BIG 5 SPORTING GOODS Corp
Form 10-Q
July 29, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 28, 2015

OR

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

For the transition period from ____________________ to ____________________

Commission file number: 000-49850

BIG 5 SPORTING GOODS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	95-4388794
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

2525 East El Segundo Boulevard

El Segundo, California	90245
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

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

There were 22,188,814 shares of common stock, with a par value of $0.01 per share outstanding as of July 23, 2015.

BIG 5 SPORTING GOODS CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BIG 5 SPORTING GOODS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	June 28, 2015	December 28, 2014
ASSETS		
Current assets:		
Cash	$ 6,790	$ 11,503
Accounts receivable, net of allowances of $49 and $110, respectively	11,838	15,680
Merchandise inventories, net	336,567	310,088
Prepaid expenses	5,910	9,358
Deferred income taxes	10,129	11,025
Total current assets	371,234	357,654
Property and equipment, net	81,680	78,440
Deferred income taxes	14,358	12,792
Other assets, net of accumulated amortization of $1,155 and $1,067, respectively	2,306	2,257
Goodwill	4,433	4,433
Total assets	$ 474,011	$ 455,576
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 116,182	$ 92,369
Accrued expenses	58,724	70,399
Current portion of capital lease obligations	1,614	1,197
Total current liabilities	176,520	163,965
Deferred rent, less current portion	20,718	20,736
Capital lease obligations, less current portion	2,979	1,155
Long-term debt	70,465	66,312
Other long-term liabilities	8,597	8,404
Total liabilities	279,279	260,572
Commitments and contingencies		
Stockholders equity:		

Common stock, $0.01 par value, authorized 50,000,000 shares; issued 24,548,824 and 24,445,345 shares, respectively; outstanding 22,187,664 and 22,180,458 shares, respectively	246	245
Additional paid-in capital	111,163	110,707
Retained earnings	112,985	112,521
Less: Treasury stock, at cost; 2,361,160 and 2,264,887 shares, respectively	(29,662)	(28,469)
Total stockholders equity	194,732	195,004
Total liabilities and stockholders equity	$ 474,011	$ 455,576

See accompanying notes to unaudited condensed consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	13 Weeks Ended		26 Weeks Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Net sales	$ 240,407	$ 231,150	$ 483,962	$ 462,413
Cost of sales	163,131	155,577	330,002	314,162
Gross profit	77,276	75,573	153,960	148,251
Selling and administrative expense	72,653	71,146	145,115	140,050
Operating income	4,623	4,427	8,845	8,201
Interest expense	412	371	815	805
Income before income taxes	4,211	4,056	8,030	7,396
Income taxes	1,633	1,521	3,138	2,801
Net income	$ 2,578	$ 2,535	$ 4,892	$ 4,595
Earnings per share:				
Basic	$ 0.12	$ 0.12	$ 0.22	$ 0.21
Diluted	$ 0.12	$ 0.11	$ 0.22	$ 0.21
Dividends per share	$ 0.10	$ 0.10	$ 0.20	$ 0.20
Weighted-average shares of common stock outstanding:				
Basic	21,835	21,985	21,822	21,982
Diluted	21,965	22,113	22,012	22,198

See accompanying notes to unaudited condensed consolidated financial statements.

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BIG 5 SPORTING GOODS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock, At Cost	Total
Balance as of December 29, 2013	22,297,701	$ 244	$ 109,901	$ 106,565	$ (25,940)	$ 190,770
Net income				4,595		4,595
Dividends on common stock ($0.20 per share)				(4,468)		(4,468)
Issuance of nonvested share awards	152,920	1	(1)			
Exercise of share option awards	8,925		55			55
Share-based compensation			985			985
Tax deficiency from share-based awards activity			(327)			(327)
Forfeiture of nonvested share awards	(7,395)					
Retirement of common stock for payment of withholding tax	(52,927)	(1)	(808)			(809)
Purchases of treasury stock	(91,524)				(1,204)	(1,204)
Balance as of June 29, 2014	22,307,700	$ 244	$ 109,805	$ 106,692	$ (27,144)	$ 189,597
Balance as of December 28, 2014	22,180,458	$ 245	$ 110,707	$ 112,521	$ (28,469)	$ 195,004
Net income				4,892		4,892
Dividends on common stock ($0.20 per share)				(4,428)		(4,428)
Issuance of nonvested share awards	152,140	2	(2)			
Exercise of share option awards	7,925		49			49
Share-based compensation			1,010			1,010
Tax benefit from share-based awards activity			83			83
Forfeiture of nonvested share awards	(3,965)					
Retirement of common stock for payment of withholding tax	(52,621)	(1)	(684)			(685)
Purchases of treasury stock	(96,273)				(1,193)	(1,193)
Balance as of June 28, 2015	22,187,664	$ 246	$ 111,163	$ 112,985	$ (29,662)	$ 194,732

See accompanying notes to unaudited condensed consolidated financial statements.

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BIG 5 SPORTING GOODS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	26 Weeks Ended	
	June 28, 2015	June 29, 2014
Cash flows from operating activities:		
Net income	$ 4,892	$ 4,595
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,937	10,534
Impairment of store assets		756
Share-based compensation	1,010	985
Excess tax benefit related to share-based awards	(104)	(181)
Amortization of debt issuance costs	88	88
Deferred income taxes	(670)	997
Changes in operating assets and liabilities:		
Accounts receivable, net	3,842	5,302
Merchandise inventories, net	(26,479)	(23,988)
Prepaid expenses and other assets	3,394	(7,717)
Accounts payable	23,142	19,779
Accrued expenses and other long-term liabilities	(11,520)	(13,354)
Net cash provided by (used in) operating activities	8,532	(2,204)
Cash flows from investing activities:		
Purchases of property and equipment	(12,873)	(8,785)
Proceeds from solar energy rebate		100
Net cash used in investing activities	(12,873)	(8,685)
Cash flows from financing activities:		
Principal borrowings under revolving credit facility	89,600	105,588
Principal payments under revolving credit facility	(85,447)	(80,433)
Changes in book overdraft	2,389	(10,326)
Principal payments under capital lease obligations	(705)	(827)
Proceeds from exercise of share option awards	49	55
Excess tax benefit related to share-based awards	104	181
Purchases of treasury stock	(1,193)	(1,204)
Tax withholding payments for share-based compensation	(685)	(809)
Dividends paid	(4,484)	(4,506)
Net cash (used in) provided by financing activities	(372)	7,719

Net decrease in cash		(4,713)		(3,170)
Cash at beginning of period		11,503		9,400
Cash at end of period	$	6,790	$	6,230
Supplemental disclosures of non-cash investing and financing activities:				
Property and equipment acquired under capital leases	$	2,960	$	451
Property and equipment additions unpaid	$	3,450	$	1,876
Supplemental disclosures of cash flow information:				
Interest paid	$	730	$	759
Income taxes paid	$	514	$	4,558

See accompanying notes to unaudited condensed consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of Business

Business

Big 5 Sporting Goods Corporation (the Company) is a leading sporting goods retailer in the western United States, operating 439 stores as of June 28, 2015. The Company provides a full-line product offering in a traditional sporting goods store format that averages approximately 11,000 square feet. The Company s product mix includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, winter and summer recreation and roller sports. The Company is a holding company that operates as one reportable segment through Big 5 Corp., its 100% owned subsidiary, and Big 5 Services Corp., which is a 100% owned subsidiary of Big 5 Corp. Big 5 Services Corp. provides a centralized operation for the issuance and administration of gift cards.

The accompanying interim unaudited condensed consolidated financial statements (Interim Financial Statements) of the Company and its 100% owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these Interim Financial Statements do not include all of the information and notes required by GAAP for complete financial statements. These Interim Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 28, 2014 included in the Company s Annual Report on Form 10-K. In the opinion of management, the Interim Financial Statements included herein contain all adjustments, including normal recurring adjustments, considered necessary to present fairly the Company s financial position, the results of operations and cash flows for the periods presented.

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

(2) Summary of Significant Accounting Policies

Consolidation

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

Reporting Period

The Company follows the concept of a 52-53 week fiscal year, which ends on the Sunday nearest December 31. Fiscal year 2015 is comprised of 53 weeks and ends on January 3, 2016. Fiscal year 2014 was comprised of 52 weeks and ended on December 28, 2014. The first three quarters in fiscal 2015 are each comprised of 13 weeks, and the fourth quarter of fiscal 2015 is comprised of 14 weeks. The four quarters of fiscal 2014 were each comprised of 13 weeks.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Recently Issued Accounting Updates

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which includes amendments that create Topic 606 and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, *Revenue Recognition Construction-Type and Production-Type Contracts,* and create new Subtopic 340-40, *Other Assets and Deferred Costs Contracts with Customers.* In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU No. 2014-09 were originally effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application was not permitted. On July 9, 2015, the FASB decided to defer for one year the effective date of ASU No. 2014-09, while also deciding to permit early application. With these changes, ASU No. 2014-09 will become effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017, with early application permitted as of the original effective date in ASU 2014-09 (i.e., annual reporting periods beginning after December 15, 2016). The Company is evaluating the future impact of the issuance of ASU No. 2014-09, as well as the deferral decisions reached by the FASB.

In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU requires retrospective adoption and is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. When adopted, ASU No. 2015-03 is not expected to have a material impact on the Company s consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015 05, *Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40) Customer s Accounting for Fees Paid in a Cloud Computing Arrangement*, which provides guidance to customers about whether a cloud computing arrangement includes a software license. If an arrangement includes a software license, the customer should account for the fees related to the software license element in a manner consistent with licenses of other intangible assets. If the arrangement does not include a license, the arrangement will be accounted for as a service contract. This ASU permits either retrospective or prospective adoption and is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is also permitted. When adopted, ASU No. 2015-05 is not expected to have a material impact on the Company s consolidated financial statements.

Other relevant recently issued accounting updates are not expected to have a material impact on the Company s Interim Financial Statements.

BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Use of Estimates

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

Revenue Recognition

The Company recognizes revenue from retail sales at the point of sale through its retail stores. For e-commerce sales, revenue is recognized when the merchandise is delivered to the customer. Shipping and handling fees, when billed to customers for e-commerce sales, are included in net sales. An allowance for sales returns is estimated based upon historical experience and recorded as a reduction in sales in the relevant period.

Cash received from the sale of gift cards is recorded as a liability, and revenue is recognized upon the redemption of the gift card or when it is determined that the likelihood of redemption is remote (gift card breakage) and no liability to relevant jurisdictions exists. The Company determines the gift card breakage rate based upon historical redemption patterns and recognizes gift card breakage on a straight-line basis over the estimated gift card redemption period (20 quarters as of the end of the second quarter of fiscal 2015). The Company recognized approximately $112,000 and $223,000 in gift card breakage revenue for the 13 and 26 weeks ended June 28, 2015, respectively, compared to approximately $109,000 and $217,000 in gift card breakage revenue for the 13 and 26 weeks ended June 29, 2014, respectively.

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

Share-Based Compensation

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

BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Valuation of Merchandise Inventories, Net

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

Management regularly reviews inventories and records valuation reserves for damaged and defective merchandise, merchandise items with slow-moving or obsolescence exposure and merchandise that has a carrying value that exceeds market value. These reserves are estimates of a reduction in value to reflect inventory valuation at the lower of cost or market. Because of its merchandise mix, the Company has not historically experienced significant occurrences of obsolescence.

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

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

Valuation of Long-Lived Assets

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

Long-lived assets are reviewed for recoverability at the lowest level in which there are identifiable cash flows (asset group), usually at the store level. Each store typically requires investments of approximately $0.5 million in long-lived assets to be held and used, subject to recoverability testing. The carrying amount of an asset group is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset group. If the asset group is determined not to be recoverable, then an impairment charge will be recognized in the amount by which the carrying amount of the asset group exceeds its fair value, determined using discounted cash flow valuation techniques, as defined in ASC 360, *Property, Plant, and Equipment*.

The Company determines the sum of the undiscounted cash flows expected to result from the asset group by projecting future revenue, gross margin and operating expense for each store under evaluation for impairment. The estimates of future cash flows involve management judgment and are based upon assumptions about expected future operating performance.

BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Assumptions used in these forecasts are consistent with internal planning, and include assumptions about sales growth rates, gross margins and operating expense in relation to the current economic environment and future expectations, competitive factors in various markets and inflation. The actual cash flows could differ from management s estimates due to changes in business conditions, operating performance and economic conditions.

Leases and Deferred Rent

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

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

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

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

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

(3) Impairment of Long-Lived Assets

The Company recognized no impairment charges in fiscal 2015.

In the second quarter of fiscal 2014, the Company recognized a pre-tax non-cash impairment charge of $0.8 million related to certain underperforming stores. This impairment charge is included in selling and administrative expense in the accompanying interim unaudited condensed consolidated statement of operations.

BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

(4) Fair Value Measurements

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

As discussed in Note 3 to the Interim Financial Statements, the Company s only significant assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition were certain assets subject to long-lived asset impairment. The Company classified these fair value measurements as Level 3 inputs, in accordance with ASC 820, *Fair Value Measurement*.

(5) Accrued Expenses

The major components of accrued expenses are as follows:

	June 28, 2015	December 28, 2014
	(In thousands)	
Payroll and related expense	$ 20,506	$ 22,568
Occupancy expense	9,315	9,412
Sales tax	6,250	10,432
Other	22,653	27,987
Accrued expenses	$ 58,724	$ 70,399

(6) Long-Term Debt

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

The Credit Agreement provides for a revolving credit facility (the Credit Facility) with an aggregate committed availability of up to $140.0 million, which amount may be increased at the Company s option up to a maximum of $165.0 million. The Company may also request additional increases in aggregate availability, up to a maximum of

$200.0 million, in which case the existing lenders under the Credit Agreement will have the option to increase their commitments to accommodate the requested increase. If such existing lenders do not exercise that option, the Company may (with the consent of Wells Fargo, not to be unreasonably withheld) seek other

BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

lenders willing to provide such commitments. The Credit Facility includes a $50.0 million sublimit for issuances of letters of credit and a $20.0 million sublimit for swingline loans.

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

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

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

The commitment fee assessed on the unused portion of the Credit Facility is 0.25% per annum.

Obligations under the Credit Facility are secured by a general lien and perfected security interest in substantially all of the Company s assets. The Credit Agreement contains covenants that require the Company to maintain a fixed charge coverage ratio of not less than 1.0:1.0 in certain circumstances, and limit the ability to, among other things, incur liens,

incur additional

BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

indebtedness, transfer or dispose of assets, change the nature of the business, guarantee obligations, pay dividends or make other distributions or repurchase stock, and make advances, loans or investments. The Company may declare or pay cash dividends or repurchase stock only if, among other things, no default or event of default then exists or would arise from such dividend or repurchase of stock and, after giving effect to such dividend or repurchase, certain availability and/or fixed charge coverage ratio requirements are satisfied. The Credit Agreement contains customary events of default, including, without limitation, failure to pay when due principal amounts with respect to the Credit Facility, failure to pay any interest or other amounts under the Credit Facility for five days after becoming due, failure to comply with certain agreements or covenants contained in the Credit Agreement, failure to satisfy certain judgments against the Company, failure to pay when due (or any other default which does or may lead to the acceleration of) certain other material indebtedness in principal amount in excess of $5.0 million, and certain insolvency and bankruptcy events.

As of June 28, 2015, the Company had long-term revolving credit borrowings of $70.5 million and letter of credit commitments of $0.5 million outstanding, compared with borrowings of $66.3 million and letter of credit commitments of $0.5 million as of December 28, 2014, respectively. Total remaining borrowing availability, after subtracting letters of credit, was $69.0 million and $73.2 million as of June 28, 2015 and December 28, 2014, respectively.

(7) Income Taxes

Under the asset and liability method prescribed under ASC 740, *Income Taxes*, the Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The realizability of deferred tax assets is assessed throughout the year and a valuation allowance is recorded if necessary to reduce net deferred tax assets to the amount more likely than not to be realized. As of June 28, 2015 and December 28, 2014, there was no valuation allowance as the deferred income tax assets were more likely than not to be realized.

The Company files a consolidated federal income tax return and files tax returns in various state and local jurisdictions. The statutes of limitations for consolidated federal income tax returns are open for fiscal years 2011 and after, and state and local income tax returns are open for fiscal years 2010 and after.

As of June 28, 2015 and December 28, 2014, the Company had no unrecognized tax benefits including those that, if recognized, would affect the Company s effective income tax rate over the next 12 months. The Company s policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expense. As of June 28, 2015 and December 28, 2014, the Company had no accrued interest or penalties.

BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

(8) Earnings Per Share

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

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

	13 Weeks Ended		26 Weeks Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
	(In thousands, except per share data)			
Net income	$ 2,578	$ 2,535	$ 4,892	$ 4,595
Weighted-average shares of common stock outstanding:				
Basic	21,835	21,985	21,822	21,982
Dilutive effect of common stock equivalents arising from share option, nonvested share and nonvested share unit awards	130	128	190	216
Diluted	21,965	22,113	22,012	22,198
Basic earnings per share	$ 0.12	$ 0.12	$ 0.22	$ 0.21
Diluted earnings per share	$ 0.12	$ 0.11	$ 0.22	$ 0.21

The computation of diluted earnings per share for the 13 weeks ended June 28, 2015, the 26 weeks ended June 28, 2015, the 13 weeks ended June 29, 2014 and the 26 weeks ended June 29, 2014 does not include share option awards in the amounts of 467,947, 468,233, 505,800 and 548,679, respectively, that were outstanding and antidilutive (i.e., including such share option awards would result in higher earnings per share), since the exercise prices of these share option awards exceeded the average market price of the Company s common shares.

Additionally, the computation of diluted earnings per share for the 13 weeks ended June 28, 2015, the 26 weeks ended June 28, 2015, the 13 weeks ended June 29, 2014 and the 26 weeks ended June 29, 2014 does not include nonvested share awards and nonvested share unit awards in the amounts of 110,037, 2,354, 231,538 and 142 shares, respectively, that were outstanding and

BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

antidilutive, since the grant date fair values of these nonvested share awards and nonvested share unit awards exceeded the average market price of the Company s common shares.

(9) Commitments and Contingencies

On September 10, 2014, a complaint was filed in the California Superior Court for the County of Los Angeles, entitled Pedro Duran v. Big 5 Corp., et al., Case No. BC557154. On October 7, 2014, an amended complaint was filed. As amended, the complaint alleges the Company violated the California Labor Code and the California Business and Professions Code. The complaint was brought as a purported class action on behalf of certain of the Company s hourly employees who worked as warehousemen in the Company s distribution center in California for the four years prior to the filing of the complaint. The plaintiff alleges, among other things, that the Company failed to pay such employees for all time worked, failed to provide such employees with compliant meal and rest periods, failed to properly itemize wage statements, and failed to pay wages within required time periods during employment and upon termination of employment. The plaintiff seeks, on behalf of the purported class members, an award of statutory and civil damages and penalties, including restitution and recovery of unpaid wages; pre-judgment interest; an award of attorneys fees and costs; and injunctive and declaratory relief. The Company believes that the complaint is without merit. The Company has not yet been served with the complaint or the amended complaint. In an effort to negotiate a settlement of this litigation, the Company and plaintiff engaged in mediation on January 28, 2015. On April 1, 2015, the parties agreed to settle the lawsuit. On June 22, 2015, the court granted preliminary approval of the proposed settlement. The court has scheduled a hearing for October 20, 2015, to consider granting final approval of the settlement. Under the terms of the proposed settlement, the Company agreed to pay approximately $1.4 million, which includes payments to class members, plaintiff s attorneys fees and expenses, an enhancement payment to the class representative, claims administration fees and payment to the California Labor and Workforce Development Agency. The Company s anticipated total payments pursuant to this proposed settlement have been reflected in a legal settlement accrual initially recorded in the fourth quarter of fiscal 2014 prior to the proposed settlement and subsequently adjusted in the first quarter of fiscal 2015 to reflect the proposed settlement. The Company admitted no liability or wrongdoing with respect to the claims set forth in the lawsuit. Once final approval is granted, the settlement will constitute a full and complete settlement and release of all claims related to the lawsuit. If the court does not grant final approval of the proposed settlement, the Company intends to defend the lawsuit vigorously. If the proposed settlement is not finally approved by the court and the lawsuit is resolved unfavorably to the Company, this litigation could have a material negative impact on the Company s financial condition, and costs associated with any judgment, defense of this litigation as well as any required change in the Company s labor practices, could have a material negative impact on the Company s results of operations.

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

BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

(10) Share-based Compensation

At its discretion, the Company grants share option awards, nonvested share awards and nonvested share unit awards to certain employees, as defined by ASC 718, *Compensation Stock Compensation*, under the Company s 2007 Equity and Performance Incentive Plan, as amended and restated on June 14, 2011 (the Plan), and accounts for its share-based compensation in accordance with ASC 718. The Company recognized $0.5 million and $1.0 million in share-based compensation expense for the 13 and 26 weeks ended June 28, 2015, respectively, compared to $0.5 million and $1.0 million in share-based compensation expense for the 13 and 26 weeks ended June 29, 2014, respectively.

Share Option Awards

Share option awards granted by the Company generally vest and become exercisable in four equal annual installments of 25% per year with a maximum life of ten years. The exercise price of share option awards is equal to the quoted market price of the Company s common stock on the date of grant. In the first half of fiscal 2015 and 2014, the Company granted 10,000 and 18,000 share option awards, respectively. The weighted-average grant-date fair value per option for share option awards granted in the first half of fiscal 2015 and 2014 was $6.22 and $4.80, respectively.

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

	13 Weeks Ended		**26 Weeks Ended**	
	June 28, 2015	**June 29, 2014**	**June 28, 2015**	**June 29, 2014**
Risk-free interest rate	1.9%	1.8%	1.9%	1.8%
Expected term	5.8 years	5.8 years	5.8 years	5.8 years
Expected volatility	57.0%	57.0%	57.0%	57.0%
Expected dividend yield	2.7%	3.3%	2.7%	3.3%

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

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BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Outstanding at December 28, 2014	729,905	$ 15.73		
Granted	10,000	14.66		
Exercised	(7,925)	6.12		
Forfeited or Expired	(2,800)	19.12		
Outstanding at June 28, 2015	729,180	$ 15.80	2.60	$ 1,907,777
Exercisable at June 28, 2015	678,055	$ 16.00	2.10	$ 1,785,624
Vested and Expected to Vest at June 28, 2015	728,669	$ 15.80	2.60	$ 1,907,219

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based upon the Company s closing stock price of $14.42 as of June 28, 2015, which would have been received by the share option award holders had all share option award holders exercised their share option awards as of that date.

The total intrinsic value of share option awards exercised for the 26 weeks ended June 28, 2015 and June 29, 2014 was approximately $0.1 million and $0.1 million, respectively. The total cash received from employees as a result of employee share option award exercises for the 26 weeks ended June 28, 2015 and June 29, 2014 was approximately $49,000 and $55,000, respectively. The actual tax benefit realized for the expected tax deduction from share option award exercises of share-based compensation awards in the 26 weeks ended June 28, 2015 and June 29, 2014 totaled $24,000 and $41,000, respectively.

As of June 28, 2015, there was $0.3 million of total unrecognized compensation expense related to nonvested share option awards granted. That expense is expected to be recognized over a weighted-average period of 2.2 years.

Nonvested Share Awards and Nonvested Share Unit Awards

Nonvested share awards and nonvested share unit awards granted by the Company have historically vested from the date of grant in four equal annual installments of 25% per year. In accordance with the Company s Director Compensation Program, as amended on July 24, 2014, nonvested share awards and nonvested share unit awards granted by the Company to non-employee directors vest 100% on the first anniversary of the grant date. This one-year vesting for

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BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

non-employee directors became effective for nonvested share awards and nonvested share unit awards granted in fiscal 2015.

Nonvested share awards are delivered to the recipient upon their vesting. With respect to nonvested share unit awards, vested shares will be delivered to the recipient on the tenth business day of January following the year in which the recipient s service to the Company is terminated. The total fair value of nonvested share awards which vested during the first half of fiscal 2015 and 2014 was $1.7 million and $2.1 million, respectively. The total fair value of nonvested share unit awards vested during the first half of fiscal 2015 and 2014 was $0.1 million and $0.1 million, respectively.

The Company granted 152,140 and 152,920 nonvested share awards in the first half of fiscal 2015 and 2014, respectively. The weighted-average grant-date fair value per share of the Company s nonvested share awards granted in the first half of fiscal 2015 and 2014 was $12.65 and $15.14, respectively.

In the first half of fiscal 2015 and 2014, the Company granted 21,000 and 12,000 nonvested share unit awards, respectively. The weighted-average grant-date fair value per share of the Company s nonvested share unit awards granted in the first half of fiscal 2015 and 2014 was $14.66 and $11.93, respectively. The weighted-average grant-date fair value of nonvested share awards and nonvested share unit awards is the quoted market price of the Company s common stock on the date of grant.

The following table details the Company s nonvested share awards activity for the 26 weeks ended June 28, 2015:

	Shares	Weighted-Average Grant-Date Fair Value
Balance as of December 28, 2014	336,765	$ 13.47
Granted	152,140	12.65
Vested	(132,475)	12.57
Forfeited	(3,965)	14.10
Balance as of June 28, 2015	352,465	$ 13.45

To satisfy employee minimum statutory tax withholding requirements for nonvested share awards that vest, the Company withholds and retires a portion of the vesting common shares, unless an employee elects to pay cash. In the first half of fiscal 2015, the Company withheld 52,621 common shares with a total value of $0.7 million. This amount is presented as a cash outflow from financing activities in the accompanying interim unaudited condensed consolidated statement of cash flows.

BIG 5 SPORTING GOODS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

As of June 28, 2015, there was $4.1 million and $0.5 million of total unrecognized compensation expense related to nonvested share awards and nonvested share unit awards, respectively. That expense is expected to be recognized over a weighted-average period of 2.8 years and 1.6 years for nonvested share awards and nonvested share unit awards, respectively.

(11) Subsequent Event

In the third quarter of fiscal 2015, the Company s Board of Directors declared a quarterly cash dividend of $0.10 per share of outstanding common stock, which will be paid on September 15, 2015 to stockholders of record as of September 1, 2015.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Big 5 Sporting Goods Corporation

El Segundo, California

We have reviewed the accompanying condensed consolidated balance sheet of Big 5 Sporting Goods Corporation and subsidiaries (the Corporation) as of June 28, 2015, and the related condensed consolidated statements of operations for the 13 and 26 weeks ended June 28, 2015 and June 29, 2014, and of stockholders equity and cash flows for the 26 weeks ended June 28, 2015 and June 29, 2014. These interim financial statements are the responsibility of the Corporation s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Big 5 Sporting Goods Corporation and subsidiaries as of December 28, 2014, and the related consolidated statements of operations, stockholders equity, and cash flows for the year then ended (not presented herein); and in our report dated February 25, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 28, 2014 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Los Angeles, California

July 29, 2015

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

The following discussion and analysis of the Big 5 Sporting Goods Corporation (we, our, us) financial condition and results of operations includes information with respect to our plans and strategies for our business and should be read in conjunction with our interim unaudited condensed consolidated financial statements and related notes (Interim Financial Statements) included herein and our consolidated financial statements, related notes, *Risk Factors* and *Management s Discussion and Analysis of Financial Condition and Results of Operations* contained in our Annual Report on Form 10-K for the fiscal year ended December 28, 2014.

Overview

We are a leading sporting goods retailer in the western United States, operating 439 stores under the name Big 5 Sporting Goods as of June 28, 2015. We provide a full-line product offering in a traditional sporting goods store format that averages approximately 11,000 square feet. Our product mix includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, winter and summer recreation and roller sports.

Executive Summary

Our improved operating results for the second quarter of fiscal 2015 compared to the second quarter of fiscal 2014 were mainly attributable to our higher sales levels, including an increase in same store sales of 1.7%. Our higher same store sales in the second quarter of fiscal 2015 compared to the same period last year reflected increases in each of our major merchandise categories of hardgoods, footwear and apparel.

Net sales for the second quarter of fiscal 2015 increased 4.0% to $240.4 million compared to $231.2 million for the second quarter of fiscal 2014. The increase in net sales was primarily attributable to added sales from new stores as well as an increase in same store sales of 1.7%, partially offset by a reduction in closed store sales.

Net income for the second quarter of fiscal 2015 increased to $2.6 million, or $0.12 per diluted share, compared to $2.5 million, or $0.11 per diluted share, for the second quarter of fiscal 2014. The increase in net income was driven primarily by higher net sales leading to higher gross profit, partially offset by an increase in selling and administrative expense.

Gross profit for the second quarter of fiscal 2015 represented 32.1% of net sales, compared with 32.7% in the same quarter of the prior year. The decrease in gross profit margin resulted mainly from a year over year decrease in merchandise margins of 17 basis points, along with higher distribution and occupancy expense as a percentage of net sales.

Selling and administrative expense for the second quarter of fiscal 2015 increased 2.1% to $72.7 million, or 30.2% of net sales, compared to $71.1 million, or 30.8% of net sales, for the second quarter of fiscal 2014. The increase in selling and administrative expense was primarily attributable to higher employee labor expense

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to support the increase in store count, as well as increased legal and other expense associated with a publicly-disclosed proxy contest, partially offset by a decrease in print advertising expense.

Operating cash flow provided in the first half of fiscal 2015 was $8.5 million compared to $2.2 million used in the first half of fiscal 2014.

Capital expenditures for the first half of fiscal 2015 of $12.9 million were up from $8.8 million in the first half of fiscal 2014.

We increased the balance under our revolving credit facility to $70.5 million as of June 28, 2015, compared with $68.2 million as of June 29, 2014 and $66.3 million as of December 28, 2014.

We paid cash dividends in the first half of fiscal 2015 of $4.4 million, or $0.20 per share.

We repurchased 96,273 shares of common stock for $1.2 million in the first half of fiscal 2015.

Results of Operations

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

13 Weeks Ended June 28, 2015 Compared to 13 Weeks Ended June 29, 2014

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

	13 Weeks Ended			
	June 28, 2015		June 29, 2014	
	(In thousands, except percentages)			
Net sales	$ 240,407	100.0%	$ 231,150	100.0%
Cost of sales [1]	163,131	67.9	155,577	67.3
Gross profit	77,276	32.1	75,573	32.7
Selling and administrative expense [2]	72,653	30.2	71,146	30.8
Operating income	4,623	1.9	4,427	1.9
Interest expense	412	0.1	371	0.2
Income before income taxes	4,211	1.8	4,056	1.7
Income taxes	1,633	0.7	1,521	0.6
Net income	$ 2,578	1.1%	$ 2,535	1.1%

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

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

Net Sales. Net sales increased by $9.2 million, or 4.0%, to $240.4 million in the 13 weeks ended June 28, 2015 from $231.2 million in the comparable period last year. The change in net sales reflected the following:

Added sales from new stores opened since March 30, 2014 were partially offset by a reduction in closed store sales.

Same store sales increased by $4.0 million, or 1.7%, for the 13 weeks ended June 28, 2015, versus the comparable 13-week period in the prior year. Our higher same store sales in the second quarter of fiscal 2015 compared to the same period last year reflected increases in each of our major merchandise categories of hardgoods, footwear and apparel. Same store sales for a period reflect net sales from stores that operated throughout the period as well as the full corresponding prior year period.

Our sales for the second quarter of fiscal 2015 compared with the prior year were negatively impacted by soccer-related business generated from the 2014 World Cup, and pressure from cycling this business is expected to continue into the third quarter of fiscal 2015. Our sales also continue to be impacted by the economic and recreational effect of the ongoing drought in our core California markets.

Although we experienced decreased customer transactions in our retail stores, the average sale per transaction increased in the second quarter of fiscal 2015 compared to the same period last year, partially reflecting the shift to more branded product.

Store count as of June 28, 2015 was 439 versus 427 as of June 29, 2014. We opened three new stores and closed one store, which was a relocation, in the 13 weeks ended June 28, 2015. We opened two new stores in the 13 weeks ended June 29, 2014.

Gross Profit. Gross profit increased by $1.7 million, or 2.2%, to $77.3 million, or 32.1% of net sales, in the 13 weeks ended June 28, 2015 from $75.6 million, or 32.7% of net sales, in the 13 weeks ended June 29, 2014. The change in gross profit was primarily attributable to the following:

Net sales increased $9.2 million, or 4.0%, year over year in the second quarter of fiscal 2015.

Merchandise margins, which exclude buying, occupancy and distribution expense, decreased 17 basis points versus the second quarter last year.

Store occupancy expense increased by $1.0 million year over year in the second quarter of fiscal 2015 due primarily to the increase in store count and lease renewals for existing stores.

Distribution expense increased $0.9 million resulting primarily from higher employee labor and benefit-related expense as well as lower costs capitalized into inventory.

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Selling and Administrative Expense. Selling and administrative expense increased by $1.6 million to $72.7 million, or 30.2% of net sales, in the 13 weeks ended June 28, 2015 from $71.1 million, or 30.8% of net sales, in the same period last year. The change in selling and administrative expense was primarily attributable to the following:

Store-related expense, excluding occupancy, increased by $1.4 million due primarily to higher employee labor expense and higher operating expense to support the increase in store count.

Administrative expense increased by $1.2 million, primarily reflecting costs associated with a publicly-disclosed proxy contest, which was settled on April 30, 2015, as well as higher employee labor and benefit-related expense. The proxy contest and related matters negatively impacted our administrative expense during the second quarter of fiscal 2015 by approximately $1.1 million. Administrative expense for the second quarter of fiscal 2014 included a pre-tax non-cash impairment charge of $0.8 million related to certain underperforming stores as discussed in Note 3 to the Interim Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q.

Advertising expense for the second quarter of fiscal 2015 decreased by $1.1 million, due primarily to lower newspaper advertising.

Interest Expense. Interest expense remained flat at $0.4 million in the 13 weeks ended June 28, 2015 compared to the second quarter of fiscal 2014. Interest expense reflected an increase in average interest rates of 10 basis points to 1.9% in the second quarter of fiscal 2015 from 1.8% in the prior year. The impact of higher average interest rates was offset by a decrease in average debt levels of $0.8 million to $61.4 million in the second quarter of fiscal 2015 from $62.2 million in the same period last year.

Income Taxes. The provision for income taxes was $1.6 million for the 13 weeks ended June 28, 2015 and $1.5 million for the 13 weeks ended June 29, 2014. Our effective tax rate was 38.8% for the second quarter of fiscal 2015 compared with 37.5% for the second quarter of fiscal 2014. The increased effective tax rate for the second quarter of fiscal 2015 compared to the same period in fiscal 2014 was primarily due to a reduced amount of income tax credits for the current year.

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26 Weeks Ended June 28, 2015 Compared to 26 Weeks Ended June 29, 2014

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

	26 Weeks Ended			
	June 28, 2015		June 29, 2014	
	(In thousands, except percentages)			
Net sales	$ 483,962	100.0%	$ 462,413	100.0%
Cost of sales [1]	330,002	68.2	314,162	67.9
Gross profit	153,960	31.8	148,251	32.1
Selling and administrative expense [2]	145,115	30.0	140,050	30.3
Operating income	8,845	1.8	8,201	1.8
Interest expense	815	0.2	805	0.2
Income before income taxes	8,030	1.6	7,396	1.6
Income taxes	3,138	0.6	2,801	0.6
Net income	$ 4,892	1.0%	$ 4,595	1.0%

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

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

Net Sales. Net sales increased by $21.6 million, or 4.7%, to $484.0 million in the 26 weeks ended June 28, 2015 from $462.4 million in the comparable period last year. The change in net sales reflected the following:

Same store sales increased by $12.7 million, or 2.8%, for the 26 weeks ended June 28, 2015, versus the comparable 26-week period in the prior year. Our higher same store sales in the first half of fiscal 2015 compared to the same period last year reflected increases across each of our major merchandise categories of hardgoods, footwear and apparel. Same store sales for a period reflect net sales from stores that operated throughout the period as well as the full corresponding prior year period.

Added sales from new stores opened since December 29, 2013 were partially offset by a reduction in closed store sales.

Our sales continue to be impacted by the economic and recreational effect of the ongoing drought in our core California markets.

We experienced a relatively flat number of customer transactions year over year in our retail stores, and the average sale per transaction increased in the first half of fiscal 2015 compared to the same period last year.

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Store count as of June 28, 2015 was 439 versus 427 as of June 29, 2014. We opened four new stores and closed four stores, two of which were relocations, in the 26 weeks ended June 28, 2015. We opened two new stores and closed four stores, two of which were relocations, in the 26 weeks ended June 29, 2014.

Gross Profit. Gross profit increased by $5.7 million, or 3.8%, to $154.0 million, or 31.8% of net sales, in the 26 weeks ended June 28, 2015 from $148.3 million, or 32.1% of net sales, in the 26 weeks ended June 29, 2014. The change in gross profit was primarily attributable to the following:

- Net sales increased $21.6 million, or 4.7%, year over year in the first half of fiscal 2015.

- Merchandise margins, which exclude buying, occupancy and distribution expense, decreased two basis points versus the first half last year.

- Store occupancy expense increased by $2.1 million year over year in the first half of fiscal 2015 due primarily to the increase in store count and lease renewals for existing stores.

- Distribution expense increased $2.0 million resulting primarily from lower costs capitalized into inventory as well as higher employee labor and benefit-related expense, partially offset by lower fuel expense.

Selling and Administrative Expense. Selling and administrative expense increased by $5.1 million to $145.1 million, or 30.0% of net sales, in the 26 weeks ended June 28, 2015 from $140.0 million, or 30.3% of net sales, in the same period last year. The change in selling and administrative expense was primarily attributable to the following:

- Store-related expense, excluding occupancy, increased by $4.0 million due primarily to higher employee labor and benefit-related expense and higher operating expense to support the increase in store count.

- Administrative expense increased by $2.9 million, primarily reflecting costs associated with a publicly-disclosed proxy contest, which was settled on April 30, 2015. The proxy contest and related matters negatively impacted our administrative expense during the first half of fiscal 2015 by approximately $1.6 million.

- Administrative expense also included higher employee labor and benefit-related expense, as well as a pre-tax charge of $0.4 million for a legal settlement, as further discussed in Note 9 to the Interim Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q. Administrative expense for the first half of fiscal 2014 included a pre-tax non-cash impairment charge of $0.8 million related to certain underperforming stores as discussed in Note 3 to the Interim Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q.

Advertising expense for the first half of fiscal 2015 decreased by $1.8 million, due primarily to lower newspaper advertising.

Interest Expense. Interest expense remained flat at $0.8 million in the 26 weeks ended June 28, 2015 compared to the same period in fiscal 2014. Interest expense reflected a decrease in average interest rates of 10 basis points to 1.8% in the first half of fiscal 2015 from 1.9% in the prior year. The impact of lower average interest rates was offset by an increase in average debt levels of $4.0 million to $62.7 million in the first half of fiscal 2015 from $58.7 million in the same period last year.

Income Taxes. The provision for income taxes was $3.1 million for the 26 weeks ended June 28, 2015 and $2.8 million for the 26 weeks ended June 29, 2014. Our effective tax rate was 39.1% for the first half of fiscal 2015 compared with 37.9% for the first half of fiscal 2014. The increased effective tax rate for the first half of fiscal 2015 compared to the same period in fiscal 2014 was primarily due to a reduced amount of income tax credits for the current year.

Liquidity and Capital Resources

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

We ended the first half of fiscal 2015 with $6.8 million of cash compared with $6.2 million at the end of the same period in fiscal 2014. Our cash flows from operating, investing and financing activities are summarized as follows:

	26 Weeks Ended	
	June 28, 2015	June 29, 2014
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$ 8,532	$ (2,204)
Investing activities	(12,873)	(8,685)
Financing activities	(372)	7,719
Net decrease in cash	$ (4,713)	$ (3,170)

Operating Activities. Net cash provided by operating activities for the 26 weeks ended June 28, 2015 was $8.5 million, and net cash used in operating activities for the 26 weeks ended June 29, 2014 was $2.2 million, respectively. The increase in cash flow from operating activities for the 26 weeks ended June 28, 2015 compared to the same period last year primarily reflects decreased prepaid expenses related mainly to the prepayment of income taxes and the timing of rent payments.

Investing Activities. Net cash used in investing activities for the 26 weeks ended June 28, 2015 and June 29, 2014 was $12.9 million and $8.7 million, respectively. Capital

expenditures, excluding non-cash acquisitions, represented substantially all of the cash used in investing activities for each period. The increase primarily reflects increased investment in our distribution center to support overall growth.

Financing Activities. Net cash used in financing activities for the 26 weeks ended June 28, 2015 was $0.4 million, and net cash provided by financing activities for the 26 weeks ended June 29, 2014 was $7.7 million. In the first half of fiscal 2015, net cash was used primarily to fund dividend payments and treasury stock repurchases, largely offset by increased net borrowings under our revolving credit facility. In the first half of fiscal 2014, net cash was provided primarily from increased net borrowings under our revolving credit facility, partially offset by dividend payments and treasury stock repurchases.

As of June 28, 2015, we had revolving credit borrowings of $70.5 million and letter of credit commitments of $0.5 million outstanding. These balances compare to revolving credit borrowings of $66.3 million and letter of credit commitments of $0.5 million outstanding as of December 28, 2014 and revolving credit borrowings of $68.2 million and letter of credit commitments of $0.6 million outstanding as of June 29, 2014.

In fiscal 2014 and the first half of fiscal 2015, we paid quarterly cash dividends of $0.10 per share of outstanding common stock, for an annual rate of $0.40 per share. In the third quarter of fiscal 2015, our Board of Directors declared a quarterly cash dividend of $0.10 per share of outstanding common stock, which will be paid on September 15, 2015 to stockholders of record as of September 1, 2015.

Periodically, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. We may repurchase our common stock for a variety of reasons, including, among other things, our alternative cash requirements, existing business conditions and the current market price of our stock. In the first half of fiscal 2015, we repurchased 96,273 shares of common stock for $1.2 million. In the first half of fiscal 2014, we repurchased 91,524 shares of common stock for $1.2 million. Since the inception of our initial share repurchase program in May 2006 through June 28, 2015, we have repurchased a total of 2,246,950 shares for $29.1 million, leaving a total of $5.9 million available for share repurchases under our current share repurchase program.

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

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

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million sublimit for issuances of letters of credit and a $20.0 million sublimit for swingline loans. Total remaining borrowing availability under the Credit Agreement, after subtracting letters of credit, was $69.0 million and $73.2 million as of June 28, 2015 and December 28, 2014, respectively.

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

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

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

The commitment fee assessed on the unused portion of the Credit Facility is 0.25% per annum.

Obligations under the Credit Facility are secured by a general lien and perfected security interest in substantially all of our assets. Our Credit Agreement contains covenants that require us to maintain a fixed charge coverage ratio of not less than 1.0:1.0 in certain circumstances, and limit our ability to, among other things, incur liens, incur additional

indebtedness, transfer or dispose of assets, change the nature of the business, guarantee obligations, pay dividends or make other distributions or repurchase stock, and make advances, loans or investments. We may declare or pay cash dividends or repurchase stock only if, among other things, no default or event of default then exists or would arise from such dividend or repurchase of stock and, after giving effect to such dividend or repurchase, certain availability and/or fixed charge coverage ratio requirements are satisfied. The Credit Agreement contains customary events of default, including, without limitation, failure to pay when due principal amounts with respect to the Credit Facility, failure to pay any interest or other amounts under the Credit Facility for five days after becoming due, failure to comply with certain agreements or covenants contained in the Credit Agreement, failure to satisfy certain judgments against us, failure to pay when due (or any other default which does or may lead to the acceleration of) certain other material indebtedness in principal amount in excess of $5.0 million, and certain insolvency and bankruptcy events.

Future Capital Requirements. We had cash on hand of $6.8 million as of June 28, 2015. We expect capital expenditures for fiscal 2015, excluding non-cash acquisitions, to range from approximately $26.0 million to $30.0 million, primarily to fund the opening of new stores, store-related remodeling, distribution center equipment and computer hardware and software purchases, including amounts related to the development of a new point-of-sale system. The increased capital expenditures expected in fiscal 2015 compared to actual capital expenditures in fiscal 2014 primarily reflect increased investment in our distribution center to support overall growth. For fiscal 2015, we expect to open approximately eight to ten new stores and close approximately six stores.

We currently pay quarterly dividends, subject to declaration by our Board of Directors. In the third quarter of fiscal 2015, our Board of Directors declared a quarterly cash dividend of $0.10 per share of outstanding common stock, which will be paid on September 15, 2015 to stockholders of record as of September 1, 2015.

As of June 28, 2015, a total of $5.9 million remained available for share repurchases under our share repurchase program. We consider several factors in determining when and if we make share repurchases including, among other things, our alternative cash requirements, existing business conditions and the market price of our stock.

We believe we will be able to fund our cash requirements from cash on hand, operating cash flows and borrowings from our revolving credit facility, for at least the next 12 months. However, our ability to satisfy our cash requirements depends upon our future performance, which in turn is subject to general economic conditions and regional risks, as well as financial, business and other factors affecting our operations, including factors beyond our control.

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

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

Our material contractual obligations include operating lease commitments associated with our leased properties and other occupancy expense, capital lease obligations, borrowings under our Credit Facility and other liabilities.

Issued and outstanding letters of credit were $0.5 million as of June 28, 2015, and were related to securing insurance program liabilities.

Included in the *Liquidity and Capital Resources* section of Part II, Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report on Form 10-K for the fiscal year ended December 28, 2014, is a discussion of our future obligations and commitments as of December 28, 2014. In the 26 weeks ended June 28, 2015, our revolving credit borrowings increased by $4.2 million from the end of fiscal 2014. We entered into new operating lease agreements in relation to our business operations during the 26 weeks ended June 28, 2015. We do not believe that these operating leases or the increase in our revolving credit borrowings materially impact our contractual obligations or commitments presented as of December 28, 2014.

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

Critical Accounting Estimates

As discussed in Part II, Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report on Form 10-K for the fiscal year ended December 28, 2014, we consider our estimates on inventory valuation, long-lived assets and self-insurance liabilities to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements. There have been no significant changes to these estimates in the 26 weeks ended June 28, 2015.

Seasonality and Impact of Inflation

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

In fiscal 2014, we experienced minor inflation in the purchase cost, including transportation expense, of certain products. In the first half of fiscal 2015, the impact of inflation was minimal. We continue to evolve our product mix to include more branded merchandise that we believe gives us added flexibility to adjust selling prices for purchase cost increases. If we are unable to adjust our selling prices for purchase cost increases then our merchandise margins will decline, which will adversely impact our operating results. We do not believe that inflation had a material impact on our operating results for the reporting periods.

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Recently Issued Accounting Updates

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

Forward-Looking Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to risks resulting from interest rate fluctuations since interest on borrowings under our Credit Facility is based on variable rates. We enter into borrowings under our Credit Facility principally for working capital, capital expenditures and general corporate purposes. We routinely evaluate the best use of our cash on hand and manage financial statement exposure to interest rate fluctuations by managing our level of indebtedness and the interest base rate options on such indebtedness. We do not utilize derivative instruments and do not engage in foreign currency transactions or hedging activities to manage our interest rate risk. If the interest rate on our debt was to change 1.0% as compared to the rate as of June 28, 2015, our interest expense would change approximately $0.7 million on an annual basis based on the outstanding balance of borrowings under our Credit Facility as of June 28, 2015.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

During the fiscal quarter ended June 28, 2015, no changes occurred with respect to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On September 10, 2014, a complaint was filed in the California Superior Court for the County of Los Angeles, entitled Pedro Duran v. Big 5 Corp., et al., Case No. BC557154. On October 7, 2014, an amended complaint was filed. As amended, the complaint alleges the Company violated the California Labor Code and the California Business and Professions Code. The complaint was brought as a purported class action on behalf of certain of the Company s hourly employees who worked as warehousemen in the Company s distribution center in California for the four years prior to the filing of the complaint. The plaintiff alleges, among other things, that the Company failed to pay such employees for all time worked, failed to provide such employees with compliant meal and rest periods, failed to properly itemize wage statements, and failed to pay wages within required time periods during employment and upon termination of employment. The plaintiff seeks, on behalf of the purported class members, an award of statutory and civil damages and penalties, including restitution and recovery of unpaid wages; pre-judgment interest; an award of attorneys fees and costs; and injunctive and declaratory relief. The Company believes that the complaint is without merit. The Company has not yet been served with the complaint or the amended complaint. In an effort to negotiate a settlement of this litigation, the Company and plaintiff engaged in mediation on January 28, 2015. On April 1, 2015, the parties agreed to settle the lawsuit. On June 22, 2015, the court granted preliminary approval of the proposed settlement. The court has scheduled a hearing for October 20, 2015, to consider granting final approval of the settlement. Under the terms of the proposed settlement, the Company agreed to pay approximately $1.4 million, which includes payments to class members, plaintiff s attorneys fees and expenses, an enhancement payment to the class representative, claims administration fees and payment to the California Labor and Workforce Development Agency. The Company s anticipated total payments pursuant to this proposed settlement have been reflected in a legal settlement accrual initially recorded in the fourth quarter of fiscal 2014 prior to the proposed settlement and subsequently adjusted in the first quarter of fiscal 2015 to reflect the proposed settlement. The Company admitted no liability or wrongdoing with respect to the claims set forth in the lawsuit. Once final approval is granted, the settlement will constitute a full and complete settlement and release of all claims related to the lawsuit. If the court does not grant final approval of the proposed settlement, the Company intends to defend the lawsuit vigorously. If the proposed settlement is not finally approved by the court and the lawsuit is resolved unfavorably to the Company, this litigation could have a material negative impact on the Company s financial condition, and costs associated with any judgment, defense of this litigation as well as any required change in the Company s labor practices, could have a material negative impact on the Company s results of operations.

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

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Item 1A. Risk Factors

There have been no material changes to the risk factors identified in Part I, Item 1A, *Risk Factors*, of the Company s Annual Report on Form 10-K for the fiscal year ended December 28, 2014.

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

The following tabular summary reflects the Company s share repurchase activity during the quarter ended June 28, 2015:

ISSUER PURCHASES OF EQUITY SECURITIES (1) (2)

Period	*Total Number of Shares Purchased*	*Average Price Paid per Share*	*Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	*Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs* (3)
March 30 April 26	15,200	$ 12.38	15,200	$5,974,000
April 27 May 24	5,000	$ 12.47	5,000	$5,912,000
May 25 June 28		$		$5,912,000
Total	20,200		20,200	$5,912,000

(1) All shares were purchased under the Company s current share repurchase program, which was announced on November 1, 2007 and authorizes the repurchase of the Company s common stock totaling $20.0 million. Under the authorization, the Company may purchase shares from time to time in the open market or in privately negotiated transactions in compliance with the applicable rules and regulations of the SEC. However, the timing and amount of such purchases, if any, would be at the discretion of management and would depend upon market conditions and other considerations. Since the inception of its initial share repurchase program in May 2006 through June 28, 2015, the Company has repurchased a total of 2,246,950 shares for $29.1 million, leaving a total of $5.9 million available for share repurchases under the current share repurchase program.

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

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

Item 3. Defaults Upon Senior Securities

None.

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Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

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

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SIGNATURES

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

BIG 5 SPORTING GOODS CORPORATION,
a Delaware corporation

Date: July 29, 2015	By:	/s/ Steven G. Miller Steven G. Miller *Chairman of the Board of Directors,* *President and Chief Executive Officer*
Date: July 29, 2015	By:	/s/ Barry D. Emerson Barry D. Emerson *Senior Vice President,* *Chief Financial Officer and Treasurer* *(Principal Financial and* *Accounting Officer)*