed by it or loan obligations hereunder as Lender, the Agent shall have the same rights and powers, duties and liabilities under the Financing Agreement as any Lender and may exercise the same as though they were not the Agent and the terms "Lender" and "Lenders" shall include the Agent in its individual capacities.

9. The Agent may resign as Agent upon thirty (30) days' notice to the Lenders and such resignation shall be effective upon the appointment of a successor Agent. If the Agent shall resign as Agent, then the Lenders shall appoint a successor agent for the Lenders whereupon such successor agent shall succeed to the rights, powers and duties of the Agent and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's fights, powers and duties as Agent shall be terminated without any other or further act or deed on the part of such former Agent or any of the parties to this Financing Agreement, provided, however, that the Lenders shall: a) notify the Company of the successor Agent and b) request the consent of the Company to such Successor Agent, which consent shall not be unreasonably withheld. The Company shall be deemed to have consented to the successor Agent if the Lenders do not receive from the Company, within ten (10) days of the Lenders' notice to the Company, a written statement of the Company's objection to the successor Agent. Should the Company not consent and no acceptable successor Agent is agreed upon within thirty (30) days of the date the Company advised the Lenders of its objection to the successor Agent, then the

Lenders may appoint (without the Company's consent) another successor Agent. After any retiring Agent's resignation hereunder as Agent the provisions of this Section 14 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent.

10. Notwithstanding anything contained in this Financing Agreement to the contrary, the Agent will not, without the prior written consent of all Lenders: a) amend the Financing Agreement to v) increase the Line of Credit; w) reduce the interest rates; x) reduce or waive i) any fees in which the Lenders share hereunder; or ii) the repayment of any Obligations due the Lenders; y) extend the maturity of the Obligations; or z) alter or amend 1) this Paragraph 10 or 2) the definitions of Eligible Inventory, Collateral or Required Lenders, or the Agent's criteria for determining compliance with such definitions of eligibility; b) release Collateral in bulk without a corresponding reduction in the Obligations to the Lenders, or c) intentionally make any Revolving Loan or assist in opening any Letter of Credit hereunder if after giving effect thereto the total of Revolving Loans and Letters of Credit hereunder for the Company would exceed one hundred and ten percent (110%) of the maximum amount available under Sections 3 and 4 hereof. In all other respects the Agent is authorized to take such actions or fail to take such actions if the Agent, in its reasonable discretion, deem such to be advisable and in the best interest of the Lenders, including, but not limited to, the making of an overadvance or the termination of the Financing Agreement upon the occurrence of an Event of Default unless it is specifically instructed to the contrary by the Required Lenders.

11. Each Lender agrees that notwithstanding the provisions of Section 10 of this Financing Agreement any Lender may terminate this Financing Agreement or the Line of Credit only as of the third or any subsequent Anniversary Date and then only by giving the Agent one hundred and twenty (120) days prior written notice thereof. Within thirty (30) days after receipt of any such termination notice, the Agent shall, at its option, either (i) give notice of termination to the Company hereunder or (ii) purchase the Lender's share of the Obligations hereunder for the full amount thereof plus accrued interest thereon. Unless so terminated this Financing Agreement and the Line of Credit shall be automatically extended from Anniversary Date to Anniversary Date.

SECTION 13. MISCELLANEOUS

1. Except as otherwise expressly provided, the Company hereby waives diligence, demand, presentment and protest and any notices thereof as well as notice of nonpayment, notice of dishonor, notice of intent to accelerate and notice of acceleration. No delay or omission of the Agent or the Company to exercise any right or remedy hereunder, whether before or after the happening of any Event of Default, shall impair any such right or shall operate as a waiver thereof or as a waiver of any

such Event of Default. No single or partial exercise by the Agent of any right or remedy precludes any other or further exercise thereof, or precludes any other right or remedy.

2. Neither this Financing Agreement nor any provision hereof may be waived, amended or modified except as pursuant to an agreement or agreements in writing entered into by the Company, the Agent, the Lenders or the Required Lenders, as the case may be.

3. THIS WRITTEN AGREEMENT AND THE OTHER DOCUMENTS REFERENCED HEREIN OR CONTEMPLATED HEREBY REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

4. It is the intent of the Company, the Agent and the Lenders to conform strictly to all applicable state and federal usury laws All agreements between the Company and the Agent, acting on behalf of the Lenders, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of the maturity hereof or otherwise, shall the amount contracted for, charged or received by the Agent, acting on behalf of the Lenders, for the use, forbearance, or detention of the money loaned hereunder or otherwise, or for the payment or performance of any covenant or obligation contained herein or in any other document evidencing, securing or pertaining to the Obligations evidenced hereby which may be legally deemed to be for the use, forbearance or detention of money, exceed the maximum amount which the Agent, acting on behalf of the Lenders, is legally entitled to contract for, charge or collect under applicable state or federal law. If from any circumstance whatsoever fulfillment of any provisions hereof or of such other documents, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by law, then the obligations to be fulfilled shall be automatically reduced to the limit of such validity, and if from any such circumstance the Agent, acting on behalf of the Lenders, shall ever receive as interest or otherwise an amount in excess of the maximum that can be legally collected, then such amount which would be excessive interest shall be applied to the reduction of the principal indebtedness hereof and any other amounts due with respect to the Obligations evidenced hereby, but not to the payment of interest and if such amount which would be excessive interest exceeds the Obligations and all other non-interest indebtedness described above, then such additional amount shall be refunded to the Company. In determining whether or not all sums paid or agreed to be paid by the Company for the use, forbearance or detention of the Obligations of the Company to the Agent, acting on behalf of the Lenders, under any specific contingency, exceeds the maximum amount permitted by applicable law, the Company and the Agent, acting on behalf of the Lenders, shall, to the maximum extent permitted under applicable law, (a)

characterize any non-principal payment as an expense, fee or premium rather than as sums paid or agreed to be paid by the Company for the use, forbearance or detention of the Obligators of the Company to the Agent, acting on behalf of the Lenders, (b) exclude voluntary prepayments and the effect thereof, and (c) to the extent not prohibited by applicable law, amortize, prorate, allocate and spread in equal parts, the total amount of all sums paid or agreed to be paid by the Company for the use, forbearance or detention of the Obligations of the Company to the Agent, acting on behalf of the Lenders, throughout the entire contemplated term of the Obligations so that the interest rate is uniform throughout the entire term of the Obligations. The terms and provisions of this paragraph shall control and supersede every other provision hereof and all other agreements between the Company and the Agent, acting on behalf of the Lenders.

5. Any Lender organized under the laws of a jurisdiction outside of the United States (a "Foreign Lender") shall deliver to Agent and the Company (i) two valid, duly completed copies of IRS Form 1001 or 4224 or successor applicable form, as the case may be, and any other required form, certifying in each case that such Foreign Lender is entitled to receive payments under this Financing Agreement without deduction or withholding of any United States federal income taxes, or (ii) if such Foreign Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code and cannot deliver either IRS Form 1001 or 4224 pursuant to clause (i) above, (A) a duly completed certificate of non-withholding acceptable to the Company and the Agent in their reasonable discretion (any such certificate, a "Tax Certificate") and (B) two valid, duly completed copies of IRS Form W-8 or successor applicable form, as the case may be, to establish an exemption from United States backup withholding tax. Each such Foreign Lender shall also deliver to Agent and the Company two further copies of said Form 1001 or 4224 or Form W-8 and a Tax Certificate, or successor applicable forms, or other manner of required certification, as the case may be, on or before the date that any such form expires or becomes obsolete or otherwise is required to be resubmitted as a condition to obtaining an exemption from a required withholding of United States of America federal income tax or after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Company and Agent, and such extensions or renewals thereof as may reasonable be requested by the Company and Agent, certifying (x) in the case of a Form 1001 or 4224 that such Foreign Lender is entitled to receive payments under this Financing Agreement without deduction or withholding of any United States federal income taxes, or (y) in the case of a Form W-8 and a Tax Certificate, establishing an exemption from United States backup withholding tax.

6. If any provision hereof or of any other agreement made in connection herewith is held to be illegal or unenforceable, such provision shall be fully severable, and the remaining provisions of the applicable agreement shall remain in full force and effect and shall not be affected by such provision's severance. Furthermore, in lieu of any such provision, there shall be added automatically as a part of the applicable

agreement a legal and enforceable provision as similar in terms to the severed provision as may be possible.

7. TO THE EXTENT PERMITTED BY LAW, THE COMPANY, THE LENDERS AND THE AGENT HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING ARISING OUT OF THIS FINANCING AGREEMENT. THE COMPANY HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO SERVICE OF PROCESS BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED. ANY JUDICIAL PROCEEDING BROUGHT BY OR AGAINST THE COMPANY WITH RESPECT TO ANY OF THE OBLIGATIONS, THIS FINANCING AGREEMENT OR ANY RELATED AGREEMENT MAY BE BROUGHT IN ANY COURT OF COMPETENT JURISDICTION IN THE STATE OF CALIFORNIA, UNITED STATES OF AMERICA, AND, BY EXECUTION AND DELIVERY OF THIS FINANCING AGREEMENT, THE COMPANY ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE NON-EXCLUSIVE JURISDICTION OF THE AFORESAID COURTS, AND IRREVOCABLY AGREES TO BE BOUND BY ANY FINAL, NON-APPEALABLE JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS FINANCING AGREEMENT. NOTHING HEREIN SHALL AFFECT THE RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF THE AGENT TO BRING PROCEEDINGS AGAINST THE COMPANY IN THE COURTS OF ANY OTHER JURISDICTION. THE COMPANY WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED HEREUNDER AND SHALL NOT ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OF VENUE OR BASED UPON FORUM NON CONVENIENS.

8. Except as otherwise herein provided, any notice or other communication required hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered when hand delivered, including overnight delivery by a courier service or sent by facsimile, or five days after deposit in the United States mails, with proper first class postage prepaid and addressed to the party to be notified as follows:

(A) if to CITBC or the Agent, at:

The CIT Group/Business Credit, Inc.
300 South Grand Avenue
Los Angeles, CA 90071
Attn: Regional Manager
Facsimile Number: (213) 613-2588

(B) if to the Company at:

United Merchandising Corp.
2525 East El Segundo Blvd
El Segundo, CA 90245
Attn: Chief Financial Officer
Facsimile Number: (310) 297-7570

with a copy to:

Leonard Green & Partners
333 South Grand Avenue, Suite 5400
Los Angeles, California 90071
Attn: Jennifer Holden Dunbar
Facsimile Number: (213) 625-2043

(C) if to any other Lender, at the address specified in the Assignment and Transfer Agreements

or to such other address as any party may designate for itself by like notice; provided, however, that the failure of the Agent to send a copy of such material notice to Leonard Green & Partners shall not invalidate in any way the effect of the notice to a Company.

9. THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS FINANCING AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

10. This Financing Agreement may be executed in counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Financing Agreement to be executed and delivered in Los Angeles, California by their proper and duly authorized officers as of the date set forth above.

THE CIT GROUP/BUSINESS
CREDIT, INC.

By /s/ [Illegible]

Senior Vice President

UNITED MERCHANDISING CORP.

By /s/ [Illegible]

President

EXHIBIT 10.10

GRANT OF SECURITY INTEREST IN AND COLLATERAL ASSIGNMENT OF TRADEMARKS AND LICENSES

THIS GRANT OF SECURITY INTEREST IN AND COLLATERAL ASSIGNMENT OF TRADEMARKS AND LICENSES ("Assignment") made as of this 8th day of March, 1996 by United Merchandising Corp., an California corporation, with its principal place of business at 2525 East El Segundo Boulevard, Segundo, CA 90245 ("Assignor"), and The CTI Group/Business Credit, Inc., as Agent, a New York corporation, with its offices at 300 South Grand Avenue, Los Angeles, CA 90071 ("Assignee").

W I T N E S S E T H:

WHEREAS, Assignor and Assignee are parties to a certain Financing Agreement of even date herewith ("Financing Agreement"), which Financing Agreement provides (i) for the Assignee, as Agent for the Lenders, to a) make revolving loans and b) assist the Assignor in obtaining letters of credit, all to or for the account of Assignor and (ii) for the grant by Assignor to Assignee of a security interest in and collateral assignment of certain of the Collateral, all as more fully defined in the Financing Agreement;

NOW, THEREFORE, in consideration of the premises set forth herein and for other good and valuable consideration, receipt and sufficiency of which is hereby acknowledged, Assignor agrees as follows:

1. Incorporation of Financing Agreement. The Financing Agreement and the terms and provisions thereof are hereby incorporated into this Assignment in their entirety by this reference. Terms not otherwise defined herein shall have the meanings assigned to them in the Financing Agreement.

2. Grant of Security Interest. To secure the payment of the Obligations, Assignor hereby grants to Assignee, as Agent for the Lenders, a security interest, effective immediately,

in all of Assignor's rights, title and interests in the United States in and to all of the following described property, whether now owned or hereafter acquired (the "Intellectual Property Collateral"):

(i) Trademarks, trademark registrations, tradenames and trademark applications, including, without limitation, the trademarks and applications listed on Schedule A, attached hereto and made a part hereof, and renewals thereof, and all income, royalties, damages and payments now and hereafter due and/or payable under all trademarks and trademark applications, including, without limitation, damages and payments for past or future infringements thereof (all of the foregoing trademarks, trademark registrations, tradenames and applications are sometimes hereinafter individually and/or collectively referred to as the "Trademarks");

(ii) Any license agreement in which Assignor is or becomes licensed to use a trademark and which license agreement is transferable, either by its terms or by operation of law (the "Licensees"); and

(ii) The goodwill of Assignor's business connected with and symbolized by the Trademarks.

3. Assignment of Licenses. In addition to all other rights granted to Assignee under the Financing Agreement and this Assignment, Assignor further assigns, transfers and sets over to Assignee as collateral any right of Assignor under any license agreement with any other party and which license agreement is transferable, either by its terms

or by operation of law, whether Assignor is a licensor or licensee under any such license agreement, and the right to prepare for sale, sell and advertise for sale, all Inventory now or hereafter owned by Assignor and now or hereafter covered by such license and agrees that it will not take any action, or permit any action to be taken by others subject to its control, including licensees (to the extent provided in the agreements with such licensees), or fail to take any action, which would have a material adverse effect on the validity or enforcement of the rights transferred to Assignee under this Assignment. Assignor hereby covenants that it will promptly notify Assignee if any Trademark shall at any time hereafter become subject to any license agreement and that it will promptly provide Assignee with full identification thereof and with such further documentation as Assignee may reasonably request to accomplish or assure the accomplishment of the purpose of this Section 4.

4. Condition of Assignment. The condition of this Assignment is such that unless and until there occurs an Event of Default, Assignor has the right to continue to use the Intellectual Property Collateral in the normal course of business and to enjoy the benefits, royalties and profits therefrom provided, however, that from and after the occurrence of an Event of Default, such right will, upon the written exercise by Assignee of the rights provided by this Assignment (which written exercise may be in the form of a private or public sale in the manner provided by the Uniform Commercial Code), be revoked and the right of Assignor to enjoy the uses, benefits, royalties, and profits of said Intellectual Property Collateral will wholly cease, whereupon Assignee shall be entitled to all of Assignor's right, title and interest in and to the Intellectual Property Collateral hereby assigned. The term of the assignments granted herein shall extend until a) the expiration of each of the respective Trademarks and Licenses assigned hereunder, or b) the Obligations have been paid in full and

the Financing Agreement has been terminated, whichever occurs first. This Assignment will not operate to place upon Assignee any duty or responsibility to maintain the Intellectual Property.

5. Events of Default. Any of the following constitutes an Event of Default under this Assignment:

(i) Assignor fails to perform or observe any agreement, covenant, or condition required under this Assignment and such failure is not corrected to Assignee's reasonable satisfaction within twenty (20) Business Days of notice to Assignor;

(ii) If any warranty or representation made by Borrower in this Assignment shall be false or misleading in any material respect; or

(iii) The occurrence of an Event of Default under the Financing Agreement.

6. Remedies. Upon the Occurrence of an Event of Default, Assignee may, at its option, at any tine:

(i) Terminate the rights retained by the Assignor, as specified in the preceding Section 6;

(ii) Sell, assign, use or transfer any of the Trademarks or Licenses in connection with the exercise of the rights contained in the Financing Agreement; or

(iii) Exercise any of the rights and remedies granted to a secured party under the Uniform Commercial Code.

7. Power of Attorney. Assignor hereby grants Assignee, as Agent for the Lenders, a power of attorney coupled with an interest to execute any documentation or take any action

required to fulfill the terms, provisions and conditions of this Assignment.

8. Notices. Assignor covenants and agrees that it will give Assignee written notice, in the manner provided in the Financing Agreement of any of the foregoing, but only to the extent that any such event is reasonably likely to have a material adverse effect on the Company:

(i) any claim by a third party that the Assignor has infringed on the rights of a third party;

(ii) any suspected infringement by a third party on the rights of the Assignor; or

(iii) any application made by the Assignor to register Trademarks other than those listed on Schedule A to this Assignment on the date of its execution.

9. Further Assurances. Assignor will take any such action as Assignee may reasonably require to further confirm or protect Assignee's rights in the Trademarks and Licenses hereby assigned.

IN WITNESS WHEREOF, the parties hereto have duly executed this Assignment as of the 8th day of March, 1996.

UNITED MERCHANDISING CORP.

By /s/ [ILLEGIBLE]

Title: President

/s/ [ILLEGIBLE] (seal)

Secretary

Agreed and Accepted this
8th day of March, 1996

CTI GROUP/BUSINESS CREDIT, INC.

By /s/ [ILLEGIBLE]
- ---------------------------------
Title: Vice President

SCHEDULE A

Mark Name	Serial No.	Filing Date	Registration No.	Registration Date	Renewal Date	Docket
Big 5	74/590746	10/24/94	1929798	10/24/95	10/24/05	209/098
Court Casuals	74/390426	5/12/93	1861866	11/8/94	5/12/04	203037
Golden Bear	74/655806 74/655760	4/4/95				
Rugged Exposure	74/655872	4/4/95				211/175
Hot Voltage	74/655965	4/4/95				211/177
Sport Essentials	74/655962					211/176
Pacifica	74/655805	4/4/95				211/178

EXHIBIT 10.11

Date: March 8, 1996

To: THE CIT GROUP/BUSINESS CREDIT, INC.
300 South Grand Avenue
Los Angeles, CA 90011

GUARANTY

Re: United Merchandising Corp.
(the "Client")

Address: 2525 East El Segundo Boulevard
El Segundo, CA 90245

Gentlemen:

Reference is made to that certain Financing Agreement (herein the "Agreement") between you, as Agent, the Lenders thereto and the above-named Client. Terms not otherwise defined herein are as defined in the Agreement. The undersigned hereby uncondionally guarantees and agrees to be liable for the full and indefeasible payment and performance when due of all now existing and future Obligations of the Client to you, howsoever arising, whether direct or indirect, absolute or contingent, secured or unsecured, whether arising under the Agreement as now written or as amended or supplemented hereafter, or by operation of law or otherwise. Further the undersigned agrees to pay to you on demand the amount of all expenses (including reasonable and documented attorneys' fees) incurred by you in collecting or attempting to collect any of the Client's Obligations to you, whether from the Client, or from any other obligor, or from the undersigned, or in realizing upon any Collateral; and agrees to pay any interest at the Default Rate of Interest set forth in the Agreement on all amounts payable to you hereunder, provided you are entitled to charge the Client the Default Rate of Interest, even if such amount cannot be collected from the Client (all of the aforementioned Obligations, expenses and interest are hereinafter collectively called the "Obligations"). To the extent you receive payment on account of the Obligations guaranteed hereby, which payment is thereafter set aside or required to be repaid by you in whole or in part, then, to the extent of any sum not finally retained by you (regardless of whether such sum is

recovered from you by the Client, its trustee, or any other party acting for, on behalf of or through the Client or its representative), the undersigned's obligation to you under this Guaranty, as amended, modified or supplemented, shall remain in full force and effect (or be reinstated) until the undersigned have made payment to you therefor, which payment shall be due upon demand.

The Guaranty is executed as an inducement to the Lenders, acting through the Agent, to make loans or advances to the Client or otherwise to extend credit or financial accommodations to the Client, and to enter into the Agreement with the Client. The undersigned agrees that any of the foregoing shall be deemed to have been done or extended in consideration of and in reliance upon the execution of this Guaranty.

Notice of acceptance of this Guaranty, the making of loans or advances, or the extension of credit to the Client, the amendment, execution or termination of the Agreement or any other agreements between you, the Lenders and the Client, and presentment, demand, protest, notice of protest, notice of non-payment and all other notices to which the Client or the undersigned may be entitled, and the Agent's and Lenders' reliance on this Guaranty are hereby waived, except to the extent notices are required under the Agreement. The undersigned also waives notice of: changes in terms or extensions of time of payment, the taking and releasing of Collateral or guarantees and the settlement, compromise or release of any Obligations, and agrees that the amount of the Obligations shall not be diminished by any of the foregoing. The undersigned also agrees that the Agent need not attempt to collect any obligations from the Client or other obligors or to realize upon any Collateral, but may require the undersigned to make immediate payment of Obligations when due or at any time thereafter. Neither the Agent nor the Lenders shall be liable for failure to collect Obligations or to realize upon any Collateral therefor, or any part thereof, or for any delay in so doing, nor shall they be under any obligation to take any action whatsoever with regard thereto.

This Guaranty is absolute, unconditional and continuing, regardless of the validity, regularity or enforceability of any of the Obligations or the fact that a security interest or lien in any Collateral may not be enforceable or may otherwise be subject to equities or defenses or prior claims in favor of others or may be invalid or defective in any way and for any reason, including any action, or failure to act, on the Agent's part. Payment by the undersigned shall be made to you at your office from time to time on demand as Obligations become due, and one or more successive or concurrent actions may be brought hereon against the undersigned either in the same action in which the Client is sued or in separate actions. In the event any claim or action, or action on any judgment, based on this Guaranty, is made or brought against the undersigned, the undersigned agrees not to assert against the Agent or any Lender any set-off or counterclaim which the Client may have (other than

payment in full), and further the undersigned agrees not to deduct, set-off, or seek to counterclaim for or recoup, any amounts which are or may be owed by the Agent or any Lender to the undersigned, or for any loss of contribution from any other guarantor. Furthermore, in any litigation based on the Guaranty in which the Agent or any Lender and the undersigned shall be adverse parties, the undersigned hereby waives trial by jury and waives the right to interpose any defense based upon any Statute of Limitations or any claim of laches and waives the performance of each and every condition precedent to which the undersigned might otherwise be entitled by law. The undersigned hereby consents to the in personam jurisdiction of the courts of California. In the event that the Agent brings any action or suit in any court of record of California or the Federal Government to enforce any or all liabilities of the undersigned hereunder, service of process may be made on the undersigned by mailing a copy of the summons to the undersigned at the address below set forth by registered or certified mail, return receipt requested.

Until satisfaction of the Obligations and termination of the Agreement, the undersigned shall have no right of subrogation, indemnification or recourse to any Obligations or collateral or guarantees therefor, or to any assets of the Client with respect to any payments made, or to be made, under this Guaranty.

In the event an Event of Default under the Agreement shall occur and not be waived, then the liability of the undersigned for the entire Obligations shall mature even if you are not permitted or allowed to pursue the Client for payment of the Obligations.

This Guaranty may be terminated i) by the undersigned only on an Anniversary Date, and then only upon actual receipt by one of the Agent's officers of at least one hundred and twenty (120) days prior written notice of termination sent by registered or certified mail; provided however, that the undersigned shall remain bound hereunder, and this Guaranty shall continue in full force and effect, with respect to any and all Obligations created or arising prior to the effective date of such termination and with respect to any and all extensions, renewals or modifications of said pre-exising Obligations or ii) upon termination of the Agreement and payment in full of the Obligations. This is a continuing agreement and written notice as above provided shall be the only means of termination, notwithstanding the fact that for certain periods of time there may be no Obligations owing by the Client. As used herein, "Anniversary Date" shall mean the date three (3) years from the date of the Agreement and the same date in every year thereof.

Your books and records showing the account between you and the Client shall be admissible in evidence in any action or proceeding as prima facie proof of the items therein set forth. Your monthly statements rendered to the Client shall be binding upon the undersigned (whether or not the undersigned received copies

thereof) and, shall constitute an account stated between you, as Agent for the Lenders, and the Client, unless you shall have received a written statement of the Client's exceptions within ninety (90) days after the statement was mailed to the Client.

This Guaranty embodies the whole agreement of the parties and may not be modified except in writing, and no course of dealing between you, as Agent for the Lenders, and the undersigned shall be effective to change or modify this Guaranty. Your failure to exercise any right hereunder shall not be construed as a waiver of the right to exercise the same or any other right at any other time and from time to time thereafter, and such rights shall be considered as cumulative rather than alternative. No knowledge of any breach or other nonobservance by the undersigned of the terms and provisions of this Guaranty shall constitute a waiver thereof, nor a waiver of any obligations to be performed by the undersigned hereunder.

Upon a default by the Client, you may elect to nonjudicially or judicially foreclose against any real or personal property security you hold for the Obligations, or any part thereof, or exercise any other remedy against the Client or any security. No such action by you, as Agent for the Lenders, will release or limit the liability of the undersigned hereunder, even if the effect of that action is to deprive the undersigned of the right to collect reimbursement from the Client for any sums paid to you, as Agent for the Lenders.

Without limiting the forgoing or any provision hereof, the undersigned hereby expressly waives any and all benefits which might otherwise be available under California Civil Code Sections 2809, 2810, 2819, 2839, 2845, 2849, 2850, 2899 and 3433, and California Code of Civil Procedure Sections 580a, 580b, 58Od and 726, or any of such sections.

The undersigned represents and warrants that the execution, delivery and performance of this Guaranty, and of any documents securing the Obigations under this Guaranty, (a) are not done with actual intent to hinder, delay or defraud creditors, (b) are not done at a time when the fair value of its assets are less than its debts, including, without limitation, its obligations, valued at fair value, (c) are not done at a time when it intends or believes or reasonably should believe that it will incur debts beyond its ability to pay as such debts mature or otherwise become due, and (d) based upon its historical needs and future projections, are not done at a time when it is engaged in business or a transaction, or is about to engage in business or a transaction, for which the property remaining in its hand is an unreasonably small capital or for which its remaining assets are unreasonably small in relation to such business or transaction absent extraordinary and unforeseen circumstances.

This instrument is executed and given in addition to, and not in substitution, reduction, replacement, or satisfaction of any other endorsements or guarantees of the Obligations, now existing or hereafter executed, by the undersigned, or others in your favor.

This agreement shall inure to the benefit of you as Agent, the Lenders and their successors and assigns; shall be binding upon the undersigned and upon the respective successors and assigns of the undersigned; and shall pertain to the Client and its successors and assigns. This Guaranty may be executed in any number of counterparts, each of which when so executed shall be deemed an original and such counterparts shall together constitute but one and the same document.

This Guaranty shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF the undersigned have executed and delivered this Guaranty effective as of the date above set forth.

BIG 5 CORPORATION

By: /s/[ILLEGABLE]

Title: President

EXHIBIT 10.17

BIG 5 SPORTING GOODS CORPORATION

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made and entered into as of the ____ day of June, 2002 (the "Agreement"), by and between Big 5 Sporting Goods Corporation, a Delaware corporation (the "Company"), and _____, an individual (the "Indemnitee"), with reference to the following facts.

RECITALS:

A. The Company desires the benefits of having Indemnitee serve as an officer and/or director secure in the knowledge that any expenses, liability and/or losses incurred by him in his good faith service to the Company will be borne by the Company or its successors and assigns.

B. Indemnitee is willing to serve in his position with the Company only on the condition that he be indemnified for such expenses, liability and/or losses.

C. The Company and Indemnitee recognize the increasing difficulty in obtaining liability insurance for directors, officers and agents of a corporation at reasonable cost.

D. The Company and Indemnitee recognize that there has been an increase in litigation against corporate directors, officers and agents.

E. The Company's Restated Certificate of Incorporation and Bylaws allows and requires the Company to indemnify its directors, officers and agents to the maximum extent permitted under Delaware law.

NOW, THEREFORE, the parties hereby agree as follows:

1. Definitions. For purposes of this Agreement:

(a) "Agent" shall mean any person who is or was a director, officer, employee or agent of the Company or a subsidiary of the Company whether serving in such capacity or as a director, officer, employee, agent, fiduciary or other official of another corporation, joint venture, trust or other enterprise at the request of, for the convenience of, or to represent the interests of the Company or a subsidiary of the Company.

(b) "Disinterested Director" shall mean a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is being sought by Indemnitee.

(c) "Expenses" shall be broadly construed and shall include, without limitation, (a) all direct and indirect costs incurred, paid or accrued, (b) all attorneys' fees, retainers, court costs, transcripts, fees of experts, witness fees, travel expenses, food and lodging expenses while traveling, duplicating costs, printing and binding costs, telephone

charges, postage, delivery service, freight or other transportation fees and expenses, (c) all other disbursements and out-of-pocket expenses, including all costs incurred in connection with investigating any Proceeding, (d) amounts paid in settlement, to the extent not prohibited by Delaware Law, and (e) reasonable compensation for time spent by Indemnitee for which he is otherwise not compensated by the Company or any third party, actually and reasonably incurred in connection with or arising out of a Proceeding, including a Proceeding by Indemnitee to establish or enforce a right to indemnification under this Agreement, applicable law or otherwise.

(d) "Independent Counsel" shall mean a law firm or a member of a law firm that neither is presently nor in the past five (5) years has been retained to represent: (a) the Company, an affiliate of the Company or Indemnitee in any matter material to either party or (b) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's right to indemnification under this Agreement.

(e) "Liabilities" shall mean liabilities of any type whatsoever, including, but not limited to, judgments or fines, ERISA or other excise taxes and penalties, and amounts paid in settlement (including all interest, assessments or other charges paid or payable in connection with any of the foregoing) actually and reasonably incurred by Indemnitee in connection with a Proceeding.

(f) "Delaware Law" means the General Corporation Law of the State of Delaware, as amended and in effect from time to time or any successor or other statutes of Delaware having similar import and effect.

(g) "Proceeding" shall mean any pending, threatened or completed action, hearing, suit or any other proceeding, whether civil, criminal, arbitrative, administrative, investigative or any alternative dispute resolution mechanism, including without limitation any such Proceeding brought by or in the right of the Company.

2. Employment Rights and Duties. Subject to any other obligations imposed on either of the parties by contract or by law, and with the understanding that this Agreement is not intended to confer employment rights on either party which they did not possess on the date of its execution, Indemnitee agrees to serve as a director or officer so long as he is duly appointed or elected and qualified in accordance with the applicable provisions of the Restated Certificate of Incorporation (the "Certificate") and Bylaws (the "Bylaws") of the Company or any subsidiary of the Company and until such time as he resigns or fails to stand for election or until his employment terminates. Indemnitee may from time to time also perform other services at the request, or for the convenience of, or otherwise benefiting the Company. Indemnitee may at any time and for any reason resign or be removed from such position (subject to any other contractual obligation or other obligation imposed by operation of law), in which event the Company shall have no obligation under this Agreement to continue Indemnitee in any such position.

3. Directors' and Officers' Insurance.

(a) The Company hereby covenants and agrees that, so long as Indemnitee shall continue to serve as a director or officer of the Company and thereafter so long as Indemnitee shall be subject to any possible Proceeding, the Company, subject to Section 3(c), shall maintain directors' and officers' insurance in full force and effect.

(b) In all policies of directors' and officers' insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits, subject to the same limitations, as are accorded to the Company's directors or officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain directors' and officers' insurance if the Company determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit.

4. Indemnification; General Agreement. The Company shall indemnify Indemnitee to the fullest extent authorized or permitted by Delaware Law and the provisions of the Certificate and Bylaws of the Company in effect on the date hereof, and as Delaware Law, the Certificate and Bylaws may from time to time be amended (but, in the case of any such amendment, only to the extent such amendment permits the Company to provide broader indemnification rights than Delaware Law, the Certificate and/or Bylaws permitted the Company to provide before such amendment). The right to indemnification conferred in the Certificate shall be presumed to have been relied upon by Indemnitee in serving or continuing to serve the Company as a director or officer and shall be enforceable as a contract right. Without in any way diminishing the scope of the indemnification provided by the Certificate and this Section 4, the Company shall indemnify Indemnitee if and whenever he is or was a witness, party or is threatened to be made a witness or a party to any Proceeding, by reason of the fact that he is or was an Agent or by reason of anything done or not done, or alleged to have been done or not done, by him in such capacity, against all Expenses and Liabilities actually and reasonably incurred by Indemnitee or on his behalf in connection with the investigation, defense, settlement or appeal of such Proceeding. In addition to, and not as a limitation of, the foregoing, the rights of indemnification of Indemnitee provided under this Agreement shall include those rights set forth in Sections 5, 6, 7 and 8 below.

5. Payment of Expenses.

(a) All Expenses incurred by or on behalf of Indemnitee shall be advanced by the Company to Indemnitee within twenty (20) days after the receipt by the Company of a written request for such advance which may be made from time to time, whether prior to or after final disposition of a Proceeding (unless there has been a final determination by a court of competent jurisdiction that Indemnitee is not entitled to be indemnified for such Expenses). Indemnitee's entitlement to advancement of Expenses shall include those incurred in connection with any Proceeding by Indemnitee seeking a determination, an adjudication or an award in arbitration pursuant to this Agreement. The requests shall reasonably evidence the Expenses incurred by Indemnitee in connection

therewith. Indemnitee hereby undertakes to repay the amounts advanced if it shall ultimately be determined that Indemnitee is not entitled to be indemnified pursuant to the terms of this Agreement.

(b) Notwithstanding any other provision in this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any Proceeding, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee in connection therewith.

6. Procedure for Determination of Entitlement to Indemnification.

(a) Whenever Indemnitee believes that he is entitled to indemnification pursuant to this Agreement, Indemnitee shall submit a written request for indemnification (the "Indemnification Request") to the Company to the attention of the President with a copy to the Secretary. This request shall include documentation or information which is necessary for the determination of entitlement to indemnification and which is reasonably available to Indemnitee. Determination of Indemnitee's entitlement to indemnification shall be made no later than forty-five (45) days after receipt of the Indemnification Request. The President or the Secretary shall, promptly upon receipt of Indemnitee's request for indemnification, advise the Board in writing that Indemnitee has made such request for indemnification.

(b) The Indemnification Request shall set forth Indemnitee's selection of which of the following forums shall determine whether Indemnitee is entitled to indemnification:

(i) A majority vote of Directors who are not parties to the action with respect to which indemnification is sought, even though less than a quorum.

(ii) A written opinion of an Independent Counsel (provided there are no such Directors as set forth in (1) above or if such Directors as set forth in (1) above so direct).

(iii) A majority vote of the stockholders at a meeting at which a quorum is present, with the shares owned by the person to be indemnified not being entitled to vote thereon.

(iv) The court in which the Proceeding is or was pending upon application by Indemnitee.

The Company agrees to bear any and all costs and expenses incurred by Indemnitee or the Company in connection with the determination of Indemnitee's entitlement to indemnification by any of the above forums.

7. Presumptions and Effect of Certain Proceedings. No initial finding by the Board, its counsel, Independent Counsel, arbitrators or the shareholders shall be effective to deprive Indemnitee of the protection of this indemnity, nor shall a court or other forum to which Indemnitee may apply for enforcement of this indemnity give any weight to any such adverse finding in deciding any issue before it. Upon making a request for indemnification,

Indemnitee shall be presumed to be entitled to indemnification under this Agreement and the Company shall have the burden of proof to overcome that presumption in reaching any contrary determination. The termination of any Proceeding by judgment, order, settlement, arbitration award or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, (a) adversely affect the rights of Indemnitee to indemnification except as indemnification may be expressly prohibited under this Agreement, (b) create a presumption that Indemnitee did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company or (c) with respect to any criminal action or proceeding, create a presumption that Indemnitee had reasonable cause to believe that his conduct was unlawful.

8. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines or penalties actually or reasonably incurred in the investigation, defense, appeal or settlement of any Proceeding, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such expenses, judgments, fines or penalties to which Indemnitee is entitled.

9. Remedies of Indemnitee in Cases of Determination not to Indemnify or to Not Advance Expenses.

(a) In the event that (a) an initial determination is made that Indemnitee is not entitled to indemnification, (b) advances for Expenses are not made when and as required by this Agreement, (c) payment has not been timely made following a determination of entitlement to indemnification pursuant to this Agreement or (d) Indemnitee otherwise seeks enforcement of this Agreement, Indemnitee shall be entitled to a final adjudication in an appropriate court of the State of Delaware of his entitlement to such indemnification or advance. Alternatively, Indemnitee at his sole option may seek an award in arbitration. If the parties are unable to agree on an arbitrator, the parties shall provide JAMS Endispute ("JAMS") with a statement of the nature of the dispute and the desired qualifications of the arbitrator. JAMS will then provide a list of three available arbitrators. Each party may strike one of the names on the list, and the remaining person will serve as the arbitrator. If both parties strike the same person, JAMS will select the arbitrator from the other two names. The arbitration award shall be made within ninety (90) days following the demand for arbitration. Except as set forth herein, the provisions of Delaware Law shall apply to any such arbitration. The Company shall not oppose Indemnitee's right to seek any such adjudication or arbitration award. In any such proceeding or arbitration Indemnitee shall be presumed to be entitled to indemnification under this Agreement and the Company shall have the burden of proof to overcome that presumption.

(b) An initial determination, in whole or in part, that Indemnitee is not entitled to indemnification shall create no presumption in any judicial proceeding or arbitration that Indemnitee has not met the applicable standard of conduct for, or is otherwise not entitled to, indemnification.

(c) If an initial determination is made or deemed to have been made pursuant to the terms of this Agreement that Indemnitee is entitled to indemnification, the

Company shall be bound by such determination in the absence of (a) a misrepresentation of a material fact by Indemnitee in the request for indemnification or (b) a specific finding (which has become final) by a court of competent jurisdiction that all or any part of such indemnification is expressly prohibited by law.

(d) The Company and Indemnitee agree herein that a monetary remedy for breach of this Agreement, at some later date, will be inadequate, impracticable and difficult to prove, and further agree that such breach would cause Indemnitee irreparable harm. Accordingly, the Company and Indemnitee agree that Indemnitee shall be entitled to temporary and permanent injunctive relief to enforce this Agreement without the necessity of proving actual damages or irreparable harm. The Company and Indemnitee further agree that Indemnitee shall be entitled to such injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bond or other undertaking in connection therewith. Any such requirement of bond or undertaking is hereby waived by the Company, and the Company acknowledges that in the absence of such a waiver, a bond or undertaking may be required by the court.

(e) The Company shall be precluded from asserting that the procedures and presumptions of this Agreement are not valid, binding and enforceable. The Company shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement and is precluded from making any assertion to the contrary.

(f) Expenses incurred by Indemnitee in connection with his request for indemnification under, seeking enforcement of or to recover damages for breach of this Agreement shall be borne and advanced by the Company.

10. Other Rights to Indemnification. Indemnitee's rights of indemnification and advancement of expenses provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may now or in the future be entitled under applicable law, the Certificate, the Bylaws, an employment agreement, a vote of shareholders or Disinterested Directors, insurance or other financial arrangements or otherwise.

11. Limitations on Indemnification. No indemnification pursuant to Section 4 shall be paid by the Company nor shall Expenses be advanced pursuant to Section 5:

(a) Insurance. To the extent that Indemnitee is reimbursed pursuant to such insurance as may exist for Indemnitee's benefit. Notwithstanding the availability of such insurance, Indemnitee also may claim indemnification from the Company pursuant to this Agreement by assigning to the Company any claims under such insurance to the extent Indemnitee is paid by the Company. Indemnitee shall reimburse the Company for any sums he receives as indemnification from other sources to the extent of any amount paid to him for that purpose by the Company;

(b) Section 16(b). On account and to the extent of any wholly or partially successful claim against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company pursuant to the provisions of section 16(b)

or the Securities Exchange Act of 1934, as amended, and amendments thereto or similar provisions of any federal, state or local statutory law;

(c) Lack of Good Faith. To indemnify Indemnitee for any expenses incurred by Indemnitee with respect to any Proceeding instituted by Indemnitee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by Indemnitee in such Proceeding was not made in good faith or was frivolous; or

(d) Indemnitee's Proceedings. Except as otherwise provided in this Agreement, in connection with all or any part of a Proceeding which is initiated or maintained by or on behalf of Indemnitee, or any Proceeding by Indemnitee against the Company or its directors, officers, employees or other agents, unless (a) such indemnification is expressly required to be made by Delaware Law, (b) the Proceeding was authorized by a majority of the Disinterested Directors or (c) such indemnification is provided by the Company, in its sole discretion, pursuant to the powers vested in the Company under Delaware Law.

12. Duration and Scope of Agreement; Binding Effect. This Agreement shall continue so long as Indemnitee shall be subject to any possible Proceeding subject to indemnification by reason of the fact that he is or was an Agent and shall be applicable to any Proceeding commenced or continued after execution of this Agreement, whether arising from acts or omissions occurring before, concurrently with or after such execution. This Agreement shall be binding upon the Company and its successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company) and shall inure to the benefit of Indemnitee and his spouse, assigns, heirs, devisees, executors, administrators and other legal representatives.

13. Notice by Indemnitee and Defense of Claims. Indemnitee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any matter which may be subject to indemnification hereunder, whether civil, criminal, arbitrative, administrative or investigative; but the omission so to notify the Company will not relieve it from any liability which it may have to Indemnitee if such omission does not actually prejudice the Company's rights and, if such omission does prejudice the Company's rights, it will relieve the Company from liability only to the extent of such prejudice; nor will such omission relieve the Company from any liability which it may have to Indemnitee otherwise than under this Agreement. With respect to any Proceeding:

(i) The Company will be entitled to participate therein at its own expense;

(ii) Except as otherwise provided below, to the extent that it may wish, the Company jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel reasonably satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election so to assume the defense thereof and the assumption of such defense, the Company will not be liable to Indemnitee under this Agreement for any attorney fees or costs subsequently incurred by Indemnitee in connection with Indemnitee's defense except as otherwise provided below. Indemnitee shall have the right to employ his counsel in such Proceeding but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof and the assumption of such defense shall be at the expense of Indemnitee unless (i) the employment of counsel by Indemnitee has been authorized by the Company, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of the defense of such action or that the Company's counsel may not be adequately representing Indemnitee or (iii) the Company shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the expense of the Company; and

(iii) The Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The Company shall not settle any action or claim which would impose any limitation or penalty on Indemnitee without Indemnitee's written consent. Neither the Company nor Indemnitee will unreasonably withhold its or his consent to any proposed settlement.

14. Contribution. In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in this Agreement is held by a court of competent jurisdiction to be unavailable to Indemnitee in whole or part, the Company shall, in such an event, after taking into account, among other things, contributions by other directors and officers of the Company pursuant to indemnification agreements or otherwise, and, in the absence of personal enrichment, acts of intentional fraud, dishonesty, disloyalty, willful misconduct or criminal conduct on the part of Indemnitee, contribute to the payment of Indemnitee's losses to the extent that, after other contributions are taken into account, such losses exceed: (a) in the case of a director of the Company or any of its subsidiaries who is not an officer of the Company or any of such subsidiaries, the amount of fees paid to the director for serving as a director during the twelve (12) months preceding the commencement of the Proceeding; or (b) in the case of a director of the Company or any of its subsidiaries who is also an officer of the Company or any of such subsidiaries, the amount set forth in clause (a) plus five percent (5%) of the aggregate cash compensation paid to said director for service in such office(s) during the twelve (12) months preceding the commencement of the Proceeding; or (c) in the case of an officer of the Company or any of its subsidiaries, five percent (5%) of the aggregate cash compensation paid to such officer for service in such office(s) during the twelve (12) months preceding the commencement of such Proceeding.

15. Miscellaneous Provisions.

(a) Severability; Partial Indemnity. If any provision or provisions of this Agreement (or any portion thereof) shall be held by a court of competent jurisdiction to be invalid, illegal or unenforceable for any reason whatever: (a) such provision shall be limited or modified in its application to the minimum extent necessary to avoid the invalidity, illegality or unenforceability of such provision; (b) the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby; and (c) to the fullest extent possible, the provisions of this Agreement shall be construed so as to give effect to the intent manifested by the provision (or portion thereof) held invalid, illegal or unenforceable. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any Expenses or Liabilities of any type whatsoever incurred by him in the investigation, defense, settlement or appeal of a Proceeding but not entitled to all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for such total amount except as to the portion thereof for which it has been determined pursuant to Section 6 hereof that Indemnitee is not entitled.

(b) Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

(c) Interpretation of Agreement. It is understood that the parties hereto intend this Agreement to be interpreted and enforced so as to provide indemnification to Indemnitee to the fullest extent not now or hereafter prohibited by law.

(d) Headings. The headings of the sections and paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

(e) Pronouns. Use of the masculine pronoun shall be deemed to include use of the feminine pronoun where appropriate.

(f) Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties to this Agreement. No waiver of any provision of this Agreement shall be deemed to constitute a waiver of any of the provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver. No waiver of any provision of this Agreement shall be effective unless executed in writing.

(g) Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (a) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, (b) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed, (c) sent via facsimile with the transmission and receipt of such facsimile having been confirmed in a reputable manner, or (d) sent via electronic mail with the transmission and receipt of such electronic mail having been confirmed in a reputable manner:

(i) If to Indemnitee, to: _____
_____
_____
_____
Telephone: (___) ___-_____
Fax: (___) ___-_____

(ii) If to the Company to: Big 5 Sporting Goods Corporation
2525 E. El Segundo Boulevard
El Segundo, CA 90245
Attn: Gary S. Meade
Telephone: (310) 536-0611
Fax: (310) 297-7595

With a copy to: Irell & Manella LLP
1800 Avenue of the Stars, Suite 900
Los Angeles, CA 90067
Attn: Andrew W. Gross
Telephone: (310) 277-1010
Fax: (310) 203-7199

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

(h) Governing Law. The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware.

(i) Consent to Jurisdiction. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the courts of the State of California for all purposes in connection with any action or proceeding which arises out of or relates to this agreement and agree that any action instituted under this agreement shall be brought only in the state courts of the State of California.

(j) Entire Agreement. This Agreement represents the entire agreement between the parties hereto, and there are no other agreements, contracts or understanding between the parties hereto with respect to the subject matter of this Agreement, except as specifically referred to herein or as provided in Sections 3 and 9 hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

BIG 5 SPORTING GOODS CORPORATION,
a Delaware corporation

_____

By: _____

Its: _____

INDEMNITEE

_____

Name: _____

EXHIBIT 10.26

AMENDED AND RESTATED FINANCING AGREEMENT

THE CIT GROUP/BUSINESS CREDIT, INC.

(AS AGENT AND AS LENDER),

THE LENDERS

AND

BIG 5 CORP.

(AS BORROWER)

DATED: MARCH 20, 2003

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THE CIT GROUP/BUSINESS CREDIT, INC., a New York corporation (hereinafter "CITBC") with offices located at 300 South Grand Avenue, Los Angeles, CA 90071, FLEET CAPITAL CORPORATION, PNC BANK, NATIONAL ASSOCIATION, BANK OF AMERICA, N.A., AND TRANSAMERICA BUSINESS CAPITAL CORPORATION (collectively, "Prior Lenders"), and CITBC as agent for the Prior Lenders, and BIG 5 CORP., a Delaware corporation (hereinafter referred to as the "Company"), having a principal place of business at 2525 East El Segundo Boulevard, El Segundo, CA 90245, have previously entered into that certain Financing Agreement, dated as of March 8, 1996 (as amended and modified, from time to time, the "Prior Financing Agreement").

CITBC, in its capacity as a lender, Prior Lenders, and such other lenders that may, subsequent to the date hereof, purchase from CITBC or from a Prior Lender a portion of CITBC's or such Prior Lender's rights and obligations under this Amended and Restated Financing Agreement (CITBC, the Prior Lenders and such other lenders each individually sometimes referred to as a "Lender" and collectively as the "Lenders"), and CITBC in its capacity as agent for Lenders (in its capacity as agent, the "Agent"), on the one hand, and the Company, on the other hand, wish to amend and restate certain terms of the Prior Financing Agreement.

In light of the forgoing, the Agent and Lenders are pleased to confirm the terms and conditions under which the Lenders acting through the Agent shall make revolving loans, advances and other financial accommodations to the Company under this Amended and Restated Financing Agreement (hereinafter, the "Financing Agreement").

SECTION 1. DEFINITIONS

ACCOUNTS shall mean all of the Company's now existing and future: (A) accounts (as defined in the UCC), and any and all other receivables (whether or not specifically listed on schedules furnished to the Agent), including, without limitation, all accounts created by, or arising from, all of the Company's sales, leases, rentals of goods or renditions of services to its customers, including but not limited to, those accounts arising under any of the Company's trade names or styles, or through any of the Company's divisions; (B) any and all instruments, documents, chattel paper (including electronic chattel paper) (all as defined in the UCC); (C) unpaid seller's or lessor's rights (including rescission, replevin, reclamation, repossession and stoppage in transit) relating to the foregoing or arising therefrom; (d) rights to any goods represented by any of the foregoing, including rights to returned, reclaimed or repossessed goods; (E) reserves and credit balances arising in connection with or pursuant hereto; (f) guarantees, supporting obligations, payment intangibles and letter of credit rights (all as defined in the UCC); (G) insurance policies or rights relating to any of the foregoing; (H) general intangibles pertaining to any and all of the foregoing (including all rights to payment, including those arising in connection with bank and non-bank credit cards), and including books and records and any electronic media and software thereto; (I) notes, deposits or property of account debtors securing the obligations of any such account debtors to the Company; and (J) cash and non-cash proceeds (as defined in the UCC) of any and all of the foregoing.

AFFILIATE shall mean, as to any Person, any other Person (other than a Subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person and the term "control" shall have the meaning set forth in respect thereof in Rule 105 promulgated under the Securities Act of 1933, as amended.

ANNIVERSARY DATE shall mean the date occurring one (1) year from the date of [MARCH __, 2003] and the same date in every year thereafter, provided, however, that if the Company gives notice, in accordance with Section 10 of this Financing Agreement, to terminate on an Anniversary Date and such date is not a Business Day, then the Anniversary Date shall be the next succeeding Business Day.

ASSIGNMENT AND TRANSFER AGREEMENT shall mean the Assignment and Transfer Agreement in the form of Exhibit A hereto.

AVAILABILITY shall mean at any time of determination the lesser of a) the Line of Credit or b) the Borrowing Base, in each case, less the sum of x) the outstanding aggregate amount of all Obligations (excluding all obligations in respect of the outstanding amounts of any Letters of Credit) and y) the Availability Reserve.

AVAILABILITY RESERVE shall mean at any time of determination an amount equal to the sum of a) the then undrawn amount of all outstanding Letters of Credit, b) the amount of all unpaid sales taxes due any state and which sales taxes have been collected by the Company, and c) an amount equal to three times the monthly rent for leased facilities in lieu of landlord waivers which have not been obtained in favor of the Agent for leased locations at which Inventory is located, provided, however, that such reserve required under this clause (c) shall cease upon receipt of landlord's waivers for the distribution centers and not less than eighty-five (85) retail outlets.

BLOCKED ACCOUNT shall mean any Concentration Account owned by the Company which is governed by a blocked account or similar agreement in form substantially similar to Exhibit B attached hereto and which account is subject to written instructions only from the Company unless and until the Agent shall give the institution holding such Concentration Account written instructions to the contrary in accordance with the terms of Section 3.4 of this Financing Agreement.

BORROWING BASE shall mean the amount determined by multiplying the then sum of Eligible Inventory by the percentage provided for in Section 3.1 of this Financing Agreement.

BUSINESS DAY shall mean any date on which both the Agent and JP Morgan Chase Bank are open for business.

CAPITAL EXPENDITURES for any period shall mean the aggregate of all expenditures of the Company during such period that in conformity with GAAP are required to be included in or reflected by the property, plant or equipment or similar fixed asset account reflected in the balance sheet of the Company, reduced, to the extent otherwise included therein, by the aggregate principal amount of all Indebtedness (including obligations under capitalized lease obligations, but not under this Financing Agreement) assumed or incurred after the

date of this Financing Agreement in connection with the acquisition of any capital asset after the date of this Financing Agreement, other than the aggregate amount of principal payments (including the principal component of payments under capitalized lease obligations) made during such period on such Indebtedness, provided, however, that the following shall in any event be excluded from the definition of Capital Expenditures: (i) any such expenditures for Designated Sale-Leaseback Properties, provided that to the extent any such Designated Sale-Leaseback Property shall not have been financed pursuant to a sale-leaseback or mortgage financing permitted hereunder within eighteen (18) months after the Company has designated the subject capital asset as a Designated Sale-Leaseback Property, such expenditures shall be deemed to be Capital Expenditures incurred on and as of the date of the expiration of such eighteen (18)-month period, and (ii) any such expenditures made with (or, to the extent of the receipt during the same fiscal year, expenditures in the amount of) the proceeds of sales of Real Estate, or Equipment or similar fixed assets or the proceeds of insurance, condemnation awards (or payments in lieu thereof) or indemnity payments received from third parties for purposes of replacing or repairing the assets in respect of which such proceeds, awards or payments were received, so long as such expenditures are made within eighteen (18) months of receipt by the Company of such proceeds, awards or payments.

CAPITAL LEASE shall mean any lease of property (whether real, personal or mixed) which, in conformity with GAAP, is accounted for as a capital lease or a Capital Expenditure on the balance sheet of the Company.

CHASE BANK RATE shall mean the rate of interest per annum announced by JP Morgan Chase Bank, or its successor in interest, from time to time as its prime rate in effect at its principal office in the County, City and State of New York. (The prime rate is not intended to be the lowest rate of interest charged by JP Morgan Chase Bank to its borrowers).

CLOSING DATE shall mean March 20, 2003.

COLLATERAL shall mean all present and future Accounts, Equipment, Inventory, Documents of Title, General Intangibles, Real Estate, and Other Collateral.

COMPANY LIQUIDITY shall mean, at any date of determination, an amount equal to the Company's (a) Availability plus (b) unrestricted cash, determined on a basis consistent with past practices (and as cash is determined in accordance with GAAP).

CONCENTRATION ACCOUNT shall mean any account owned by the Company which receives funds from i) the Depository Accounts and ii) the credit card companies.

CONSOLIDATED BALANCE SHEET shall mean a consolidated balance sheet for the Company and its Subsidiaries, if any, eliminating all inter-company transactions and prepared, in the case of any such quarterly or annual balance sheet, in accordance with GAAP consistently applied.

COPYRIGHTS shall mean all present and hereafter acquired copyrights, copyright registrations, recordings, applications, designs, styles, licenses, marks, prints and labels bearing any of the foregoing, goodwill, any and all general intangibles, intellectual property and rights pertaining thereto, and all cash and non-cash proceeds thereof.

CURRENT ASSETS shall mean, whenever used throughout this Financing Agreement, those assets of the Company and its Subsidiaries, on a consolidated basis, which in accordance with GAAP, consistently applied, are classified as "current".

CURRENT LIABILITIES shall mean, wherever used throughout this Financing Agreement, those liabilities of the Company and its Subsidiaries, on a consolidated basis, which in accordance with GAAP, consistently applied, are classified as "current", provided, however, that notwithstanding GAAP, i) the Revolving Loans and ii) the current portion of long term Permitted Indebtedness are not to be considered "current liabilities."

CUSTOMARILY PERMITTED LIENS shall mean

(a) liens of local or state authorities for franchise or other like taxes provided the aggregate amounts of such liens shall not exceed $1,000,000.00 in the aggregate at any one time;

(b) statutory liens of landlords and liens of carriers, work-men, repairmen, warehousemen, mechanics, materialmen, vendors (other than Inventory vendors or suppliers) and other like liens imposed by law, created in the ordinary course of business and for amounts not yet due (or which are being contested in good faith by appropriate proceedings or other appropriate actions which are sufficient to prevent imminent foreclosure of such liens) and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with GAAP;

(c) deposits made (and the liens thereon) in the ordinary course of business including, without limitation, security deposits for leases, surety bonds and appeal bonds, deposits in connection with utilities, workers' compensation, unemployment insurance and other types of social security benefits or to secure the performance of tenders, bids, contracts (other than for the repayment or guarantee of borrowed money or purchase money obligations), statutory obligations and other similar obligations; and

(d) easements (including, without limitation, reciprocal easement agreements and utility agreements), licenses, leases, restrictions, covenants, rights of way, encroachments, minor defects or irregularities in title, variation and other restrictions, liens, mortgages, charges or other encumbrances (whether or not recorded) affecting the Company's Real Estate which do not prohibit the use of the Real Estate for the retail sale of Inventory at the Company's retail locations or the storage of Inventory at the Inventory distribution centers.

DEFAULT shall mean any event specified in Section 9.1 hereof, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition, event or act, has been satisfied.

DEFAULT RATE OF INTEREST shall mean a rate of interest per annum equal to the sum of: i) two percent (2%) and ii) the then applicable rate of interest, which Default Rate of Interest Rate the Agent, on behalf of the Lenders, shall be entitled to charge the Company on all Obligations due the Lenders by the Company to the extent provided in Section 9.2(ii) of this Financing Agreement.

DEPOSITORY ACCOUNTS shall mean those accounts (other than Concentration Accounts) owned by the Company and designated for the deposit of proceeds of Collateral.

DESIGNATED SALE-LEASEBACK PROPERTY means a capital asset developed or to be developed by the Company after the date of this Financing Agreement and as to which the Company has notified the Agent in writing that such capital asset is, at such time, a Designated Sale-Leaseback Property and as to which the Company intends to enter into construction, sale-leaseback or mortgage financing, provided that such Designated Sale-Leaseback Property shall cease to be a Designated Sale-Leaseback Property upon the earlier to occur of eighteen (18) months after the date of such notice and the date on which such Designated Sale-Leaseback Property is financed pursuant to a sale-leaseback or mortgage financing permitted hereunder.

DOCUMENTATION FEE shall mean the Agent's standard and reasonable fees relating to any and all modifications, waivers, releases, amendments or additional collateral with respect to this Financing Agreement, the Collateral and/or the Obligations.

DOCUMENTS OF TITLE shall mean all of the Company's present and future documents (as defined in the UCC), and any and all warehouse receipts, bills of lading, shipping documents, chattel paper, instruments and similar documents, all whether negotiable or not, and all goods and Inventory relating thereto and all cash and non-cash proceeds of the foregoing.

EARLY TERMINATION DATE shall mean the date on which the Company terminates this Financing Agreement or the Line of Credit which date is prior to the third (3rd) Anniversary Date.

EARLY TERMINATION FEE shall: i) mean the fee the Agent for the account of the Lenders is entitled to charge the Company in the event the Company terminates the Line of Credit or this Financing Agreement on a date prior to the third (3rd) Anniversary Date; and ii) be determined by calculating the sum of (a) the average daily balance of the Revolving Loans for the period from the date of this Financing Agreement to the Early Termination Date and (b) the average daily undrawn face amount of the Letters of Credit outstanding for the period from the date of this Financing Agreement to the Early Termination Date and multiplying that sum by (x) three quarters of one percent (0.75%) if the Early Termination Date occurs on or before the first (1st) Anniversary Date, (y) one half of one percent (0.50%) if the Early Termination Date occurs after the first (1st) Anniversary Date but on or before the second (2nd) Anniversary Date, and (z) one quarter of one percent (0.25%) if the Early Termination Date occurs after the second (2nd) Anniversary Date.

EBITDA shall mean, in any period, the net income (or net loss) of the Company and its Subsidiaries, on a consolidated basis plus all amounts deducted in determining net income in respect of Interest Expense, income tax obligations (paid or accrued), depreciation expense and amortization expenses, non-cash straight line rent expense and all other non-cash items, each determined in accordance with GAAP consistently applied.

ELIGIBLE INVENTORY shall mean the gross cost of the Company's finished goods Inventory that conforms to the warranties herein less any i) supplies, ii) Inventory not present in the United States of America, iii) Inventory returned or rejected by the Company's customers other than Inventory that is undamaged and resalable in the normal course of business, iv) Inventory to be returned to the Company's suppliers, v) Inventory in transit to or from third parties, vi) shrinkage, and vii) reserves required by the Agent in accordance with the standard set forth below and without duplication but only for the following: (a) Inventory specially ordered for specific customers which Inventory is uniquely different in size, shape, quality or color and which uniquely different Inventory is not customarily sold by the Company; (b) market value declines, to the extent the Inventory's value is below its cost; (c) bill and hold (deferred shipment or consignment sales); (d) markdowns, to the extent the Inventory's value is below its cost; (e) Inventory which is not located at the Company's retail store locations or warehouses (other than Inventory in transit between the Company's facilities); (f) demonstration items, to the extent the Inventory's value is below its cost; (g) damaged or defective Inventory; (h) obsolete Inventory (but not including undamaged Inventory which is solely out-of-season); (i) Inventory at outlet locations not owned or operated by the Company; (j) Inventory held for lease, but only to the extent such Inventory held for lease exceeds twenty-five percent (25%) of the then aggregate gross cost of Inventory; and (k) Inventory imported under letters of credit issued without the assistance of the Letter of Credit Guaranty and then only until the bank issuing such letters of credit has been reimbursed by the Company for any drafts under such letters of credit. The amount of such reserves shall be determined solely by the Agent in its Reasonable Discretion.

EQUIPMENT shall mean all of the Company's present and hereafter acquired equipment (as defined in the UCC), including, without limitation, all machinery, equipment, furnishings and fixtures, and all additions, substitutions and replacements thereof, wherever located, together with all attachments, components, parts, equipment and accessories installed thereon or affixed thereto and all proceeds thereof of whatever sort.

ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time and the rules and regulations promulgated thereunder from time to time, as applicable.

EVENT(S) OF DEFAULT shall have the meaning provided for in Section 9.1 of this Financing Agreement.

FEE LETTER shall mean that certain letter agreement, between the Agent and the Company, dated as of the date hereof.

FIXED CHARGE COVERAGE RATIO shall mean a ratio determined as of the relevant calculation date by dividing EBITDA by the sum of i) Capital Expenditures and ii) Interest Expense, for the relevant period.

GAAP shall mean generally accepted accounting principles in the United States of America as in effect from time to time and for the period as to which such accounting principles are to apply. Except as otherwise provided in this Financing Agreement, all computations and determinations as to accounting or financial matters and all quarterly and annual

consolidated financial statements to be delivered pursuant to this Financing Agreement shall be made and prepared in accordance with GAAP (including principles of consolidation where appropriate), and all accounting or financial terms shall have the meanings ascribed to such terms by GAAP. If any change in accounting principles from those effective December 31, 1995 and used in preparation of the financial statements required hereunder occurs or are hereafter occasioned by promulgation of rules, regulations, pronouncements or opinions by or are otherwise required by the Financial Accounting Standards Board or the American Institute of Certified Public Accountants (or successors thereto or agencies with similar functions), and any such changes results in a change of the method of calculation of, or affect the results of such calculation of, any financial covenant, standard or term found herein, then the parties shall amend such financial covenants, financial standards or terms so as to equitably reflect such changes, with the desired result that the criteria for evaluating the financial condition and results of operations of the Company shall be the same after such changes as if such changes had not been made.

GENERAL INTANGIBLES shall mean all of the Company's present and hereafter acquired general intangibles (as defined in the UCC), and shall include, without limitation, all present and future right, title and interest in and to: (a) all Trademarks, trade names, corporate names, business names, logos and any other designs or sources of business identities, (b) Patents, together with any improvements on said Patents, utility models, industrial models, and designs, (c) Copyrights, (d) trade secrets, (e) licenses, permits and franchises, (f) all applications with respect to the foregoing, (g) all right, title and interest in and to any and all extensions and renewals, (h) goodwill with respect to any of the foregoing, (i) any other forms of similar intellectual property, (j) all customer lists, distribution agreements, supply agreements, blueprints, indemnification rights and tax refunds, together with all monies and claims for monies now or hereafter due and payable in connection with any of the foregoing or otherwise, and all cash and non-cash proceeds thereof, including, without limitation, the proceeds or royalties of any licensing agreements between the Company and any licensee of any of the Company's General Intangibles.

GUARANTOR shall mean Parent.

INDEBTEDNESS shall mean, without duplication, all liabilities, contingent or otherwise, which are any of the following: (a) obligations in respect of borrowed money or for the deferred purchase price of property, services or assets, other than Inventory, and (b) lease obligations which, in accordance with GAAP, have been, or which should be capitalized.

INTEREST EXPENSE shall mean i) total cash interest obligations (paid or accrued) of the Company and its Subsidiaries determined in accordance with GAAP on a basis consistent with the latest audited statements of the Company, excluding amortization of financing fees related hereto and to other Indebtedness of the Company and its Subsidiaries, prepayment penalties, fees or premiums related to the payment, in whole or in part, of Indebtedness of the Company and its Subsidiaries and original issue discounts, if any, minus ii) interest income, if any.

INVENTORY shall mean all of the Company's present and hereafter acquired inventory (as defined in the UCC), including, without limitation, all merchandise, inventory, and goods

held for sale or lease and all additions, substitutions and replacements thereof, wherever located, together with all goods and materials used or usable in manufacturing, processing, packaging or shipping same in all stages of production from raw materials through work-in-process to finished goods - and all proceeds thereof of whatever sort.

INVESTMENT PROPERTY shall mean all of the Company's now owned and hereafter acquired investment property (as defined in the UCC) and all proceeds thereof.

ISSUING BANK shall mean any bank issuing Letters of Credit for the Company.

LETTERS OF CREDIT shall mean all letters of credit issued with the assistance of the Lenders acting through the Agent by the Issuing Bank for or on behalf of the Company.

LETTER OF CREDIT GUARANTY shall mean any guaranty delivered by the Agent on behalf of Lenders to the Issuing Bank of the Company's reimbursement obligations under the Issuing Bank's reimbursement agreement, application for Letters of Credit or other like documents.

LETTER OF CREDIT GUARANTY FEE shall mean the fee the Agent may charge on behalf of Lenders under Section 7.2 of this Financing Agreement for: i) issuing the Letter of Credit Guaranty or ii) otherwise aiding the Company in obtaining Letters of Credit pursuant to Section 4.

LIBOR shall mean, at any time of determination, and subject to availability, the London Interbank Offered Rate paid in London by JP Morgan Chase Bank on one month, two month, three month, six month, or nine month dollar deposits and if such rates are not otherwise available, then those rates as published, under "Money Rates", in the New York City edition of the Wall Street Journal or if there is no such publication or statement therein as to Libor, then in any publication used in the New York City financial community.

LIBOR LOAN shall mean the loans for which the Company has elected to use Libor for interest rate computations.

LIBOR PERIOD shall mean the Libor for one month, two month, three month, six month or nine month dollar deposits, as selected by the Company.

LIBOR PROCESSING FEE shall mean the sum of $500.00 which the Agent, for its own account, shall be entitled to charge the Company in accordance with, but subject to, the provisions of Section 7 of this Financing Agreement upon the election of a Libor Loan.

LINE OF CREDIT shall mean the commitment of the Lenders acting through the Agent to make loans and advances and issue Letter of Credit Guaranties, all pursuant to and in accordance with, but subject to, Sections 3 and 4 of this Financing Agreement, in the aggregate amount of $140,000,000.00 or such lesser amount as the Company may elect in accordance with Section 7 of this Financing Agreement.

LINE OF CREDIT FEE shall: i) mean the fee due the Agent at the end of each month for the Line of Credit, and ii) be determined by multiplying x) the difference between the Line of Credit less the sum of a) the average daily Revolving Loans outstanding during such month

and b) the average daily undrawn face amount of all outstanding Letters of Credit, for said month by y) three hundred twenty-five hundredths of one percent (.325%) per annum for the number of days in said month during which this Financing Agreement was in effect.

LOAN FACILITY FEE shall mean the fee payable to the Agent for the account of the Lenders in accordance with, and pursuant to, the provisions of Section 7 of this Financing Agreement.

MARGIN SECURITIES shall have the meaning assigned to such term in Regulation G of the Board of Governors of the Federal Reserve System (12 C.F.R. 207, as amended).

NET WORTH shall mean Total Assets of the Company and its Subsidiaries, on a consolidated basis, in excess of Total Liabilities, and determined in accordance with GAAP, on a consistent basis with the latest audited statements of the Company and its Subsidiaries.

OBLIGATIONS shall mean all obligations of the Company to pay, as and when due and payable, all amounts from time to time owing by and in respect of this Financing Agreement or any of loan documents related to this Financing Agreement, including, without limitation, all loans and advances made or to be made by the Lenders or the Agent on behalf of the Lenders to the Company, or to others for the Company's account under this Financing Agreement or any loan document related to this Financing Agreement; any and all indebtedness and obligations which may at any time be owing by the Company under this Financing Agreement or any other loan document related to this Financing Agreement, whether now in existence or incurred by the Company from time to time hereafter; whether secured by pledge, lien upon or security interest in the Company's assets or property or the assets or property of any other person, firm, entity or corporation; whether such indebtedness is absolute or contingent, matured or unmatured, direct or indirect and whether the Company is liable for such indebtedness as principal, surety, endorser, guarantor or otherwise. Obligations shall also include, without duplication of the foregoing, all indebtedness owing by the Company under this Financing Agreement or under any other agreement or arrangement hereafter entered into between the Company and the Agent on behalf of the Lenders, including, but not limited to, obligations to the Lenders or the Agent on behalf of the Lenders in respect of Letters of Credit issued with the assistance of the Letter of Credit Guaranty, indebtedness or obligations incurred by, or imposed on, the Agent or the Lenders as a result of environmental claims arising out of the Company's operations, premises or waste disposal practices or sites, the Company's liability to the Agent on behalf of the Lenders under any instrument of guaranty or indemnity, or arising under any guaranty, endorsement or undertaking which the Agent on behalf of the Lenders may make or issue to others for the Company's accounts, but in no event shall Obligations include any obligations due any affiliate of a Lender.

OTHER COLLATERAL shall mean all of the Company's now owned and hereafter acquired lockbox, blocked account and any other deposit accounts maintained with any bank or financial institutions into which the proceeds of Collateral are or may be deposited; all other deposit accounts; all Investment Property; all cash and other monies and property in the possession or control of the Agent and/or any of the Lenders; all books, records, ledger cards, disks and related data processing software at any time evidencing or containing information relating to any of the Collateral described herein or otherwise necessary or

helpful in the collection thereof or realization thereon; and all cash and non-cash proceeds of the foregoing.

OUT-OF-POCKET EXPENSES shall mean all of the Agent's reasonable and documented out of pocket expenses (including reasonable attorneys' fees) incurred relative to the closing of this Financing Agreement and any amendment, modification or waiver thereof, whether incurred heretofore or hereafter, and, in any case, with appropriate documentation delivered to the Company upon the Company's request, which expenses shall include, without being limited to, the cost of record searches, all costs and expenses incurred by the Agent in opening bank accounts, depositing checks, receiving and transferring funds, and any charges imposed on the Agent due to "insufficient funds" of deposited checks the Agent's standard fee relating thereto, any amounts paid by the Agent on behalf of the Lenders to an Issuing Bank or incurred by or charged to the Agent on behalf of the Lenders by the Issuing Bank under the Letter of Credit Guaranty or the Company's reimbursement agreement, application for letter of credit or other like document which pertain either directly or indirectly to such Letters of Credit, and the Agent's standard and reasonable fees relating to the Letters of Credit and any drafts thereunder, reasonable and documented local counsel fees, if any, fees and taxes relative to the filing of financing statements, and all expenses, costs and fees set forth in Section 9.3 of this Financing Agreement.

PARENT shall mean Big 5 Sporting Goods Corporation, a Delaware corporation.

PATENTS shall mean all of the Company's present and hereafter acquired patents, patent applications, registrations, any reissues or renewals thereof, licenses, any inventions and improvements claimed thereunder, and all general intangible, intellectual property and patent rights with respect thereto of the Company, and all income, royalties, cash and non-cash proceeds thereof.

PERMITTED ENCUMBRANCES shall mean: I) liens expressly permitted, or consented to, by the Agent on behalf of the Lenders in accordance with Section 12.10; II) Customarily Permitted Liens; III) liens granted the Agent on behalf of the Lenders by the Company; IV) liens of judgment creditors, provided such liens do not exceed, in the aggregate, at any time, $1,500,000.00 (other than liens stayed, satisfied, bonded or insured to the reasonable satisfaction of the Agent within a) fifteen (15) calendar days of the date the Company acquired actual knowledge of such judgment lien or b) fifteen (15) calendar days of the date such lien attached by levy, whichever first occurs); V) liens for taxes, levies or assessments not yet due and payable or which are being diligently contested in good faith by the Company by appropriate proceedings, and which liens are not a) senior to the lien of the Agent on behalf of the Lenders; or b) for taxes due the United States of America; VI) liens, if any, given to an Issuing Bank in connection with a Letter of Credit obtained with the assistance of the Letter of Credit Guaranty; VII) liens securing Purchase Money Obligations; VIII) liens and other encumbrances in existence at the date hereof; IX) liens given to issuers of letters of credit issued without the assistance of the Letter of Credit Guaranty provided such liens a) do not secure Indebtedness in excess of $1,500,000.00 in the aggregate at any one time and b) attach only to the Inventory and/or Equipment acquired with the assistance of such letter of credit, provided, however, that any Inventory subject to the lien permitted by this clause ix) shall not be considered Eligible Inventory until such lien is terminated;

X) liens on assets, other than the Collateral, of the Company, to secure the Indebtedness referenced in clause x of the definition of Permitted Indebtedness; xi) liens on the Margin Securities; and XII) any extension, renewal or replacement of any of the foregoing, provided that any extension, renewal or replacement lien shall be limited to the property or assets covered by the lien extended, renewed or replaced and the obligation secured by such extension, renewal or replacement lien shall be in an amount not greater than the obligations secured by the lien extended, renewed or replaced plus the amount of all expenses, fees, premiums and penalties paid in connection with such extension, renewals or replacement.

PERMITTED INDEBTEDNESS shall mean: I) Indebtedness incurred in the ordinary course of business for Inventory, services, taxes or labor; II) Indebtedness arising in connection with Letters of Credit, this Financing Agreement and the loan documents related to this Financing Agreement; III) deferred taxes and other expenses incurred in the ordinary course of business; IV) other Indebtedness existing on the date of execution of this Financing Agreement and listed in the most recent financial statement delivered to the Agent or otherwise disclosed to the Agent in writing prior to the date hereof; V) Indebtedness arising in connection with or secured by, the Permitted Encumbrances; VI) Indebtedness under any letters of credit issued without the assistance of the Letter of Credit Guaranty provided such Indebtedness does not exceed $1,500,000 in the aggregate at any one time; VII) Indebtedness of the Company to the Parent or the Company's Subsidiaries in an amount not to exceed $10,000,000 in the aggregate at any one time; VIII) the Senior Notes; IX) Indebtedness incurred in the form of surety, customs and appeal bonds and other obligations of a similar nature; X) other Indebtedness of the Company in an amount not to exceed $10,000,000.00 in the aggregate at any time outstanding, provided, such Indebtedness is a) not secured by the Collateral and b) not due the Parent or any Subsidiaries of the Company or the Parent; XI) Indebtedness in an aggregate amount not to exceed $15,000,000 at any time which is subordinated to the Obligations on terms and conditions reasonably acceptable to Required Lenders ("New Subordinated Debt"); and XII) any extension, renewal or replacement of any of the foregoing, provided that any extension, renewal or replacement shall be in an amount not greater than the Indebtedness so extended, renewed or replaced (plus the amount of expenses, fees and any premium or penalty paid in connection with such extension, renewal or replacement).

PERMITTED INVESTMENTS shall mean (i) commercial paper and municipal bonds, in each case issued or guaranteed by a Person rated P-1 or better by Moody's Investors Service, Inc. ("Moody's") or A-1 or MIG-1 or better by Standard & Poor's Corporation ("S & P"), (ii) certificates of deposit, time deposits, Eurodollar deposits or bankers' acceptances maturing not more than one year after the date of issue, issued by any commercial banking institution, which is a member of the Federal Reserve System and has a combined capital and surplus and undivided profits of not less than $100,000,000, (iii) repurchase agreements having maturities of not more than one year and which are secured by readily marketable direct obligations of the Government of the United States of America or any agency thereof, (iv) readily marketable obligations of the Government of the United States of America or any agency thereof; (v) readily marketable obligations issued by any state of the United States or any political subdivision thereof having a rating by Moody's or S & P of "A" or its equivalent or better; (vi) Margin Securities and (vii) mutual funds regularly traded in the

United States of America whose investments are limited to those described in clauses (i) through (v) above.

PERSON shall mean an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

PURCHASE MONEY OBLIGATIONS shall mean the Indebtedness (a) incurred to construct, purchase or lease Equipment and/or Real Estate and secured solely by a lien on the Equipment and/or Real Estate, including construction, sale leaseback and mortgage financing incurred in connection with Designated Sale-Leaseback Property; (b) of a Person existing at the time such Person is acquired by, merged into or consolidated with the Company in accordance with this Financing Agreement provided such Indebtedness is not secured by Collateral; or c) secured by property (other than Collateral) acquired by the Company existing at the time such property is or was acquired by the Company.

REAL ESTATE shall mean the Company's leasehold and fee interests in real property.

REASONABLE DISCRETION means the Agent's reasonable discretion in the exercise of its reasonable business judgement using standards customarily applied by the Agent to transactions involving retail clients and taking into account the nature of the Company's business, consistently applied by Agent. When used with respect to determination of reserves, in addition to the foregoing, such standard shall take into consideration amounts representing, historically, the Company's reserves, discounts, returns, claims, credits and allowances.

REPORTING DATE shall mean any date on which the Company is to deliver to the Agent any Collateral report pursuant to Section 3.2 of this Financing Agreement, any financial statement or any other information requested of the Company pursuant to the terms of this Financing Agreement.

REQUIRED LENDERS shall mean Lenders holding more than fifty percent (50%) of the outstanding loans, advances, extensions of credit and letter of credit participation interests of the Company hereunder.

RETAINED CASH shall mean an amount of cash sufficient to provide the Company with cash in an amount necessary to stock the Company's cash registers at its retail locations and consistent with the business practices of the Company.

REVOLVING LOANS shall mean the loans and advances made, from time to time, to or for the account of the Company by the Lenders acting through the Agent pursuant to Section 3 of this Financing Agreement.

SENIOR NOTES shall mean the Company issued 10 7/8% Senior Notes due 2007 in the original amount of $131,000,000.00.

SETTLEMENT DATE shall mean the date, weekly, and more frequently, at the discretion of the Agent, upon the occurrence of an Event of Default or a continuing decline or increase of the

Revolving Loans that the Agent and the Lenders shall settle amongst themselves so that x) the Agent shall not have, as Agent, any money at risk and y) on such Settlement Date the Lenders shall have a pro rata amount of all outstanding Revolving Loans and Letters of Credit, provided that each Settlement Date for a Lender shall be a Business Day on which such Lender and its bank are open for business.

SUBSIDIARY shall mean as to any Person, a corporation, partnership or other entity of which shares of stock or other ownership interest having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Financing Agreement shall refer to a Subsidiary or Subsidiaries of the Company or the Parent.

TOTAL ASSETS shall mean total assets of the Company and its Subsidiaries, on a consolidated basis, determined in accordance with GAAP, on a basis consistent with the latest audited statements of the Company and its Subsidiaries.

TOTAL LIABILITIES shall mean total liabilities of the Company and its Subsidiaries, on a consolidated basis, determined in accordance with GAAP, on a basis consistent with the latest audited statements of the Company and its Subsidiaries.

TRADE ACCOUNTS PAYABLE shall mean, at any time of determination, the amounts due any supplier for Inventory sold to the Company.

TRADE ACCOUNTS RECEIVABLE shall mean, at any time of determination, the amounts due the Company by any i) credit card issuer and ii) any customer obligated on an invoice, in each instance due as a result of a sale of Inventory or the rendition of services by the Company.

TRADEMARKS shall mean all present and hereafter acquired trademarks, trademark registrations, recordings, applications, trade names, trade styles, service marks, prints and labels (on which any of the foregoing may appear), licenses, reissues, renewals, and any other intellectual property and trademark rights pertaining to any of the foregoing, together with the goodwill associated therewith, and all cash and non-cash proceeds thereof.

UCC shall mean the Uniform Commercial Code of the State of California, and any successor statute.

WORKING CAPITAL shall mean Current Assets in excess of Current Liabilities.

SECTION 2. CONDITIONS PRECEDENT

2.1 CONDITIONS TO THE INITIAL EXTENSION OF CREDIT. The obligation of the Lenders acting through the Agent to make loans hereunder is subject to the satisfaction of, or waiver of, immediately prior to or concurrently with the making of such loans, the following conditions precedent:

(a) AMENDMENT OF UCC FILINGS. Amendments to all existing UCC financing statements to amend the collateral descriptions thereunder to match the Collateral description set forth herein. The Agent shall have received acknowledgement copies of all such filings (or, in lieu thereof, Agent shall have received other evidence satisfactory to the Agent that all such filings have been made); and the Agent shall have received evidence that all necessary filing fees and all taxes or other expenses related to such filings have been paid in full.

(b) OPINIONS. Counsel for the Company shall have delivered to the Agent on behalf of the Lenders opinions satisfactory to the Agent opining, inter alia, that, subject to the i) filing, priority and remedies provisions of the Uniform Commercial Code, ii) the provisions of the Bankruptcy Code, insolvency statutes or other like laws, iii) the equity powers of a court of law and iv) such other matters as may be agreed upon with the Lenders, the Financing Agreement of the Company and the Guaranty of the Guarantor x) are valid, binding and enforceable according to their terms, y) are duly authorized and z) do not violate any terms, provisions, representations or covenants in the charter or by-laws of the Company or the Guarantor, or, to the knowledge of such counsel, after reasonable inquiry, of any loan agreement, mortgage, deed of trust, note, security or pledge agreement or indenture, identified by the Company and the Guarantor to such counsel as material, to which the Company and/or the Guarantor is a signatory or by which the Company or the Guarantor or its assets are bound.

(c) ADDITIONAL DOCUMENTS. The Company shall execute and deliver to the Agent for the benefit of the Lenders all loan documents necessary to consummate the lending arrangement contemplated between the Company and the Lenders.

(d) BOARD RESOLUTION. The Agent for the benefit of the Lenders shall have received a copy of the resolutions of the Board of Directors of the Company, authorizing the execution, delivery and performance of (i) this Financing Agreement, and (ii) any related agreements, certified by the Secretary or Assistant Secretary of the Company, as of the date hereof, together with a certificate of the Secretary or Assistant Secretary of the Company as to the incumbency and signature of the officers of the Company executing this Financing Agreement and any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary or Assistant Secretary.

(e) CORPORATE ORGANIZATION. The Agent for the benefit of the Lenders shall have received (i) a copy of the Certificate of Incorporation of the Company certified by the Secretary of State of its incorporation, and (ii) a copy of the By-Laws (as amended through the date hereof) of the Company and certified by the Secretary or Assistant Secretary of the Company.

(f) OFFICER'S CERTIFICATE. The Agent for the benefit of the Lenders shall have received an executed Officer's Certificate of the Company, satisfactory in form and substance to the Agent, certifying that: (i) the representations and warranties contained herein are true and correct in all material respects on and as of the date hereof; (ii) the

Company is in compliance with all of the terms and provisions set forth herein; and (iii) no Event of Default or Default has occurred.

(g) ABSENCE OF DEFAULT. No material adverse change in the financial condition, business, prospects, profits (after giving affect to the seasonal nature of the Company's business), operations or assets of the Company shall have occurred since September 29, 2002. No Default or Event of Default shall exist as of the date of this Financing Agreement.

(h) LEGAL RESTRAINTS/LITIGATION. At the date of execution of this Financing Agreement, there shall be, to the actual knowledge of the management of the Company or to the actual knowledge of any Lender, no x) litigation, investigation or proceeding (judicial or administrative) pending or threatened against the Company or its assets, by any agency, division or department of any county, city, state, province or federal government arising out of this Financing Agreement, or the financing arrangement contemplated under this Financing Agreement, y) injunction, writ or restraining order restraining or prohibiting the consummation of the financing arrangements contemplated under this Financing Agreement or z) suit, action, investigation or proceeding (judicial or administrative) pending or threatened against the Company, or its assets, which, is reasonably likely to result in a material adverse effect on the business, operation, assets or financial condition of the Company or the Collateral.

(i) CONFIRMATION OF GUARANTY. The Guarantor shall have executed and delivered to the Agent, for the benefit of the Lenders, a confirmation of the continued effectiveness of its guaranty, in form and substance reasonably acceptable to the Agent.

Upon the execution of this Financing Agreement and the initial disbursement of loans hereunder, all of the above Conditions Precedent shall have been deemed satisfied except as the Company and the Agent shall otherwise agree herein or in a separate writing.

2.2 CONDITIONS TO EACH EXTENSION OF CREDIT.

(a) Subject to the terms of this Financing Agreement, including without limitation the Agent's rights pursuant to Section 10.2 hereof, the agreement of the Agent on behalf of the Lenders to make any extension of credit requested to be made by it to the Company on any date (including, without limitation, the initial extension of credit) is subject to the satisfaction of the following conditions precedent:

(i) Representations and Warranties - Each of the representations and warranties made by the Company in or pursuant to this Financing Agreement shall be true and correct in all material respects on and as of such date as if made on and as of such date.

(ii) No Default - No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the extension of credit requested to be made on such date.

(iii) Borrowing Base - Subject to the last sentence of Section 3.1 and after giving effect to the extension of credit requested to be made by the Company on such date, the aggregate outstanding balance of the Revolving Loans and outstanding Letters of Credit owing by the Company will not exceed the amount calculated as (A) the lesser of (i) the Revolving Line of Credit or (ii) the Borrowing Base, minus (B) the Availability Reserves.

(b) Each borrowing by the Company hereunder shall constitute a representation and warranty by the Company as of the date of such loan or advance that each of the representations, warranties and covenants contained in the Financing Agreement have been satisfied and are true and correct, except as the Company and the Agent and/or the Required Lenders shall otherwise agree herein or in a separate writing.

SECTION 3. REVOLVING LOANS

3.1 The Lenders, acting through the Agent, agree, subject to the terms and conditions of this Financing Agreement from time to time, and within x) the Availability and y) the Line of Credit, but subject to the Agent's and the Lenders' (acting through the Agent) rights to make "Overadvances", to make loans and advances to the Company on a revolving basis, and subject to the limitations set forth herein, the Company may borrow, repay and re-borrow Revolving Loans. All Revolving Loans shall be made by the Lenders simultaneously and in accordance with their pro rata shares. It is understood that (i) no Lender shall be responsible for any failure by any other Lender to perform its obligation to make any Revolving Loans hereunder, nor shall any commitment of any Lender be increased or decreased as a result of any failure by any other Lender to perform its obligation to make any Revolving Loans hereunder, (ii) no failure by any Lender to perform its obligation to make any Revolving Loans hereunder shall excuse any other Lender from its obligation to make any Revolving Loans hereunder, and (iii) the obligations of each Lender hereunder shall be several, not joint and several. Prior to an updated appraisal performed by Agent, such loans shall be in amounts up to seventy percent (70%) of Eligible Inventory during the months of November, December, January and February of each year, and sixty-five percent (65%) of Eligible Inventory during the months of March through October of each year. Following an appraisal performed by Agent, such loans and advances shall be in amounts up to the lesser of (i) seventy-five percent (75%) of Eligible Inventory during the months of November, December, January and February of each year, and seventy percent (70%) of Eligible Inventory during the months of March through October of each year; or (ii) eighty-five percent (85%) of the orderly liquidation value (net of all costs and expenses) of the Eligible Inventory. The value of Eligible Inventory shall be determined at cost, by the cost inventory method, using a valuation on a first in, first out basis in accordance with GAAP excluding capitalized buying, handling and distribution costs, as reflected on the Company's books and records. The net orderly liquidation value of the Eligible Inventory shall be determined from time to time in the Agent's Reasonable Discretion taking into account the results of the latest appraisal. All requests for loans and advances (other than LIBOR Loans) must be received by an officer of the Agent no later than 2:00 p.m. New York time on the Business Day on which such loans and advances are required. Should the Company request advances in excess of the limitations set forth in the fourth sentence, or, following an appraisal, fifth sentence, as the case may be, of this

Section 3.1, such advances shall be considered "Overadvances" and, shall be made by the Agent only with the consent of the Required Lenders and in the sole discretion of the Required Lenders, subject to any additional terms the Required Lenders deem necessary, and subject to the terms and provisions of clause (c) of Section 12.10 hereof.

3.2 In furtherance of the continuing collateral assignment and security interest in the Company's Accounts and Inventory, the Company shall deliver to the Agent not later than: 1) thirty (30) days after the end of each month an aging of the Company's Trade Accounts Receivable in such form and manner as the Agent may reasonably require but consistent with the current practices of the Company (provided, however, that such aging reports shall not be required in any month when the amount of the Trade Accounts Receivable are less than $3,500,000.00); 2) fourteen (14) days after the end of each month (other than October, November and December), a monthly inventory confirmation statement stating the aggregate amount of Eligible Inventory of the Company; and 3) five (5) Business Days after each Sunday in the months of October, November and December, a weekly Inventory confirmation statement stating the aggregate amount of Eligible Inventory of the Company. With respect to all such reports, the Company will provide to the Agent such additional information and material as the Agent may reasonably request to effectively evaluate the Trade Accounts Receivable and the collectability thereof and the mix of the Inventory and such other information as the Agent may reasonably require to evaluate the Company's Trade Accounts Receivable and Inventory, such as returns, claims, credits, allowances and information identifying and describing the Trade Accounts Receivable. Failure to provide the Agent with the foregoing information will in no way effect, diminish, modify, or limit the security interest granted herein. Such reports are to be executed by a responsible officer of the Company.

3.3 The Company hereby represents and warrants that: a) sales of Inventory are, and shall be, based upon actual and bona fide sales and deliveries of Inventory x) in the ordinary course of the Company's business, y) in connection with the liquidation of an immaterial portion of the Inventory or z) after the occurrence of a casualty loss, bulk sales of salvageable Inventory, and that, in any instance, the Inventory being sold and the proceeds thereof are the exclusive property of the Company and are not and shall not be subject to any lien, charge, arrangement, encumbrance, security interest, or financing statement whatsoever other than the Permitted Encumbrances, provided, however that if there is then no Default or Event of Default, the Company may make charitable transfers of Inventory in an amount not to exceed $1,000,000.00 in any fiscal year; b) invoices representing Trade Accounts Receivable or credit card receipts evidencing credit card sales are in the name of the Company and except for disputes, offsets, defenses, counterclaims, contras, returns or credits, all arising in the normal course of the Company's business or except as may be promptly disclosed to the Agent, the purchasers of such Inventory owe and are obligated to pay the amount stated in the invoices or credit card receipts; and c) except for the Permitted Encumbrances, any and all taxes and fees relating to its business are the Company's sole responsibility and that same will be paid when due (except as otherwise provided in this Financing Agreement), and that none of said taxes or fees represent a lien on or claim against the proceeds of any sale of Inventory. The Company agrees to issue credit memoranda promptly. The Company also warrants and represents that it is a duly and validly existing corporation and is qualified to transact business in all states where the

failure to so qualify would have a material adverse effect on the business of the Company or the ability of such Company to enforce collection of Trade Accounts Receivable due from Persons residing in that state.

3.4 During the term of this Financing Agreement, the Company may and will, at its expense, consistent with the Company's existing business practices, enforce, collect and receive all amounts owing on the Accounts. Except for the Retained Cash, all checks or cash from the sale of Inventory must be deposited promptly to the Depository Accounts, and promptly thereafter and therefrom, to a Blocked Account. The Company shall require that all amounts due under credit card sales be remitted by the credit card companies to a Blocked Account. The Company agrees that it will only direct the flow of funds from the Depository Accounts and the credit card remitters to the Blocked Accounts. The institutions holding such Blocked Accounts will be instructed that when it is satisfied that such funds on deposit are "good funds", such institution will remit such "good funds" to the Company's operating account. Notwithstanding anything herein contained to the contrary, if x) there is then an Event of Default or y) the Company has Availability of less than zero ($0) for three (3) consecutive Business Days, then the Agent, acting on behalf of the Lenders, may advise the banks holding the Blocked Accounts to remit all proceeds of Collateral to the Agent for the account of the Lenders. The Agent will immediately rescind these instructions a) upon the waiver of the Event of Default and b) when the Company has Availability of zero ($0) or greater. All amounts received by the Agent for the account of the Lenders will be credited to the Obligations upon the Agent's receipt of "good funds" at its bank account in New York, New York on the Business Day of receipt if received no later than 2 p.m. New York time or on the next succeeding Business Day if received after 2 p.m. New York time. No checks, drafts or other instruments received by the Agent will constitute final payment unless and until such instruments have actually been collected. If the loan account reflects a zero Revolving Loan balance and there is then no Event of Default, then the Agent shall promptly remit to the operating account of the Company any credit balances in the loan account.

3.5 The Agent shall maintain a separate account on its books in the Company's name in which the Company will be charged with loans, advances and payments under the Letter of Credit Guaranty, made to the Company or for its account, and with any other Obligations, including any and all reasonable costs, expenses and reasonable and documented attorney's fees which the Agent may incur in connection with the exercise of any of the rights or powers herein conferred or in the prosecution or defense of any action or proceeding to enforce or protect any rights of the Agent or of any Lender in connection with this Financing Agreement or the Collateral assigned hereunder, or any Obligations owing by the Company. The Company will be credited with all amounts received by the Agent from the Company or from others for the Company's account, including, as above set forth, all amounts received by the Agent in payment of Accounts and such amounts will be applied to payment of the Obligations. In no event shall prior recourse to any Accounts or other security granted to or by the Company be a prerequisite to the Agent's right to demand payment of any Obligation. Further, it is understood that neither the Agent nor any Lender shall have any obligation whatsoever to perform in any respect any of the Company's contracts or obligations relating to the Accounts.

3.6 After the end of each month, the Agent, on its own behalf and/or acting on behalf of the Lenders, shall promptly send the Company a statement showing the accounting for the charges, loans, advances, payments under the Letter of Credit Guaranty, and other transactions occurring between the Agent, on its own behalf, and/or acting on behalf of the Lenders and the Company during that month. The monthly statement shall be deemed correct and binding upon the Company and shall constitute an account stated between the Company, the Agent, and the Lenders unless the Agent receives a written statement of the exceptions within thirty (30) days of the date of the monthly statement.

3.7 In the event that (a) the sum of (i) the outstanding balance of Revolving Loans plus (ii) the outstanding balance of Letters of Credit exceeds (b) the amount calculated as (i) the lesser of (A) the Revolving Line of Credit or (B) the Borrowing Base, minus (ii) the Availability Reserves, any such nonconsensual Overadvance shall be due and payable to Agent immediately upon Agent's demand therefor; provided, however, that any consensual Overadvance made pursuant to Section 3.1 hereof shall be due as and when specified in the requisite consent of Required Lenders.

SECTION 4. LETTERS OF CREDIT

In order to assist the Company in establishing or opening i) documentary Letters of Credit with an Issuing Bank to cover the purchase and importation of inventory and ii) standby Letters of Credit with an Issuing Bank to cover such other matters as the Company may so decide, other than for the purchase of Inventory or to secure present or future Trade Accounts Payable, the Company has requested the Agent, acting on behalf of the Lenders, to join in the applications for such Letters of Credit, and/or guarantee payment or performance of such Letters of Credit and any drafts or acceptances thereunder through the issuance of the Letters of Credit Guaranty, thereby lending the Lenders' credit to the Company and the Lenders, acting through the Agent, have agreed to do so. These arrangements shall be handled by the Agent, acting on behalf of the Lenders, subject to the terms and conditions set forth below.

4.1 Within the Line of Credit and subject to Availability, the Lenders, acting through the Agent, shall assist the Company in obtaining such Letters of Credit in an amount not to exceed $15,000,000.00 in the aggregate outstanding at any one time. The Agent's assistance with respect to Letters of Credit for amounts in excess of the limitations set forth herein shall at all times and in all respects be in the Agent's sole discretion. Notwithstanding anything herein to the contrary, upon the occurrence of a Default and/or an Event of Default, the Agent's assistance with respect to any Letters of Credit shall be in the Agent's sole discretion unless such Event of Default is waived in writing, or such Default is cured to the Agent's satisfaction in the exercise of its reasonable business judgment during any applicable grace or cure period.

4.2 The Agent, acting on behalf of the Lenders, shall have the right, without notice to the Company, to charge the loan account with the amount of any and all indebtedness, liability or obligation of any kind paid or incurred under the Letters of Credit Guaranty at the earlier of: a) payment by the Agent under the Letters of Credit Guaranty, or b) termination of this Financing Agreement in accordance with Section 10 of this Financing

Agreement. Any amount so charged to the loan account shall be charged against any credit balances then in the loan account, and if there are then insufficient credit balances then to the extent of such insufficiency such amount shall be deemed a Revolving Loan hereunder and shall incur interest at the rate provided for in Section 7.1 of this Financing Agreement.

4.3 [Intentionally Left Blank].

4.4 In connection with any Letter of Credit, neither the Agent nor any Lender shall be responsible for: the existence, character, quality, quantity, condition, packing, value or delivery of the goods purporting to be represented by any documents; any difference or variation in the character, quality, quantity, condition, packing, value or delivery of the goods from that expressed in the documents; the validity, sufficiency or genuineness of any documents or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged, other than as a result of the gross negligence of the Agent and/or any Lender; the time, place, manner or order in which shipment is made; partial or incomplete shipment, or failure or omission to ship any or all of the goods referred to in the Letters of Credit or documents; any deviation from instructions; delay, default, or fraud by the shipper and/or anyone else in connection with any Inventory which is the subject of any Letter of Credit or the shipping thereof; or any breach of contract between the shipper or vendors and the Company. Furthermore, without being limited by the foregoing, neither the Agent nor any Lender shall be responsible for any act or omission with respect to or in connection with any Inventory which is the subject of any Letter of Credit.

4.5 In connection with any Letter of Credit, the Company agrees that any action taken by the Agent, if taken in good faith, or any action taken by any Issuing Bank, under or in connection with the Letters of Credit, the guarantees, the drafts or acceptances, or the Collateral, shall, as between the Company and the Agent, be binding on the Company and shall not put the Agent or any Lender in any resulting liability to the Company other than as a result of the gross negligence or willful misconduct of the Agent or such Lender. After the occurrence of an Event of Default which is not waived, the Agent shall have the full right and authority to clear and resolve any questions of non-compliance of documents; to give any instructions as to acceptance or rejection of any documents or goods; to execute any and all steamship or airways guaranties (and applications therefor), indemnities or delivery orders; to grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances, or documents; and to agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letters of Credit, drafts or acceptances; all in the Agent's sole name, and the Issuing Bank shall be entitled to comply with and honor any and all such documents or instruments executed by or received solely from the Agent, all without any notice to or any consent from the Company, provided, however, that the Agent shall give the Company notice of the acceptance or rejection of any goods.

4.6 In connection with any Letter of Credit, without the Agent's express consent (which consent shall not be unreasonably withheld) and, where applicable, endorsement in writing, the Company agrees: a) not to execute any and all applications for steamship or airway guaranties, indemnities or delivery orders; to grant any extensions of the maturity of,

time of payment for, or time of presentation of, any drafts, acceptances or documents; or to agree to any amendments, renewals, extensions, modifications or changes of any of the terms or conditions of any of the Letters of Credit, applications, drafts or acceptances; and b) after the occurrence of an Event of Default which is not waived, not to i) clear and resolve any questions of non-compliance of documents, or ii) give any instructions as to acceptance or rejection of any documents or goods.

4.7 In connection with any Letter of Credit, the Company agrees that any necessary import, export or other licenses or certificates for the import or handling of the Inventory will have been promptly procured, and all foreign and domestic governmental laws and regulations in regard to the shipment and importation of the Inventory, or the financing thereof will have been promptly and fully complied with, except to the extent that any such non-procurement or non-compliance will not have a material adverse effect on such Inventory; and any certificates in that regard that the Agent, on behalf of the Lenders, may at any time reasonably request will be promptly furnished. In this connection, the Company warrants and represents that, to its actual knowledge, all shipments made under any of the Letters of Credit are in accordance with the laws and regulations of the countries in which the shipments originate and terminate, and are not prohibited by any such laws and regulations, except to the extent that any failure to so comply will not have a material adverse effect on such shipments. The Company assumes all risk, liability and responsibility for, and agrees to pay and discharge, all present and future local, state, federal or foreign taxes, duties, or levies in connection with any Inventory or goods purchased, imported or acquired under the Letter of Credit. Any embargo, restriction, laws, customs or regulations of any country, state, province, city, or other political subdivision, where the Inventory is or may be located, or wherein payments are to be made, or wherein drafts may be drawn, negotiated, accepted, or paid, shall be solely the Company's risk, liability and responsibility.

4.8 Upon any payments made to the Issuing Bank under the Letter of Credit Guaranty, the Agent, for the benefit of the Lenders, shall acquire by subrogation, any rights, remedies, duties or obligations granted or undertaken by the Company to the Issuing Bank in any application for Letters of Credit, any standing agreement relating to Letters of Credit or otherwise, all of which shall be deemed to have been granted to the Agent for the benefit of the Lenders and apply in all respects to the Agent and the Lenders and shall be in addition to any rights, remedies, duties or obligations contained herein.

4.9 Nothing in this Financing Agreement is intended to relieve any Issuing Bank from any liability to any Person.

SECTION 5. COLLATERAL

5.1 As security for the prompt payment in full of all loans and advances made and to be made to the Company from time to time by the Agent on behalf of the Lenders pursuant hereto, as well as to secure the payment in full of the other Obligations, the Company hereby pledges and grants to the Agent for the benefit of the Lenders a continuing general lien upon and security interest in all of its:

(a) Accounts;

(b) Documents of Title;

(c) Equipment;

(d) General Intangibles;

(e) Inventory; and

(f) Other Collateral.

5.2 The security interests granted hereunder shall extend and attach to:

(a) All Collateral which is presently in existence and which is owned by the Company or in which the Company has any interest (but only to the extent of such interest), whether held by the Company or others for its account;

(b) All Inventory and any portion thereof which may be returned, rejected, reclaimed or repossessed by either the Agent or the Company from any of the Company's customers, as well as to all supplies, goods, incidentals, packaging materials, labels and any other items which contribute to the finished goods or products manufactured or processed by the Company, or to the sale, promotion or shipment thereof.

5.3 The Company agrees to take reasonable steps, consistent with current business practices, to safeguard, protect and hold all Inventory and make no disposition thereof except in the manner or for the purpose described in Section 3.3 of this Financing Agreement. Inventory may be sold and shipped by the Company to its customers in the ordinary course of the Company's business, and the Company will collect all proceeds of such sales, consistent with reasonable business practices in existence on the date of execution of this Financing Agreement or consistent with the business practices of like companies in the retail industry, provided, however, that all proceeds of all such sales (including cash, checks and instruments for the payment of money), other than the Retained Cash, are promptly deposited in accordance with Section 3.4 of this Financing Agreement. Upon the sale, exchange, or other disposition of Inventory, as herein provided, the security interest in the Inventory provided for herein shall, without break in continuity and without further formality or act, continue in, and attach to, the proceeds, including any instruments for the payment of money, accounts receivable, contract rights, documents of title, shipping documents, chattel paper and all other cash and non-cash proceeds of such sale, exchange or disposition. As to any such sale, exchange or other disposition, the Agent on behalf of the Lenders shall have a security interest in all of the rights of the Company as an unpaid seller, including stoppage in transit, replevin, rescission and reclamation. The Company hereby agrees to immediately forward any and all proceeds of Collateral (other than Retained Cash) to the Depository Account, and to hold any such proceeds (including any notes and instruments), in trust for the Agent, on behalf of the Lenders, pending delivery to the Agent. Irrespective of the Agent's perfection status in any and all of the General Intangibles, including, without limitations, any Patents, Trademarks, Copyrights or licenses with respect thereto, the Company hereby irrevocably grants the Agent a royalty free license to sell, or

otherwise dispose of or transfer, in accordance with Section 9.3 of this Financing Agreement, and the applicable terms hereof, any of the Inventory upon the occurrence of an Event of Default which has not been waived in writing by the Agent.

5.4 The rights and security interests granted to the Agent for the benefit of the Lenders hereunder are to continue in full force and effect, notwithstanding the termination of this Financing Agreement or the fact that the loan account on the books of the Agent may from time to time be temporarily in a credit position, until the satisfaction in full of all Obligations and the termination of this Financing Agreement. Any delay or omission by the Agent to exercise any right hereunder, shall not be deemed a waiver thereof, or be deemed a waiver of any other right, unless such waiver shall be in writing and signed by the Agent. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion. Upon satisfaction in full of all Obligations and the termination of this Financing Agreement, the Agent will take, at the Company's request and expense, all actions and do all things reasonably necessary to release the rights and security interests in the Collateral, and upon any partial release of Collateral, the Agent will take, at the Company's request and expense, all actions and do all things reasonably necessary to release the rights and security interests in the Collateral that is the subject of such partial release.

5.5 To the extent that the Obligations are now or hereafter secured by any assets or property other than the Collateral or by the guarantee, endorsement, assets or property of any other person, then the Agent shall have the right in its sole discretion to determine which rights, security, liens, security interests or remedies the Agent shall at any time pursue, foreclose upon, relinquish, subordinate, modify or take any other action with respect to, without in any way modifying or affecting any of them, or any of the Agent's or any Lenders' rights hereunder.

5.6 Any reserves or credit balances in the loan account and any other property or assets of the Company in the possession of the Agent may be held by the Agent as security for any Obligations and applied in whole or partial satisfaction of such Obligations when due. The liens and security interests granted herein and any other lien or security interest the Agent may have in any other assets of the Company, shall secure payment and performance of all now existing and future Obligations. The Agent may, in its Reasonable Discretion, charge any or all of the Obligations to the Revolving Loan Account when due.

5.7 The Company possesses all General Intangibles and rights thereto necessary to conduct its business as conducted as of the Closing Date and the Company shall maintain its rights in, and the value of, the foregoing in the ordinary course of its business, including, without limitation, by making timely payment with respect to any applicable licensed rights. The Company shall deliver to the Agent, and/or shall cause the appropriate party to deliver to the Agent, from time to time such pledge or security agreements with respect to General Intangibles (now or hereafter acquired) of the Company and its subsidiaries as the Agent shall reasonably require to obtain valid first liens thereon (subject to the Permitted Encumbrances set forth in the definition thereof in clauses (i) (if and to the extent consented to by Lenders as senior liens), (ii), (vi), (vii), (ix), (x), (xi), and, with respect to such clauses only, (xii)). In furtherance of the foregoing, the Company shall provide timely notice to the

Agent of any additional Patents, Trademarks, trade names, service marks, Copyrights, brand names, trade names, logos and other trade designations acquired or applied for subsequent to the Closing Date and the Company shall execute such documentation as the Agent may reasonably require to obtain and perfect its lien thereon. The Company hereby irrevocably grants to the Agent a royalty-free, non-exclusive license in the General Intangibles, including trade names, Trademarks, Copyrights, Patents, licenses, and any other proprietary and intellectual property rights and any and all right, title and interest in any of the foregoing, for the sole purpose, upon the occurrence and during the continuance of an Event of Default, of having the right to advertise for sale and sell or transfer any Inventory bearing any of the General Intangibles, and apply the proceeds thereof to the Obligations hereunder, all as further set forth in this Financing Agreement and irrespective of the Agent's lien and perfection in any General Intangibles.

SECTION 6. REPRESENTATIONS, WARRANTIES AND COVENANTS

6.1 The Company hereby warrants and represents that: i) the fair value of its assets exceed the book value of its liabilities; ii) the Company is generally able to pay its debts as they become due and payable; and iii) the Company does not have unreasonably small capital to carry on its business as it is currently conducted absent extraordinary and unforeseen circumstances. The Company further warrants and represents that except for the Permitted Encumbrances and liens of which the Agent is aware on the date hereof, each of the security interests granted herein constitute and shall at all times constitute the first and only liens on the Collateral. Further, that except for the Permitted Encumbrances, the Company is or will be at the time additional Collateral is acquired by it, the absolute owner of the Collateral with full right to pledge, sell, consign, transfer and create a security interest therein, free and clear of any and all claims, consignments, or liens in favor of others, that the Company will, at its expense, defend the same from any and all claims and demands (other than the Permitted Encumbrances) of any other person.

6.2 The Company agrees to maintain accurate books and records pertaining to the Collateral. Prior to the occurrence of an Event of Default, the Agent, accompanied by the Lenders or their respective agents may, from time to time (but no more than twice per fiscal year of the Company) upon reasonable notice, enter upon the Company's premises at any time during normal business hours, or at such other times as the Agent and the Company may agree upon, for the purpose of inspecting the Collateral and any and all records pertaining thereto, all at the Agent's and the applicable Lender's expense. During the continuance of an Event of Default, the Agent, accompanied by the Lenders or their respective agents may, at the Company's expense, enter the Company's premises, upon reasonable notice and during normal business hours, and as often as the Agent deems reasonably necessary, to inspect the Collateral and the books and records of the Company. The Company agrees to afford the Agent prior written notice of any change in the location of any Collateral, other than to locations that are known to the Agent and at which the Agent has otherwise fully perfected its liens thereon. Set forth on Schedule I hereto is a list of all of the Company's retail stores and the addresses of such stores. The Company is also to advise the Agent promptly, in sufficient detail, of any material adverse change relating to the type, quantity or quality of the Collateral or on the security interests granted to the Agent therein.

6.3 [Intentionally Left Blank].

6.4 The Company agrees to comply with the requirements of all state and federal laws in order to grant to the Agent for the benefit of the Lenders valid and perfected first security interests in the Collateral, subject only to the Permitted Encumbrances. The Agent is hereby authorized by the Company, to the extent permitted by applicable law, to file any financing statements covering the Collateral whether or not the Company's signature appears thereon and the Agent agrees to provide the Company with copies of such financing statements. The Company hereby consents to and ratifies any and all execution and/or filing of financing statements on or prior to the Closing Date by the Agent. The Company agrees to do whatever the Agent may reasonably request, from time to time, by way of: filing notices of liens, financing statements, amendments, renewals and continuations thereof; cooperating with the Agent's employees and agents; keeping Inventory stock records; transferring proceeds of Collateral to the Agent's possession in accordance with the terms of this Financing Agreement; and performing such further acts as the Agent on behalf of the Lenders may reasonably require in order to effect the purposes of this Financing Agreement.

6.5 The Company agrees to i) maintain on Inventory, insurance under such policies of insurance, with such insurance companies, in such reasonable amounts and covering such insurable risks on as is reasonably acceptable to the Agent and ii) maintain or caused to be maintained on Real Estate and Equipment, insurance under such policies of insurance with such insurance companies selected by the Company, on terms no less favorable than the insurance coverage in place as of the date hereof (other than with respect to the deductible amounts and limits of such coverage). All policies covering the Inventory are, subject to the rights of any holders of Permitted Encumbrances holding claims senior to the Agent, to be made payable to the Agent on behalf of the Lenders under a standard non-contributory "mortgagee", "lender" or "secured party" clause and are to contain such other provisions as the Agent may reasonably require to fully protect by insurance the Agent's interest in the Inventory and to any payments to be made under such policies with respect to the Inventory. All original policies or true copies thereof or certificates thereof are to be delivered to the Agent, with all premiums current with the loss payable endorsement in the Agent's favor, and shall provide for not less than ten (10) days prior written notice to the Agent of the exercise of any right of cancellation. If the Company fails to maintain such insurance, the Agent may arrange for such insurance, but at the Company's expense and without any responsibility on the Agent's or any Lender's part for: obtaining the insurance, the solvency of the insurance companies, the adequacy of the coverage, or the collection of claims. Upon the occurrence of an Event of Default which is not waived, the Agent shall, subject to the rights of any holders of Permitted Encumbrances holding claims senior to the Agent, have the sole right, in the name of the Agent or the Company, to file claims under any insurance policies with respect to the Inventory, to receive, receipt and give acquittance for any payments that may be payable thereunder with respect to the Inventory, and to execute any and all endorsements, receipts, releases, assignments, reassignments or other documents that may be necessary to effect the collection, compromise or settlement of any claims with respect to the Inventory under any such insurance policies. In the event of any loss or damage by fire or other casualty, insurance proceeds relating to Collateral shall be deposited in the Depository Accounts in accordance with Section 3.4 of this Financing Agreement.

6.6 The Company agrees to pay, when due, all local, domestic and foreign (as applicable) taxes, assessments, and other charges (herein "taxes") lawfully levied or assessed upon the Company or the Collateral, provided, however, that such taxes need not be paid on or before the date fixed for payment thereof if: i) such taxes are being diligently contested by the Company in good faith and by appropriate proceedings; ii) the Company establishes such reserves as may be required by GAAP; iii) such taxes are not secured by a filed lien which is senior to the liens of the Agent on the Collateral and iv) such taxes secured by a filed lien are not due the United States of America. To prevent the imminent foreclosure of any tax liens (whether such liens are senior or junior to the liens of the Agent) or in the event the Agent on behalf of the Lenders is exercising its remedies as a secured creditor on Collateral, then the Agent may, on the Company's behalf, pay any taxes then due and secured by a lien on the Collateral and the amount thereof shall be an Obligation secured hereby.

6.7 Subject to the provisions of Section 6.6 above, the Company: (a) agrees to comply with all acts, rules, regulations and orders of any legislative, administrative or judicial body or official, including, but not limited to, the Fair Labor Standards Act, as set forth in Section 201 through Section 219 of Title 29 of the United States Code, which the failure to comply with would have a materially adverse impact on the Collateral, or on the operation of the business of the Company, provided that the Company may contest any acts, rules, regulations, orders and directions of such bodies or officials in any reasonable manner which will not materially adversely effect the Agent's liens or priority in the Collateral; and (b) agrees to comply with all environmental statutes, acts, rules, regulations or orders as presently existing or as adopted or amended in the future, applicable to the ownership and/or use of its Real Estate and operation of its business, which the failure to comply with would have a materially adverse impact on any material part of the Collateral, or on the operation of the business of the Company. The Company shall not be deemed to have breached any provision of this Section 6.7 if (i) the failure to comply with the requirements of this Section 6.7 resulted from good faith error or innocent omission, (ii) the Company promptly commences and diligently pursues a cure of such breach and such cure is eventually, within a reasonable time frame based upon the circumstances and the amount of work required, completed and (iii) such failure has not resulted in a materially adverse effect on any material portion of the Collateral or the business, financial condition or operations of the Company.

6.8 Until termination of this Financing Agreement and satisfaction in full of all Obligations due hereunder, the Company agrees that, unless the Agent shall have otherwise consented in writing, the Company will furnish, or cause to be furnished, to the Agent, not later than: (a) one hundred and twenty (120) days after the end of each fiscal year of the Company, an audited Consolidated Balance Sheet as at the close of such year and consolidated statements of operations, cash flows, shareholders' equity and reconciliation of surplus of the Parent, the Company and their Subsidiaries for such year, audited by independent public accountants selected by the Company and satisfactory to the Agent, (the Agent hereby agrees that KPMG Peat Marwick is satisfactory to the Agent); (b) forty-five (45) days after the end of each month, other than a month that constitutes a fiscal year end, a Consolidated Balance Sheet as at the end of such period and consolidated statements of operations and cash flows of the Parent, the Company and their Subsidiaries for such period,

certified by an authorized financial or accounting officer of the Company; and (c) a reasonable time after request, such further information regarding the business affairs and financial condition of the Company as the Agent may reasonably request, including, without limitation, annual cash flow projections in form reasonably satisfactory to the Agent. Each financial statement required to be submitted under clauses a and b above must be accompanied by an Officer's Certificate, signed by the President, Senior Vice President, Vice President, Controller, or Treasurer, of the Company pursuant to which such officer must certify that: (i) the financial statement(s) fairly and accurately represent(s) the financial condition of Parent, the Company and their Subsidiaries, at the end of the particular accounting period, as well as the operating results of Parent, the Company and their Subsidiaries, during such accounting period, subject to year-end audit adjustments; (ii) during the particular accounting period: (x) there has been no Default or Event of Default under this Financing Agreement, provided, however, that if any such officer has knowledge that any such Default or Event of Default has occurred during such period, the existence of and a detailed description of same shall be set forth in such Officer's Certificate; and (y) a senior officer of the Company has not received any notice of cancellation with respect to its property insurance policies or certifying as to replacement policies therefor; and (iii) the exhibits attached to such monthly and annual financial statement(s) constitute detailed calculations showing compliance with all financial covenants applicable for such period, if any, contained in this Financing Agreement. Notwithstanding anything in this Financing Agreement to the contrary, should the Parent purchase the assets of, or capital stock of, a Person, or create or incorporate another Person of which it owns a majority of such Person's capital stock, then the references to Consolidated Balance Sheet shall mean the Consolidated Balance Sheet of the Company and its Subsidiaries only and all references to Parent and its Subsidiaries shall, without further action, be immediately deleted from this Section 6.8.

6.9 The Company and its Subsidiaries shall have, as of the end of each fiscal quarter, on a consolidated basis, a Net Worth, as defined herein, of not less than ($50,000,000.00).

6.10 Until termination of this Financing Agreement and satisfaction of all Obligations due hereunder, the Company agrees that, without the prior written consent of the Agent, except as otherwise herein provided, the Company will not:

A. Incur, create, assume or permit any lien, charge, security interest, encumbrance or judgment, (whether as a result of a purchase money or title retention transaction, or other security interest, or otherwise) to exist on i) the Collateral, except for the Permitted Encumbrances and ii) any of its other assets whether real, personal or mixed, whether now owned or hereafter acquired, except for the Permitted Encumbrances;

B. Incur or create any Indebtedness other than the Permitted Indebtedness;

C. Except for Permitted Indebtedness, borrow any money on the security of the Collateral from sources other than the Agent acting on behalf of the Lenders;

D. Sell, lease, assign, transfer or otherwise dispose of i) Collateral, except as otherwise specifically permitted by this Financing Agreement, or ii) either all or substantially all of the other assets of the Company;

E. Merge, consolidate or otherwise alter or modify its corporate name, principal place of business, jurisdiction of incorporation, structure or existence, or enter into or engage in any operation or activity materially different from that presently being conducted by the Company or otherwise related to the retail sporting goods industry, provided, however, that on fifteen (15) days prior notice to the Agent, the Company may, without obtaining the consent of the Agent or any Lender i) merge its Subsidiaries or a Person into itself provided x) the Company is the survivor of the mergers; y) no liens on the assets of the Subsidiaries or the Person survive such merger other than liens that constitute Permitted Encumbrances; z) such Person was an entity with its principal place of business, state of formation and assets in the United States of America; aa) such Person was engaged in the retail sporting goods industry; and bb) the Company, immediately after giving effect to such merger, is in full compliance with all of the terms and provisions of this Financing Agreement, provided, however, that such Person's or Subsidiary's Inventory shall not be deemed Eligible Inventory until such time as the Agent has completed to its reasonable satisfaction an examination and review of such Inventory and such Person's or Subsidiary's books and records; and ii) alter or modify its corporate name or principal place of business;

F. Assume, guarantee, endorse, or otherwise become liable upon the obligations of any person, firm, entity or corporation, other than i) by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, ii) pursuant to obligations in effect on the date hereof, iii) in connection with subleases pursuant to which the Company is the sub-lessor, iv) home relocation loans to or on behalf of employees or v) in the ordinary course of the Company's business or for purposes deemed reasonable by the Company provided such obligations under this clause v) shall not exceed $10,000,000.00 in the aggregate at any one time;

G. Declare or pay any dividend of any kind on, or purchase, acquire, redeem or retire, any of its capital stock or equity interest of any class whatsoever, whether now or hereafter outstanding, except that (i) the Company may declare and pay dividends on its capital stock: (a) in cash (and not subject to any limitation based upon Company Liquidity) in (1) amounts sufficient to enable the Parent to (y) pay income or franchise taxes of the Company due as a result of the filing of a consolidated, combined or unitary tax return in which the operations of the Company are included, and (z) reimburse the Parent for out-of-pocket expenses incurred by the Parent for the joint or several benefit of the Parent and the Company, including fees and expenses of its directors for attending the Board of Directors' meeting, and (2) additional amounts not to exceed the sum of $5,000,000 plus the net cash proceeds realized from sales by the Company in such fiscal year of its capital stock in any fiscal year; provided, however, that if the Company does not declare and pay dividends in any fiscal year of up to the sum of $5,000,000 and the net cash proceeds realized from sales by the Company in such fiscal year of its capital

stock, the difference may be added to the amount permitted in subsequent fiscal years and provided, further, that such dividends under this clause (a) may not be declared and paid if a Default or Event of Default is then in existence or will be in existence after giving effect to such dividends, (b) in kind (i.e. in the form of capital stock only and not subject to any limitation based upon Company Liquidity), and (c) in cash in any amount on or after May 15, 2003; provided, that such Company dividend or other distribution under this clause (c) is used either to repurchase, acquire or redeem capital stock of Parent or to pay a cash dividend thereon; and further provided, that, such Company dividend or other distribution under this clause (c) may not be declared or paid if a Default or Event of Default is then in existence or will be in existence after giving effect to the payment of such dividend, or if, after giving effect to the making of such Company dividend or other distribution under this clause (c), the Company shall have less than $40,000,000 in Company Liquidity.

H. Repurchase, acquire, prepay, or redeem any Senior Notes, except that the Company may repurchase, acquire, prepay, or redeem Senior Notes so long as (i) no Default or Event of Default is then in existence or will be in existence after giving effect to such repurchase, acquisition, prepayment, or redemption, and (ii) after giving effect to such repurchase, acquisition, prepayment, or redemption, the Company shall have not less than $40,000,000 in Company Liquidity.

I. Make any advance or loan to, or any investment in, any Person, except for i) advances, loans or investments in existence on the date of execution of this Financing Agreement; ii) Permitted Investments; iii) loans and advances to employees in the ordinary course of business for travel, entertainment and home relocation; iv) loans and advances to employees to enable employees to purchase the capital stock of Parent provided such loans and advances do not exceed $2,000,000.00 in the aggregate at any one time, provided, however, that such $2,000,000.00 limitation shall not be applicable if the cash proceeds of such stock purchases are immediately reinvested by the Parent in the capital stock of the Company or are immediately used to repay Indebtedness of Parent to the Company; v) advances or loans to, or investments in, joint ventures or Subsidiaries of the Company, provided, however, that if such loans or advances are not being used to acquire, directly or indirectly, assets for the benefit of the Company, such loans, advances or investments may not exceed $2,500,000.00 in the aggregate at any one time; and vi) other loans, advances and investments to, or with the Parent, provided same do not exceed in the aggregate outstanding at any one time $10,000,000.00.

6.11 Until termination of the Financing Agreement and payment and satisfaction in full of all Obligations hereunder, the Company and its Subsidiaries shall not contract for,

purchase, make expenditures for, lease pursuant to a Capital Lease or otherwise incur obligations with respect to Capital Expenditures (whether subject to a security interest or otherwise) in an aggregate amount, measured quarterly, in excess of fifty percent (50%) of the Company's EBITDA for the immediately preceding twelve (12) month period then ending.

6.12 Until termination of the Financing Agreement and payment and satisfaction in full of all Obligations hereunder, the Company and its Subsidiaries, on a consolidated basis, shall maintain at the end of each Fiscal Quarter, a Fixed Charge Coverage Ratio of not less than 1.50 to 1.0.

6.13 [Intentionally Left Blank].

6.14 The Company agrees to advise the Agent, promptly, in writing of: a) all quantifiable expenditures (actual or anticipated) in excess of $1,500,000.00 pertaining to the Real Estate and operations in any fiscal year for i) environmental clean-up, ii) environmental compliance or iii) environmental testing and the impact of said expenses on Working Capital; and b) any notices the Company receives from any local, state or federal authority advising the Company of any environmental liability (real or potential) stemming from any of the Company's operations, premises, its waste disposal practices, or waste disposal sites used by the Company and to provide the Agent with copies of all such notices if so required.

6.15 Without the prior written consent of the Agent, the Company agrees that it will not: a) enter into any transaction, including, without limitation, any purchase, sale, transfer, lease, loan or exchange of property with Parent or any Subsidiary or Affiliate other than i) transactions in the ordinary course of the Company's business and on terms no less favorable than the terms otherwise attainable by the Company from a Person not an Affiliate; ii) as otherwise permitted in this Financing Agreement, including, without limitation, Permitted Indebtedness, to the extent applicable; iii) reimbursement of fees and expenses to directors for the expenses incurred by such directors for attending the Company's Board of Directors' meetings; and iv) all customary compensation arrangements, including participation in employee benefit plans.

6.16 The Company shall conduct or cause to be conducted, not less than once in any calendar year, an actual physical count of its Inventory at each store. Such physical inventory count shall, in part, be conducted or reviewed by an entity that is not an Affiliate of the Company and which entity shall be experienced in conducting or reviewing such a physical inventory. The Company shall, within forty-five (45) days after the end of each month, provide to the Agent for each Lender a schedule prepared by the Company of the results of the Inventory counts completed at the Company's stores during that month. Concurrently therewith, the Company shall provide the Agent for each Lender with the results of the internally prepared cycle counts completed at the Company's distribution centers during that month. Such cycle counts shall be reviewed by the Company's independent public accountants in their normal annual review process. Upon the Agent's reasonable request, the Company will provide the Agent with further details of Inventory count and review results, so long as the Agent's request is for information readily available to the Company on existing internally or externally prepared Inventory reports.

6.17 The Company shall remit any and all sales taxes when due to the appropriate sales tax authorities when any such remittances are due, provided, however, that such remittances need not be made on or before such due date if: i) such sales taxes are being diligently contested by the Company in good faith and by appropriate proceedings; ii) the Company establishes such reserves as may be required by GAAP; and iii) the failure to remit such sales taxes does not create a lien in favor of such sales tax authorities or impose upon the Agent or any Lender any obligation to segregate proceeds.

6.18 The Company hereby agrees to indemnify and hold harmless the Agent and the Lenders and their respective officers, directors, employees, attorneys and agents (each an "Indemnified Party") from, and holds each of them harmless against, any and all losses, liabilities, obligations, claims, actions, damages, out-of-pocket costs and out-of-pocket expenses (including reasonable and documented attorney's fees) arising out of or incurred with respect to the Loan Documents, including without limitation those which may arise from or relate to: (a) the Depository Account, the Blocked Accounts, the lockbox and/or any other depository account and/or the agreements executed in connection therewith; (b) any transactions or occurrences relating to Letters of Credit established or opened for the Company's account, the collateral relating thereto and any drafts or acceptances thereunder, and all Obligations thereunder, including any such loss or claim due to any errors or actions taken by, or any omissions, negligence or misconduct of, any Issuing Banks; (c) any and all claims or expenses asserted against the Agent or a Lender as a result of any environmental pollution, hazardous material or environmental clean-up relating to the Real Estate, or any claim or expense which results from the Company's operations (including, but not limited to, the Company's off-site disposal practices) and use of the Real Estate, which the Agent or a Lender may sustain or incur (other than solely as a result of the physical actions of the Agent or the Lenders or their respective employees or agents on the Company's premises which are determined to constitute gross negligence or willful misconduct by a court of competent jurisdiction), all whether through the alleged or actual negligence of such person or otherwise, and (d) any sale or transfer of Collateral, preserving, maintaining or securing the Collateral, defending its interests in Collateral (including pursuant to any claims brought by the Company, the Company as debtor-in-possession, any secured or unsecured creditors of the Company, any trustee or receiver in bankruptcy, or otherwise); except and to the extent in each case that the same results from the gross negligence or willful misconduct of any Indemnified Party. The Company hereby agrees that this indemnity shall survive termination of this Financing Agreement, as well as payments of Obligations which may be due hereunder, but such survival shall be limited to two (2) years with respect to the indemnity described in clause (c) hereof. The Agent may, in its Reasonable Discretion, establish such Availability Reserves with respect thereto as it may deem advisable under the circumstances and, upon any termination hereof, hold such reserves as cash reserves for any such contingent liabilities.

SECTION 7. INTEREST, FEES AND EXPENSES

7.1 Interest on the Revolving Loans (other than Libor Loans) shall be payable monthly as of the end of each month and shall be at a rate equal to the sum of the Chase Bank Rate and the applicable following percentage:

(i) 0.75%, if the Company's EBITDA (as evidenced by the most recent fiscal quarter's financial statement) for the four fiscal quarters then ended, is less than or equal to $35,000,000;

(ii) 0.50%, if the Company's EBITDA (as evidenced by the most recent fiscal quarter's financial statement) for the four fiscal quarters then ended, is greater than $35,000,000 and less than or equal to $40,000,000;

(iii) 0.25%, if the Company's EBITDA (as evidenced by the most recent fiscal quarter's financial statement) for the four fiscal quarters then ended, is greater than $40,000,000 and less than or equal to $45,000,000;

(iv) 0.00%, if the Company's EBITDA (as evidenced by the most recent fiscal quarter's financial statement) for the four fiscal quarters then ended, is greater than $45,000,000;

in all instances the applicable percentage will become effective the month following receipt of the financial statements evidencing that a change of rate is appropriate. Interest on the Revolving Loans (other than Libor Loans) will be computed on a per annum basis, on the average of the net balances (other than Libor Loans) owing by the Company in the Company's account at the close of each day during such month. Interest on the Revolving Loans which are Libor Loans shall be payable monthly as of the end of each month and shall be at a rate equal to the sum of the applicable Libor on each then outstanding Revolving Loan which is a Libor Loan and the applicable following percentage:

(i) 2.50%, if the Company's EBITDA (as evidenced by the most recent fiscal quarter's financial statement) for the four fiscal quarters then ended, is less than or equal to $35,000,000;

(ii) 2.25%, if the Company's EBITDA (as evidenced by the most recent fiscal quarter's financial statement) for the four fiscal quarters then ended, is greater than $35,000,000 and less than or equal to $40,000,000;

(iii) 2.00%, if the Company's EBITDA (as evidenced by the most recent fiscal quarter's financial statement) for the four fiscal quarters then ended, is greater than $40,000,000 and less than or equal to $45,000,000;

(iv) 1.75%, if the Company's EBITDA (as evidenced by the most recent fiscal quarter's financial statement) for the four fiscal quarters then ended, is greater than $45,000,000 and less than or equal to $50,000,000;

(v) 1.50%, if the Company's EBITDA (as evidenced by the most recent fiscal quarter's financial statement) for the four fiscal quarters then ended, is greater than $50,000,000;

in all instances the applicable percentage will become effective the month following receipt of the financial statements evidencing that a change of rate is appropriate. Interest on Revolving Loans which are Libor Loans will be computed on a per annum basis, on the

average of the net balances owing by the Company on such Libor Loan at the close of each day during such month. The Company may elect to use Libor as to any new or then outstanding Revolving Loans provided x) there is then no unwaived Default or Event of Default, and y) the Company has so advised the Agent of its election to use Libor and the Libor Period selected no later than three (3) Business Days prior to the proposed borrowing or, in the case of a Libor election with respect to a then outstanding Revolving Loan, three (3) Business Days prior to the conversion of any then outstanding Revolving Loans to Libor Loans and z) the election and Libor shall be effective, provided, there is then no unwaived Default or Event of Default, on the fourth Business Day following said notice. The Libor elections must be for $100,000.00 or whole multiples thereof. If no such election is timely made or can be made, then the Agent shall use the Chase Bank Rate and the applicable percentage set forth above to compute interest. In the event of any change in the Chase Bank Rate, the interest rate hereunder shall change, as of the first day of the month following any change, so as to reflect the changed Chase Bank Rate. The rates hereunder shall be calculated based on a 365-day year. The Agent shall be entitled to charge the Company's account at the rate provided for herein when due until all Obligation have been paid in full.

7.2 In consideration of the Letter of Credit Guaranty, the Company shall pay to the Agent, for the ratable benefit of Lenders, the Letter of Credit Guaranty Fee which shall be an amount equal to one and one-quarter percent (1 1/4%) per annum, payable monthly, on the face amount of each outstanding Letter of Credit less the amount of any and all amounts previously drawn under such Letter of Credit.

7.3 Any charges, fees, commissions, costs and expenses charged to the Agent for the Company's account by any Issuing Bank in connection with or arising out of Letters of Credit issued pursuant to this Financing Agreement or out of transactions relating thereto will be charged to the loan account in full when charged to or paid by the Agent and when made by any such Issuing Bank shall be conclusive on the Agent.

7.4 The Company shall reimburse or pay the Agent, as the case may be, for: a) all Out-of-Pocket Expenses and b) any applicable Documentation Fees.

7.5 Upon the last Business Day of each month, commencing with February 28, 2003, the Company shall pay the Agent for the account of the Lenders the Line of Credit Fee provided, however, the Company shall have no obligation to pay the Line of Credit Fee on February 28, 2003, if the Company has paid Agent such fee pursuant to the terms of the Prior Financing Agreement.

7.6 [Intentionally Left Blank].

7.7 [Intentionally Left Blank].

7.8 To induce the Lenders (including CITBC) to enter into this Financing Agreement and to extend to the Company the Revolving Loans, the Company hereby agrees to pay to the Agent for the account of the Lenders a Loan Facility Fee in the amount of $350,000, payable upon execution of this Financing Agreement. Such fee shall be fully

earned when paid and shall not be refundable or rebateable by reason of prepayment, acceleration upon an Event of Default or any other circumstances and shall be retained notwithstanding any termination of this Agreement.

7.9 Immediately upon the advice to the Agent by the Company of the Company's election of a Libor Loan, the Company shall pay to the Agent for the Agent's account only the Libor Processing Fee which shall be non-refundable.

7.10 The Company shall pay to the Agent for the account of the Lenders such amount or amounts as shall compensate the Agent, the Lenders or their Participants (as defined below), if any, for any loss, costs or expenses incurred by the Agent, the Lenders or their Participants if any, (as reasonably determined by the Agent, the Lenders or their Participants if any) as a result of: (i) any payment or prepayment on a date other than the last day of a Libor Period for such Libor Loan, or (ii) any failure of the Company to borrow a Libor Loan on the date for such borrowing specified in the relevant notice; such compensation to include, without limitation, an amount equal to any loss or expense suffered by the Agent, the Lenders or their Participants if any, during the period from the date of receipt of such payment or prepayment or the date of such failure to borrow to the last day of such Libor Period if the rate of interest obtained by the Agent, the Lenders or their Participants if any, upon the reemployment of an amount of funds equal to the amount of such payment, prepayment or failure to borrow is less than the rate of interest applicable to such Libor Loan for such Libor Period. The determination by the Agent, the Lenders or their Participants, if any, of the amount of any such loss or expense, when set forth in a written notice to the Company, containing the calculations thereof in reasonable detail, shall constitute prima facie evidence thereof.

7.11 The Company may at any time, on ten (10) Business Days prior written notice to the Agent, reduce the Line of Credit provided that: i) any reduction shall be permanent and irrevocable; ii) a reduction must be for at least $5,000,000.00 or whole multiples thereof; and iii) the Company shall immediately repay the Agent the amount by which the Obligations exceed the amount of the Borrowing Base less the Availability Reserve.

7.12 The Company hereby confirms and authorizes the Agent, and the Agent hereby agrees, to charge the loan account with the amount of all Obligations due hereunder as such payment becomes due. In the unlikely event the Agent is unable or unwilling to charge any such Obligation to the loan account, then the Agent shall so notify the Company in writing and, without limiting any of the Agent's and Lenders' rights and remedies hereunder, the amount so requested shall be due and payable thirty (30) days after such demand.

SECTION 8. POWERS

Subject to the last paragraph in this Section 8, the Company hereby constitutes the Agent on behalf the Lenders or any person or agent the Agent may reasonably designate as its attorney-in-fact, at the Company's cost and expense, to exercise all of the following

powers, which being coupled with an interest, shall be irrevocable until all Obligations to the Agent and the Lenders have been satisfied and this Financing Agreement terminated:

(a) To receive, take, endorse, sign, assign and deliver, all in the name of the Agent or the Company, any and all checks, notes, drafts, and other documents or instruments relating to the Collateral for i) deposit to a Blocked Account (consistent with the terms of Section 3.4 of this Financing Agreement) or ii) after the acceleration by the Agent of the Obligations for application to satisfaction of the Obligations consistent with the terms of Section 9.3 hereof;

(b) To request, not more frequently than two (2) times a fiscal year, from customers indebted on Trade Accounts Receivable, in the name of the Company or the Agent's designee, information concerning the amounts owing on the Trade Accounts Receivable provided, however, that such request made be made only if the then aggregate balance of the Trade Accounts Receivable is in excess of $3,500,000.00;

(c) To request from customers indebted on Trade Accounts Receivable at any time, in the name of the Agent, information concerning the amounts owing on the Trade Accounts Receivable;

(d) To transmit to customers indebted on Trade Accounts Receivable notice of the Agent's interest therein and to notify customers indebted on Trade Accounts Receivable to make payment directly to the Agent for the Company's account; and

(e) To take or bring, in the name of CITBC or the Company, all steps, actions, suits or proceedings reasonably deemed by CITBC necessary or desirable to enforce or effect collection of the Accounts.

Notwithstanding anything hereinabove contained to the contrary, the powers set forth in (a), (c), (d) and (e) above may only be exercised after the occurrence of an Event of Default and until such time as such Event of Default is waived.

SECTION 9. EVENTS OF DEFAULT AND REMEDIES

9.1 Notwithstanding anything hereinabove to the contrary, the Agent acting for the Lenders may terminate this Financing Agreement immediately upon the occurrence of any of the following (herein "Events of Default"):

(a) cessation of business of the Company or the calling of a general meeting of the creditors of the Company for purposes of compromising the debts and obligations of the Company;

(b) the Company admits in writing its inability to generally pay its debts as they mature;

(c) the commencement by the Company of any bankruptcy, insolvency, arrangement, reorganization, receivership or similar proceedings under any federal or state law;

(d) the commencement against the Company of any bankruptcy, insolvency, arrangement, reorganization, receivership or similar proceedings under any federal or state law provided, however, that such Default shall not be deemed an Event of Default if the proceeding, petition, case or arrangement is dismissed within sixty (60) days of the filing of, or the commencement of, such petition, case, proceeding or arrangement;

(e) material breach by the Company of any warranty, representation (representations and warranties referred to in this subparagraph e shall be deemed made as of each i) Reporting Date, whether or not any report is in fact given to the Agent or ii) request for a Revolving Loan or iii) request for the Agent's assistance in obtaining a Letter of Credit or iv) the posting of any Obligation to the loan account) or any covenant contained herein (other than those otherwise referred to in this Section 9) or in any other agreement between the Company and the Agent relating to this Financing Agreement, provided that such Default by the Company of any of the warranties, representations or covenants referred to in this clause (e) shall not be deemed to be an Event of Default unless and until such Default shall remain unwaived or unremedied to the Agent's reasonable satisfaction for a period of fifteen (15) days from the date of the Agent's discovery of such breach (the Agent shall endeavor to notify the Company of such breach but the failure to so notify shall not detract from the Agent's rights or give the Company any claim, course of action or defense);

(f) breach by the Company of any warranty, representation or covenant of: i) the first sentence of Section 3.3; or ii) Section 3.4; or iii) Section 5.3; or iv) Section 6.5 (only as it relates to insurance on the Inventory); or v) Section 6.6; or vii) Section 6.10 (other than sub-paragraphs A (ii), B and F thereof); or Section 6.17;

(g) breach by the Company of sub-paragraphs A (ii), B or F of Section 6.10, provided that such Default by the Company shall not be deemed to be an Event of Default unless and until such Default shall remain unwaived or unremedied for a period of fifteen (15) days from the date of such Default;

(h) except as otherwise provided in Section 7.12 of this Financing Agreement, failure of the Company to pay any of the Obligations within ten (10) days of the due date thereof;

(i) the Company shall i) engage in any "prohibited transaction" as defined in ERISA, ii) have any "accumulated funding deficiency" as defined in ERISA, iii) have any Reportable Event as defined in ERISA, iv) terminate any Plan, as defined in ERISA or v) be engaged in any proceeding in which the Pension Benefit Guaranty Corporation shall seek appointment, or is appointed, as trustee or administrator of any Plan, as defined in ERISA, and with respect to this sub-paragraph i) such event or condition x) remains uncured for a period of ninety (90) days from date of occurrence and y) could reasonably be expected to subject that Company to any tax, penalty or other liability

materially adverse to the business, operations or financial condition of the Company and its Subsidiaries taken as a whole;

(j) the Company shall default in the payment of, or other performance under, any indenture or other instrument evidencing the Senior Notes, or any other recourse Indebtedness of the Company in excess of $3,000,000.00, if as a result of such default, the maturity of any Indebtedness evidenced by any such indenture or instrument is accelerated prior to its stated maturity; or

(k) without the prior written consent of the Required Lenders, the Company shall amend or modify the Senior Notes.

9.2 Upon the occurrence of a Default and/or an Event of Default, at the option of the Agent, all loans and advances provided for in Section 3.1 of this Financing Agreement shall be made thereafter in the Agent's sole discretion and the obligation of the Agent acting for the Lenders to make Revolving Loans and/or assist the Company in obtaining Letters of Credit shall cease until such time as the Default is timely cured to the Agent's reasonable satisfaction or the Event of Default is waived. Further, at the option of the Agent, or at the direction of the Required Lenders, upon the occurrence of an Event of Default (unless waived): i) all Obligations shall upon notice (provided, however, that no such notice is required if the Event of Default is the Event of Default listed in Sections 9.1(c) or 9.1(d)) become immediately due and payable; ii) the Agent may thereafter charge the Company the Default Rate of Interest on all then outstanding or thereafter incurred Obligations in lieu of the interest provided for in Section 7.1 of this Financing Agreement provided a) the Agent has given the Company written notice of the Event of Default, provided, however, that no notice is required if the Event of Default is the Event of Default listed in Sections 9.1(c) or 9.1(d) and b) the Company has failed to cure the Event of Default within fifteen (15) days after x) the Agent deposited such notice in the United States mail or y) the occurrence of the Event of Default listed in Sections 9.1(c) or 9.1(d); and iii) the Agent may, and shall at the direction of the Required Lenders, immediately terminate this Financing Agreement upon notice to the Company, provided, however, that no notice of termination is required if the Event of Default is the Event of Default listed in Sections 9.1(c) or 9.1(d). Notwithstanding anything herein contained to the contrary, if the Agent waives all Events of Default, then by written notice to the Company, the acceleration of the Obligations will be rescinded and all remedies and actions then being exercised by the Agent shall cease. The exercise of any option is not exclusive of any other option which may be exercised at any time by the Agent.

9.3 Upon the occurrence of any Event of Default, the Agent may, to the extent permitted by law: (a) remove from any premises where same may be located copies of any and all documents, instruments, files and records, relating to the Accounts, or the Agent may use such of the Company's personnel, supplies or space at the Company's places of business or otherwise, as may be necessary to properly administer and control the Accounts or the handling of collections and realizations thereon; (b) bring suit, in the name of the Company or the Agent, and generally shall have all other rights respecting said Accounts, including without limitation the right to: accelerate or extend the time of payment, settle, compromise, release in whole or in part, any amounts owing on any Accounts and issue credits in the name of the Company or the Agent; (c) sell, assign and deliver the Collateral and any

returned, reclaimed or repossessed merchandise, with or without advertisement, at public or private sale, for cash, on credit or otherwise, at the Agent's sole option and discretion, and, to the extent permitted by applicable law, the Agent may bid or become a purchaser at any such sale, free from any right of redemption, which right is hereby expressly waived by the Company; (d) foreclose the security interests created herein by any available judicial procedure, or to take possession of any or all of the Inventory without judicial process, and to enter any premises where any Inventory may be located for the purpose of taking possession of or removing the same; and (e) exercise any other rights and remedies provided in law, in equity, by contract or otherwise. The Agent shall have the right, without notice or advertisement, to sell, lease, or otherwise dispose of all or any part of the Collateral whether in its then condition or after further preparation or processing, in the name of the Company or the Agent, or in the name of such other party as the Agent may designate, either at public or private sale or at any broker's board, in lots or in bulk, for cash or for credit, with or without warranties or representations, and upon such other terms and conditions as the Agent in its sole discretion may deem advisable, and, to the extent permitted by applicable law, the Agent shall have the right to purchase at any such sale. If any Inventory shall require repairing, maintenance or preparation, the Agent shall have the right, at its option, to do such of the aforesaid as is necessary, for the purpose of putting the Inventory in such saleable form as the Agent shall reasonably deem appropriate. The Company agrees, at the request of the Agent, to assemble the Inventory and to make it available to the Agent at premises of the Company or such other location reasonably designated by the Agent for the purpose of the Agent's taking possession of, removing or putting the Inventory in saleable form. However, if notice of intended disposition of any Collateral is required by law, it is agreed that ten (10) days notice shall constitute reasonable notification and full compliance with the law. The net cash proceeds resulting from the Agent's exercise of any of the foregoing rights, (after deducting all reasonable charges, costs and expenses, including reasonable attorneys' fees) shall be applied by the Agent to the payment of the Obligations, whether due or to become due, and the Company shall remain liable to the Agent for any deficiencies, and the Agent in turn agrees to remit to the Company or its successor or assign, any surplus resulting therefrom. The enumeration of the foregoing rights is not intended to be exhaustive and the exercise of any right shall not preclude the exercise of any other rights, all of which shall be cumulative.

SECTION 10. TERMINATION

Except as otherwise permitted herein, the Agent may, and shall at the direction of the Required Lenders, terminate this Financing Agreement and the Line of Credit only as of the third or any subsequent Anniversary Date and then only by giving the Company at least ninety (90) days prior written notice of termination. Notwithstanding the foregoing, the Agent may terminate the Financing Agreement immediately upon the occurrence of an Event of Default upon notice to the Company, provided, however, that if the Event of Default is an event listed in Sections 9.1(c) or 91(d) of this Financing Agreement, the Agent may, and shall at the direction of the Required Lenders, regard the Financing Agreement as terminated and notice to that effect is not required. This Financing Agreement, unless terminated as herein provided, shall automatically continue from Anniversary Date to Anniversary Date. The Company may, at any time, terminate this Financing Agreement and the Line of Credit upon at least thirty (30) days' prior written notice to the Agent, provided

that the Company pay to the Agent for the account of the Lenders, concurrent with payment of the Obligations, the Early Termination Fee, provided, however, that the Agent for the account of the Lenders shall not be entitled to the Early Termination Fee if the termination is on or after the Early Termination Date. All Obligations shall become due and payable as of any termination hereunder or under Section 9 hereof. All of the Agent's rights, liens and security interests shall continue after any termination until all Obligations have been satisfied in full. Pending payment in full of all Obligations, the Agent can withhold any credit balances in the loan account (unless supplied with an indemnity satisfactory to the Agent) to cover all of the Obligations, whether absolute or contingent, provided, however, that if the remaining unpaid Obligations arise solely out of the outstanding amounts of Letters of Credit, the Agent will, at the Company's request, retain, solely as collateral, credit balances in an amount equal to one hundred and five percent (105%) of the then outstanding amounts of Letters of Credit unless the Company provides the Agent with back-to-back letters of credit from a financial institution reasonably acceptable to the Agent, on terms reasonably acceptable to the Agent, in an amount equal to one hundred and five percent (105%) of the then outstanding amounts of Letters of Credit. When all other Obligations have been paid in full in cash and the outstanding amount of Letters of Credit have been so secured by cash or by the back-to-back letters of credit, in either event in an amount equal to one hundred and five percent (105%) of the then outstanding amounts of Letters of Credit pursuant to a fully executed agreement between the Agent and the Company and pursuant to which the Company agrees to reimburse the Agent for any Letter of Credit claims that exceed the cash collateral or the back to back letters of credit, then for all purposes of this Financing Agreement, this Financing Agreement shall be treated by the parties hereto as terminated and all other Collateral will be released.

SECTION 11. AGREEMENT BETWEEN THE LENDERS

11.1 (a) The Agent, for the account of the Lenders, shall disburse all loans and advances to the Company and shall handle all collections of Collateral and repayment of Obligations. It is understood that for purposes of advances to the Company and for purposes of this Section 11 the Agent is using the funds of the Agent.

(b) Unless the Agent shall have been notified in writing by any Lender prior to any advance to the Company that such Lender will not make the amount which would constitute its share of the borrowing on such date available to the Agent, the Agent may assume that such Lender shall make such amount available to the Agent on a Settlement Date, and the Agent may, in reliance upon such assumption, make available to the Company a corresponding amount. A certificate of the Agent submitted to any Lender with respect to any amount owing under this subsection shall be conclusive, absent manifest error. If such Lender's share of such borrowing is not in fact made available to the Agent by such Lender on the Settlement Date, the Agent shall be entitled to recover such amount with interest thereon at the rate per annum applicable to Revolving Loans hereunder, on demand, from the Company without prejudice to any rights which the Agent may have against such Lender hereunder. Nothing contained in this subsection shall relieve any Lender which has failed to make available its ratable portion of any borrowing hereunder from its obligation to do so in accordance with the terms hereof. Nothing contained herein shall be deemed to obligate Agent to make available to the Company the full amount of a requested advance

when the Agent has any notice (written or otherwise) that any of the Lenders will not advance its ratable portion thereof.

11.2 On the Settlement Date, the Agent and the Lenders shall each remit to the other, in immediately available funds, all amounts necessary so as to ensure that, as of the Settlement Date, the Lenders shall have their proportionate share of all outstanding Obligations.

11.3 The Agent shall forward to each Lender, at the end of each month, a copy of the account statement rendered by the Agent to the Company.

11.4 The Agent shall, after receipt of any interest and fees earned under this Financing Agreement, promptly remit to the Lenders their pro rata portion of all fees, provided, however, that the Lenders (other than CITBC in its role as Agent) shall not share in the fees set forth in the Fee Letter, Documentation Fees or Libor Processing Fee.

11.5 (a) The Company acknowledges that the Lenders, with the consent of the Agent, which consent shall not be unreasonably withheld, may sell participations in the loans and extensions of credit made and to be made to the Company hereunder (the "Participants"), provided, however, that a Participant may not so purchase a participation in an amount less than $5,000,000 or the then aggregate amount of such Lender's interest in the loans and advances and extensions of credit hereunder. The Company further acknowledges that in doing so, the Lenders may grant to such Participants certain rights which would require the Participant's consent to certain waivers, amendments and other actions with respect to the provisions of this Financing Agreement, provided that the consent of any such Participant shall not be required except for matters requiring the consent of all Lenders hereunder as set forth in Section 12.10 hereof.

(b) The Company authorizes each Lender to disclose to any Participant or purchasing lender (each, a "Transferee") and any prospective Transferee any and all financial information in such Lender's possession concerning the Company and their affiliates which has been delivered to such Lender by or on behalf of the Company pursuant to this Agreement or which has been delivered to such Lender by or on behalf of the Company in connection with such Lender's credit evaluation of the Company and its affiliates prior to entering into this Agreement, provided, however, that prior to such disclosure to a then or potential Participant the Lender must first obtain from the then or potential Participant a confidentiality agreement in form and substance similar to the confidentiality paragraph of this Financing Agreement.

11.6 The Company has made and will, from time to time, make available to the Agent and/or the Lenders certain financial and other business information (the "Confidential Information") relating to its business. By their signatures hereto or to the Assignment and Transfer Agreement, the Agent and each Lender agree to maintain the confidentiality of all Confidential Information, and to disclose such information only (a) to officers, directors or employees of such Agent or Lender and their legal or financial advisors, in each case to the extent necessary to carry out this Financing Agreement and in the case of CITBC, to CIT Group Holdings, Inc., or CIT Group, Inc., and in the case of any other Lender, to such other

Lender's parent organization, but only, in the case of all of the foregoing Persons referred to in this clause (a), after the Agent or the Lender, as the case may be, has advised each such Person to maintain the confidentiality of the Confidential Information, (b) to any other Person to the extent the disclosure of such information to such Person is required in connection with the examination of a Lender's records by appropriate authorities, pursuant to court order, subpoena or other legal process or otherwise as required by law or regulation, and (c) to Transferees or potential Transferees but only after such Transferees or potential Transferees have executed a written confidentiality agreement substantially in the form of this paragraph. The Lenders, the Agent, Transferees and potential Transferees shall not be required to maintain the confidentiality of any portion of the Confidential Information which (a) is known by such Person or its agents, advisors or representatives prior to disclosure or (b) becomes generally available to the public provided that the disclosure of such Confidential information does not violate a confidentiality agreement of which the Transferees, potential Transferees, the Agent or the Lender, as the case may be, has actual knowledge.

11.7 The Company hereby agrees that each Lender is solely responsible for its portion of the Line of Credit and that neither the Agent nor any Lender shall be responsible for, nor assume any obligations for, the failure of any Lender to make available its portion of the Line of Credit. Further, should any Lender refuse to make available its portion of the Line of Credit, then another Lender may, but without obligation to do so, increase, unilaterally, its portion of the Line of Credit in which event the Company is so obligated to that other Lender.

11.8 In the event that the Agent, the Lenders or any one of them is sued or threatened with suit by the Company, or by any receiver, trustee, creditor or any committee of creditors on account of any preference, voidable transfer or lender liability issue, alleged to have occurred or been received as a result of, or during the transactions contemplated under, this Financing Agreement, then in such event any money paid in satisfaction or compromise of such suit, action, claim or demand and any expenses, costs and attorneys' fees paid or incurred in connection therewith, whether by the Agent, the Lenders or any one of them, shall be shared proportionately by the Lenders. In addition, any costs, expenses, fees or disbursements incurred by outside agencies or attorneys retained by the Agent to effect collection or enforcement of any rights in the Collateral, including enforcing, preserving or maintaining rights under this Financing Agreement shall be shared proportionately between and among the Lenders to the extent not reimbursed by the Company or from the proceeds of Collateral. The provisions of this paragraph shall not apply to any (i) suits, actions, proceedings or claims that are unrelated, directly or indirectly, to this Financing Agreement, or (ii) costs, fees, expenses or disbursements resulting solely from the gross negligence or willful misconduct of the Agent or any Lender.

11.9 Each of the Lenders agrees with each other Lender that any money or assets of the Company held or received by such Lender, no matter how or when received, shall be applied to the reduction of the Obligations (to the extent permitted hereunder) after x) the occurrence of an Event of Default and y) the election by the Required Lenders to accelerate the Obligations. In addition, the Company authorizes, and the Lenders shall have the right, without notice, upon any amount becoming due and payable hereunder, to set-off and apply

against any and all property held by, or in the possession of such Lender the Obligations due such Lenders.

11.10 CITBC shall have the right at any time to assign to one or more commercial banks, commercial finance lenders or other financial institutions all or a portion of its rights and obligations under this Financing Agreement (including, without limitation, under its obligations the Line of Credit, the Revolving Loans and its rights and obligations with respect to Letters of Credit). In any event, CITBC shall retain for its own account an amount at least equal to a pro-rata share equal to the highest pro-rata share held by any Participant, and in no event less than 20% of the amount of the Obligations ("CITBC Hold Position"); provided, however, that such CITBC Hold Position shall cease while there is then an Event of Default and only until such Event of Default is waived. Should CITBC during an Event of Default assign additional interests, then the CITBC Hold Position shall be the remaining amount of CITBC's position if and when such Event of Default is waived. Upon execution of an Assignment and Transfer Agreement, (i) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such assignment, have the rights and obligations of CITBC as the case may be hereunder and (ii) CITBC shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such assignment, relinquish its rights and be released from its obligations under this Financing Agreement. The Company shall, if necessary, execute any documents reasonably required to effectuate the assignments. No other Lender may assign its interest, in whole or in part, in the loans and advances and extensions of credit hereunder without i) the prior written consent of the Agent, which consent shall not be unreasonably withheld; ii) the payment to the Agent (solely for the Agent's account) by the current or prospective Lender of a $5,000.00 fee for processing the assignment; and (iii) if the Transferee is a Foreign Lender (as defined in Section 13.5 hereof), such Foreign Lender first complies with the provisions of Section 13.5 hereof provided, however, that the immediately preceding clauses (i) and (ii) hereof shall not apply in connection with any assignment by a Lender to an affiliate of such Lender, or in connection with any merger, consolidation, sale, transfer, or other disposition of all or any substantial portion of the business or loan portfolio of a Lender. Additionally, no other Lender shall assign such Lender's interest in the loans and advances and extensions of credit hereunder (or any portion thereof) unless the interest to be so assigned is either not less than $5,000,000 or all of such Lender's entire interest in the loans and advances and extensions of credit hereunder. Notwithstanding anything to the contrary herein contained, prior to any such assignment and/or the disclosure of the Confidential Information, such Transferee, actual or potential, shall execute a confidentiality agreement in form and substance substantially similar to the confidentiality paragraph of this Financing Agreement.

SECTION 12. AGENCY

12.1 Each Lender hereby irrevocably designates and appoints CITBC as the Agent for the Lenders under this Financing Agreement and any ancillary loan documents and irrevocably authorizes CITBC as Agent for such Lender, to take such action on its behalf under the provisions of the Financing Agreement and all ancillary documents and to exercise such powers and perform such duties as are expressly delegated to the Agent by the terms of this Financing Agreement and all ancillary documents together with such other powers as

are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Financing Agreement, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into Financing Agreement and the ancillary documents or otherwise exist against the Agent.

12.2 The Agent may execute any of its duties under this Financing Agreement and all ancillary documents by or through agents or attorneys-in-fact and shall be entitled to the advice of counsel concerning all matters pertaining to such duties.

12.3 Neither the Agent nor any of its officers, directors, employees, agents, or attorneys-in-fact shall be (i) liable to any Lender for any action lawfully taken or omitted to be taken by it or such person under or in connection with the Financing Agreement and all ancillary documents (except for its or such person's own gross negligence or willful misconduct), or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Company or any officer thereof contained in the Financing Agreement and all ancillary documents or in any certificate, report, statement or other document referred to or provided for in, or received by, the Agent under or in connection with the Financing Agreement and all ancillary documents or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of the Financing Agreement and all ancillary documents or for any failure of the Company to perform its obligations thereunder. The Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, the Financing Agreement and all ancillary documents or to inspect the properties, books or records of the Company.

12.4 The Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper person or persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Company), independent accountants and other experts selected by the Agent. The Agent shall be fully justified in failing or refusing to take any action under the Financing Agreement and all ancillary documents unless it shall first receive such advice or concurrence from all of the Lenders, or the Required Lenders, as the case may be, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under the Financing Agreement and all ancillary documents in accordance with a request from all of the Lenders, or the Required Lenders, as the case may be, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders.

12.5 The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Agent has received notice from a Lender or the Company describing such Default or Event of Default. In the event that the Agent receives such a notice, the Agent shall promptly give notice thereof to

the Lenders. The Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; provided that unless and until the Agent shall have received such direction, the Agent may in the interim (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable and in the best interests of the Lenders.

12.6 Each Lender expressly acknowledges that neither the Agent nor any of its officers, directors, employees, agents or attorneys-in-fact has made any representations or warranties to it and that no act by the Agent hereinafter taken, including any review of the affairs of the Company, shall be deemed to constitute any representation or warranty by the Agent to any Lender. Each Lender represents to the Agent that it has, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own appraisal of, and investigation into, the business, operations, property, financial and other condition and creditworthiness of the Company and made its own decision to enter into this Financing Agreement. Each Lender also represents that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under the Financing Agreement and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition or creditworthiness of the Company. The Agent, however, shall provide the Lenders with copies of all inventory confirmation statements, Collateral examinations and/or reviews, financial statements, projections and business plans which come into the possession of the Agent or any of its officers, employees, agents or attorneys-in-fact. Further, the Agent shall use reasonable efforts to give the Lenders reasonable prior notice of the date of the Agent's visit to the Company's premises for purposes of inspecting the Collateral and books and records pertaining thereto.

12.7 The Lenders agree to indemnify the Agent in its capacity as such (to the extent not reimbursed by the Company and without limiting the obligation of the Company to do so), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever (including negligence on the part of the agent) which may at any time be imposed on, incurred by or asserted against the Agent in anyway relating to or arising out of this Financing Agreement on any ancillary documents or any documents contemplated by or referred to herein or the transactions contemplated hereby or any action taken or omitted by the Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the Agent's gross negligence or willful misconduct. The agreements in this paragraph shall survive the payment of the obligations.

12.8 The Agent may make loans to, and generally engage in any kind of business with the Company as though the Agent were not the Agent hereunder. With respect to its loans made or renewed by it or loan obligations hereunder as Lender, the Agent shall have the same rights and powers, duties and liabilities under the Financing Agreement as any

Lender and may exercise the same as though they were not the Agent and the terms "Lender" and "Lenders" shall include the Agent in its individual capacities.

12.9 The Agent may resign as Agent upon thirty (30) days' notice to the Lenders and such resignation shall be effective upon the appointment of a successor Agent. If the Agent shall resign as Agent, then the Lenders shall appoint a successor agent for the Lenders whereupon such successor agent shall succeed to the rights, powers and duties of the Agent and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Financing Agreement, provided, however, that the Lenders shall: a) notify the Company of the successor Agent and b) request the consent of the Company to such successor Agent, which consent shall not be unreasonably withheld. The Company shall be deemed to have consented to the successor Agent if the Lenders do not receive from the Company, within ten (10) days of the Lenders' notice to the Company, a written statement of the Company's objection to the successor Agent. Should the Company not consent and no acceptable successor Agent is agreed upon within thirty (30) days of the date the Company advised the Lenders of its objection to the successor Agent, then the Lenders may appoint (without the Company's consent) another successor Agent. After any retiring Agent's resignation hereunder as Agent the provisions of this Section 14 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent.

12.10 Notwithstanding anything contained in this Financing Agreement to the contrary, the Agent will not, without the prior written consent of all Lenders: a) amend the Financing Agreement to v) increase the rate of advance against Eligible Inventory as set forth in Section 3.1 of this Financing Agreement (provided, however, that the foregoing shall not prevent the making of Overadvances pursuant to Section 3.1 hereof with the consent of and on the terms agreed to by Required Lenders) or increase the Line of Credit; w) reduce the interest rates; x) reduce or waive i) any fees in which the Lenders share hereunder; or ii) the repayment of any Obligations due the Lenders; y) extend the maturity of the Obligations; or z) alter or amend 1) this Section 12.10 or 2) the definitions of Eligible Inventory, Collateral or Required Lenders, or the Agent's criteria for determining compliance with such definitions of eligibility; b) release or permit or consent to liens on Collateral with an aggregate value greater than $5,000,000.00 without a corresponding reduction in the Obligations to the Lenders, or c) intentionally make any Revolving Loan or assist in opening any Letter of Credit hereunder if after giving effect thereto the total of Revolving Loans and Letters of Credit hereunder for the Company would exceed one hundred and ten percent (110%) of the maximum amount available under Sections 3 and 4 hereof. In all other respects and except as otherwise specifically provided to the contrary in this Financing Agreement, the Agent is authorized to take such actions or fail to take such actions if the Agent, in its reasonable discretion, deems such to be advisable and in the best interest of the Lenders, including, but not limited to, the termination of the Financing Agreement upon the occurrence of an Event of Default, unless it is specifically instructed to the contrary by the Required Lenders.

12.11 Each Lender agrees that notwithstanding the provisions of Section 10 of this Financing Agreement any Lender may terminate this Financing Agreement or the Line of

Credit only as of the third or any subsequent Anniversary Date and then only by giving the Agent one hundred and twenty (120) days prior written notice thereof. Within thirty (30) days after receipt of any such termination notice, the Agent shall, at its option, either (i) give notice of termination to the Company hereunder or (ii) purchase the Lender's share of the Obligations hereunder for the full amount thereof plus accrued interest thereon. Unless so terminated this Financing Agreement and the Line of Credit shall be automatically extended from Anniversary Date to Anniversary Date.

SECTION 13. MISCELLANEOUS

13.1 Except as otherwise expressly provided, the Company hereby waives diligence, demand, presentment and protest and any notices thereof as well as notice of nonpayment, notice of dishonor, notice of intent to accelerate and notice of acceleration. No delay or omission of the Agent or the Company to exercise any right or remedy hereunder, whether before or after the happening of any Event of Default, shall impair any such right or shall operate as a waiver thereof or as a waiver of any such Event of Default. No single or partial exercise by the Agent of any right or remedy precludes any other or further exercise thereof, or precludes any other right or remedy.

13.2 Neither this Financing Agreement nor any provision hereof may be waived, amended or modified except as pursuant to an agreement or agreements in writing entered into by the Company, the Agent, the Lenders or the Required Lenders, as the case may be.

13.3 THIS WRITTEN AGREEMENT AND THE OTHER DOCUMENTS REFERENCED HEREIN OR CONTEMPLATED HEREBY REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES. THE COMPANY ACKNOWLEDGES AND AGREES THAT THE SECURITY INTEREST GRANTED BY IT PURSUANT TO THE PRIOR FINANCING AGREEMENT (AND MAINTAINED PURSUANT TO THIS FINANCING AGREEMENT) CONTINUES (WITHOUT INTERRUPTION) IN FULL FORCE AND EFFECT IN FAVOR OF THE AGENT FOR THE BENEFIT OF LENDERS. UPON THE EFFECTIVENESS OF THIS FINANCING AGREEMENT, THE TERMS AND CONDITIONS OF THE PRIOR FINANCING AGREEMENT ARE HEREBY AMENDED AND RESTATED IN THEIR ENTIRETY BY THIS FINANCING AGREEMENT.

13.4 It is the intent of the Company, the Agent and the Lenders to conform strictly to all applicable state and federal usury laws. All agreements between the Company and the Agent, acting on behalf of the Lenders, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of the maturity hereof or otherwise, shall the amount contracted for, charged or received by the Agent, acting on behalf of the Lenders, for the use, forbearance, or detention of the money loaned hereunder or otherwise, or for the payment or performance of any covenant or obligation contained herein or in any other document evidencing, securing or pertaining to the Obligations evidenced hereby which

may be legally deemed to be for the use, forbearance or detention of money, exceed the maximum amount which the Agent, acting on behalf of the Lenders, is legally entitled to contract for, charge or collect under applicable state or federal law. If from any circumstance whatsoever fulfillment of any provisions hereof or of such other documents, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by law, then the obligations to be fulfilled shall be automatically reduced to the limit of such validity, and if from any such circumstance the Agent, acting on behalf of the Lenders, shall ever receive as interest or otherwise an amount in excess of the maximum that can be legally collected, then such amount which would be excessive interest shall be applied to the reduction of the principal indebtedness hereof and any other amounts due with respect to the Obligations evidenced hereby, but not to the payment of interest and if such amount which would be excessive interest exceeds the Obligations and all other non-interest indebtedness described above, then such additional amount shall be refunded to the Company. In determining whether or not all sums paid or agreed to be paid by the Company for the use, forbearance or detention of the Obligations of the Company to the Agent, acting on behalf of the Lenders, under any specific contingency, exceeds the maximum amount permitted by applicable law, the Company and the Agent, acting on behalf of the Lenders, shall, to the maximum extent permitted under applicable law, (a) characterize any non-principal payment as an expense, fee or premium rather than as sums paid or agreed to be paid by the Company for the use, forbearance or detention of the Obligations of the Company to the Agent, acting on behalf of the Lenders, (b) exclude voluntary prepayments and the effect thereof, and (c) to the extent not prohibited by applicable law, amortize, prorate, allocate and spread in equal parts, the total amount of all sums paid or agreed to be paid by the Company for the use, forbearance or detention of the Obligations of the Company to the Agent, acting on behalf of the Lenders, throughout the entire contemplated term of the Obligations so that the interest rate is uniform throughout the entire term of the Obligations. The terms and provisions of this paragraph shall control and supersede every other provision hereof and all other agreements between the Company and the Agent, acting on behalf of the Lenders.

13.5 Any Lender organized under the laws of a jurisdiction outside of the United States (a "Foreign Lender") shall deliver to Agent and the Company (i) two valid, duly completed copies of IRS Form 1001 or 4224 or successor applicable form, as the case may be, and any other required form, certifying in each case that such Foreign Lender is entitled to receive payments under this Financing Agreement without deduction or withholding of any United States federal income taxes, or (ii) if such Foreign Lender is not a "bank" within the meaning of Section 881(c) (3) (A) of the Internal Revenue Code and cannot deliver either IRS Form 1001 or 4224 pursuant to clause (i) above, (A) a duly completed certificate of non-withholding acceptable to the Company and the Agent in their reasonable discretion (any such certificate, a "Tax Certificate") and (B) two valid, duly completed copies of IRS Form W-8 or successor applicable form, as the case may be, to establish an exemption from United States backup withholding tax. Each such Foreign Lender shall also deliver to Agent and the Company two further copies of said Form 1001 or 4224 or Form W-8 and a Tax Certificate, or successor applicable forms, or other manner of required certification, as the case may be, on or before the date that any such form expires or becomes obsolete or otherwise is required to be resubmitted as a condition to obtaining an exemption from a required withholding of United States of America federal income tax or after the occurrence

of any event requiring a change in the most recent form previously delivered by it to the Company and Agent, and such extensions or renewals thereof as may reasonably be requested by the Company and Agent, certifying (x) in the case of a Form 1001 or 4224 that such Foreign Lender is entitled to receive payments under this Financing Agreement without deduction or withholding of any United States federal income taxes, or (y) in the case of a Form W-8 and a Tax Certificate, establishing an exemption from United States backup withholding tax.

13.6 If any provision hereof or of any other agreement made in connection herewith is held to be illegal or unenforceable, such provision shall be fully severable, and the remaining provisions of the applicable agreement shall remain in full force and effect and shall not be affected by such provision's severance. Furthermore, in lieu of any such provision, there shall be added automatically as a part of the applicable agreement a legal and enforceable provision as similar in terms to the severed provision as may be possible.

13.7 TO THE EXTENT PERMITTED BY LAW, THE COMPANY, THE LENDERS AND THE AGENT HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING ARISING OUT OF THIS FINANCING AGREEMENT. THE COMPANY HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO SERVICE OF PROCESS BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED. ANY JUDICIAL PROCEEDING BROUGHT BY OR AGAINST THE COMPANY WITH RESPECT TO ANY OF THE OBLIGATIONS, THIS FINANCING AGREEMENT OR ANY RELATED AGREEMENT MAY BE BROUGHT IN ANY COURT OF COMPETENT JURISDICTION IN THE STATE OF CALIFORNIA, UNITED STATES OF AMERICA, AND, BY EXECUTION AND DELIVERY OF THIS FINANCING AGREEMENT, THE COMPANY ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE NON-EXCLUSIVE JURISDICTION OF THE AFORESAID COURTS, AND IRREVOCABLY AGREES TO BE BOUND BY ANY FINAL, NON-APPEALABLE JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS FINANCING AGREEMENT. NOTHING HEREIN SHALL AFFECT THE RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF THE AGENT TO BRING PROCEEDINGS AGAINST THE COMPANY IN THE COURTS OF ANY OTHER JURISDICTION. THE COMPANY WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED HEREUNDER AND SHALL NOT ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OF VENUE OR BASED UPON FORUM NON CONVENIENS.

13.8 Except as otherwise herein provided, any notice or other communication required hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered when hand delivered, including overnight delivery by a courier service or sent by facsimile, or five days after deposit in the United States mails, with proper first class postage prepaid and addressed to the party to be notified as follows:

(A) if to CITBC or the Agent, at:

The CIT Group/Business Credit, Inc.
300 South Grand Avenue
Los Angeles, CA 90071
Attn: Regional Manager
Facsimile Number: (213) 613-2588

with a copy to:

Buchalter, Nemer, Fields & Younger
601 S. Figueroa Street, Suite 2400
Los Angeles, CA 90017
Attn: Matthew W. Kavanaugh, Esq.
Facsimile Number: (213) 896-0400

(B) if to the Company at:

Big 5 Corp.
2525 East El Segundo Blvd
El Segundo, CA 90245
Attn: Chief Financial Officer
Facsimile Number: (310) 297-7532
with a copy to:

Big 5 Corp.
2525 East El Segundo Boulevard
El Segundo, CA 90245
Attn: General Counsel
Facsimile Number: (310) 297-7592

with a further copy to:

Irell & Manella LLP
1800 Avenue of the Stars, Suite 900
Los Angeles, CA 90067
Attn: J. Christopher Kennedy, Esq.
Facsimile Number: (310) 203-7199

(C) if to any other Lender, at the address specified in the Assignment and Transfer Agreements

or to such other address as any party may designate for itself by like notice.

13.9 THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS FINANCING AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

13.10 This Financing Agreement may be executed in counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one agreement.

[the remainder of this page left blank intentionally; signatures to follow]

IN WITNESS WHEREOF, the parties hereto have caused this Financing Agreement to be executed and delivered in Los Angeles, California by their proper and duly authorized officers as of the date set forth above.

BIG 5 CORP.,
A DELAWARE CORPORATION

By /s/ Charles P. Kirk

Name: Charles P. Kirk

Title: Senior Vice President
and Chief Financial Officer

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

By /s/ Thomas A. Hopkins

Name: Thomas A. Hopkins

Title: Vice President

Commitment: $41,000,000

FLEET CAPITAL CORPORATION (AS LENDER)

By /s/ Matthew R. Van Steenhuyse

Name: Matthew R. Van Steenhuyse

Title: Senior Vice President

Commitment: $28,000,000

PNC BANK, NATIONAL ASSOCIATION
(AS LENDER)

By /s/ Mark Tito

Name: Mark Tito

Title: Vice President

Commitment: $10,000,000

BANK OF AMERICA, N.A. (AS LENDER)

By /s/ Stephen King

Name: Stephen King

Title: Vice President

Commitment: $36,000,000

TRANSAMERICA BUSINESS CAPITAL CORPORATION (AS LENDER)

By /s/ Ari Kaplan

Name: Ari Kaplan

Title: Vice President

Commitment: $25,000,000

EXHIBIT A -- ASSIGNMENT AND TRANSFER AGREEMENT

Dated: _____, 200_

Reference is made to the Amended and Restated Financing Agreement dated as of _____, 2003 (as amended, modified, supplemented and in effect from time to time, the "Financing Agreement"), among Big 5 Corp., a Delaware corporation (the "Company"), the Lenders named therein, and The CIT Group/Business Credit, Inc., as Agent (the "Agent"). Initially capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Financing Agreement. This Assignment and Transfer Agreement, between the Assignor (as defined and set forth on Schedule 1 hereto and made a part hereof) and the Assignee (as defined and set forth on Schedule 1 hereto and made a part hereof) is dated as of the Effective Date (as set forth on Schedule 1 hereto and made a part hereof).

1. The Assignor hereby irrevocably sells and assigns to the Assignee without recourse to the Assignor, and the Assignee hereby irrevocably purchases and assumes from the Assignor without recourse to the Assignor, as of the Effective Date, an undivided interest (the "Assigned Interest") in and to all the Assignor's rights and obligations under the Financing Agreement respecting those, and only those, financing facilities contained in the Financing Agreement as are set forth on Schedule 1 (collectively, the "Assigned Facilities" and individually, an "Assigned Facility"), in a principal amount for each Assigned Facility as set forth on Schedule 1.

2. The Assignor (i) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Financing Agreement or any other instrument, document or agreement executed in conjunction therewith (collectively the "Ancillary Documents") or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Financing Agreement, any Collateral thereunder or any of the Ancillary Documents furnished pursuant thereto, other than that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim and (ii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Company or any guarantor or the performance or observance by the Company or any guarantor of any of its respective obligations under the Financing Agreement or any of the Ancillary Documents furnished pursuant thereto.

3. The Assignee (i) represents and warrants that it is legally authorized to enter into this Assignment and Transfer Agreement; (ii) confirms that it has received a copy of the Financing Agreement, together with the copies of the most recent financial statements of the Company, and such other documents and information as it has deemed appropriate to make its own credit analysis; (iii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Financing Agreement; (iv) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Financing Agreement as are delegated to the Agent by the terms thereof, together with such powers as

are reasonably incidental thereto; (v) agrees that it will be bound by the provisions of the Financing Agreement and will perform in accordance with its terms all the obligations which by the terms of the Financing Agreement are required to be performed by it as Lender; and (vi) if the Assignee is organized under the laws of a jurisdiction outside the United States, attaches the forms prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's exemption from United States withholding taxes with respect to all payments to be made to the Assignee under the Financing Agreement or such other documents as are necessary to indicate that all such payments are subject to such tax at a rate reduced by an applicable tax treaty.

4. Following the execution of this Assignment and Transfer Agreement, such agreement will be delivered to the Agent for acceptance by it and the Company, effective as of the Effective Date.

5. Upon such acceptance, from and after the Effective Date, the Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignee, whether such amounts have accrued prior to the Effective Date or accrue subsequent to the Effective Date. The Assignor and Assignee shall make all appropriate adjustments in payments for periods prior to the Effective Date made by the Agent or with respect to the making of this assignment directly between themselves.

6. From and after the Effective Date, (i) the Assignee shall be a party to the Financing Agreement and, to the extent provided in this Assignment and Transfer Agreement, have the rights and obligations of a Lender thereunder, and (ii) the Assignor shall, to the extent provided in this Assignment and Transfer Agreement, relinquish its rights and be released from its obligations under the Financing Agreement.

7. THIS ASSIGNMENT AND TRANSFER AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Acceptance to be executed by their respective duly authorized officers on Schedule 1 hereto.

SCHEDULE 1 TO ASSIGNMENT AND TRANSFER AGREEMENT

Name of Assignor:

Name of Assignee:

Effective Date of Assignment: _____, 200__

Assigned Facilities	Principal Amount (or, with respect to Letters of Credit face amount) Assigned	Percentage Assigned of Each Facility (Shown as a percentage of aggregate original principal amount [OR, WITH RESPECT TO LETTERS OF CREDIT, FACE AMOUNT] of all Lenders)
Revolving Loans	$_____	_____%
Letter of Credit participation interest	$_____	_____%
	Total $_____	

Fees:

Rates:

Exhibit A-3

Agreed and Accepted by:

THE CIT GROUP/BUSINESS
CREDIT, INC., as Agent

----------,
as Assignor

By: ----------

Title: ----------

By: ----------

Title: ----------

BIG 5 CORP.
(the "Company")

----------,
as Assignee

By: ----------

Title: ----------

By: ----------

Title: ----------

Exhibit A-4

EXHIBIT 10.27

MODIFICATION AND REAFFIRMATION OF GUARANTY

The undersigned, BIG 5 SPORTING GOODS CORPORATION, a Delaware corporation ("Guarantor"), has previously executed that certain Guaranty, dated March 8, 1996 (as amended, the "Guaranty"), in favor of THE CIT GROUP/BUSINESS CREDIT, INC., a New York corporation ("CITBC"), respecting the obligations of Big 5 Corp., a Delaware corporation ("Debtor"), arising under that certain Financing Agreement, dated March 8, 1996 (the "Prior Financing Agreement"). Guarantor hereby acknowledges the terms and provisions of that certain Amended and Restated Financing Agreement, dated as of even date herewith (the "Amended Agreement"), by and among Debtor, on the one hand, and CITBC, as agent and lender, and certain other lenders a party thereto, on the other hand, which such agreement amends and restates the Prior Financing Agreement.

In connection with the forgoing, Guarantor hereby reaffirms and agrees that: (i) the Guaranty remains in full force and effect; (ii) nothing in such Guaranty obligates CITBC or Lenders (as such term is defined in the Amended Agreement) to notify the Guarantor of any changes in the financial accommodations made available to Debtor or to seek reaffirmations of the Guaranty; and (iii) no requirement to so notify the undersigned or to seek reaffirmations in the future shall be implied by the execution of this reaffirmation. Without limiting the forgoing, the undersigned hereby acknowledges, accepts and agrees that (a) the term, the "Agreement", as used in the Guaranty shall hereinafter mean the Amended Agreement, as amended, supplemented, and modified, from time to time; and (b) the term, "Anniversary Date", as used in the Guaranty shall hereinafter mean the date three (3) years from the date hereof and the same date in every year thereafter.

Dated as of March 20, 2003

BIG 5 SPORTING GOODS CORPORATION,
a Delaware corporation

By: /s/ Charles P. Kirk

Name: Charles P. Kirk

Title: Senior Vice President and
Chief Financial Officer

Accepted by:

THE CIT GROUP/BUSINESS CREDIT, INC.,
a New York corporation

By: /s/ Thomas A. Hopkins

Name: Thomas A. Hopkins

Title: Vice President

EXHIBIT 99.1

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

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

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

/s/ Steven G. Miller

Steven G. Miller
President and Chief Executive Officer
March 31, 2003

Exhibit 99.2

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 Annual Report of Big 5 Sporting Goods Corporation (the "Company") on Form 10-K for the period ending December 29, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles P. Kirk, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Charles P. Kirk

Charles P. Kirk
Senior Vice President and Chief Financial Officer
March 31, 2003