BIG 5 SPORTING GOODS Corp
Form 10-K
March 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 3, 2016

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________________ to ______________________

Commission file number: 000-49850

BIG 5 SPORTING GOODS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Title of Each Class:	Name of Each Exchange on which Registered:
Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No R

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No R

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 R No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 R No o

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

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	o	Accelerated filer	R
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was $238,945,947 as of June 28, 2015 (the last business day of the registrant's most recently completed second fiscal quarter) based upon the closing price of the registrant's common stock on the NASDAQ Stock Market LLC reported for June 26, 2015. Shares of common stock held by each executive officer and director and by each person who, as of such date, may be deemed to have beneficially owned more than 5% of the outstanding voting stock have been excluded in that such persons may be deemed to be affiliates of the registrant under certain circumstances. This determination of affiliate status is not necessarily a conclusive determination of affiliate status for any other purpose.

The registrant had 21,914,082 shares of common stock outstanding at February 24, 2016.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference certain information from the registrant's 2016 definitive proxy statement (the "Proxy Statement") to be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year.

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Forward-Looking Statements

This document includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, our financial condition, our results of operations, our growth strategy and the business of our company generally. In some cases, you can identify such statements by terminology such as “may,” “could,” “project,” “estimate,” “potential,” “continue,” “should,” “expects,” “p “anticipates,” “believes,” “intends” or other such terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. These risks and uncertainties include, among other things, continued or worsening weakness in the consumer spending environment and the U.S. financial and credit markets, fluctuations in consumer holiday spending patterns, breach of data security or other unauthorized disclosure of sensitive personal or confidential information, the competitive environment in the sporting goods industry in general and in our specific market areas, inflation, product availability and growth opportunities, changes in the current market for (or regulation of) 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 I, Item 1A, Risk Factors, in this report. 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.

PART I

ITEM 1. BUSINESS
General

Big 5 Sporting Goods Corporation (“we,” “our,” “us” or the “Company”) is a leading sporting goods retailer in the western United States, operating 438 stores and an e-commerce platform under the “Big 5 Sporting Goods” name as of January 3, 2016. We provide a full-line product offering in a traditional sporting goods store format that averages approximately 11,000 square feet. In the fourth quarter of fiscal 2014, we launched our e-commerce platform to also offer selected products online. 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.

We believe that over our 61-year history we have developed a reputation with the competitive and recreational sporting goods customer as a convenient neighborhood sporting goods retailer that consistently delivers value on quality merchandise. Our stores carry a wide range of products at competitive prices from well-known brand name manufacturers, including adidas, Coleman, Everlast, New Balance, Nike, Rawlings, Skechers, Spalding, Under Armour and Wilson. We also offer brand name merchandise produced exclusively for us, private label merchandise and specials on quality items we purchase through opportunistic buys of vendor over-stock and close-out merchandise. We reinforce our value reputation through weekly print advertising in major and local newspapers, direct mailers and digital marketing programs designed to generate customer traffic, drive net sales and build brand awareness. We also maintain social media sites to enhance distribution capabilities for our promotional offers and to enable communication with our customers.

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

In 2002, we completed an initial public offering of our common stock and used the proceeds from that offering, together with credit facility borrowings, to repurchase outstanding high-yield debt and preferred stock, fund management bonuses and repurchase common stock from non-executive employees.

Our accumulated management experience and expertise in sporting goods merchandising, advertising, operations, store development and overall cost management have enabled us to historically generate profitable growth. We believe our historical success can be attributed to a value-based and execution-driven operating philosophy, a controlled growth strategy and a proven business model. Additional information regarding our management experience is available in Item 1, Business, under the sub-heading “Management Experience,” of this Annual Report on Form 10-K. In fiscal 2015, we generated net sales of $1,029.1 million, operating income of $26.5 million, net income of $15.3 million and diluted earnings per share of $0.70.

We are a holding company incorporated in Delaware on October 31, 1997. We conduct our business through Big 5 Corp., a 100%-owned subsidiary incorporated in Delaware on October 27, 1997. We conduct our gift card operations through Big 5 Services Corp., a 100%-owned subsidiary of Big 5 Corp. incorporated in Virginia on December 19, 2003.

Our corporate headquarters are located at 2525 East El Segundo Boulevard, El Segundo, California 90245. Our Internet address is www.big5sportinggoods.com. Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and amendments, if any, to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act, are available on our website, free of charge, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC”).

Expansion and Store Development

Throughout our operating history, we have sought to expand our business with the addition of new stores through a disciplined strategy of controlled growth. Our expansion within the western United States has been systematic and designed to capitalize on our name recognition, economical store format and economies of scale related to distribution and advertising. Over the past five fiscal years, we have opened 65 stores including relocations, an average of 13 new stores annually, of which 48% were in California. In fiscal 2015, we slowed our store growth as we maintained a cautious approach toward store openings in the current retail environment. The following table illustrates the results of our expansion program during the periods indicated:

Year	California	Other Markets	Total	Stores Relocated	Stores Closed	Number of Stores at Period End
2011	7	6	13	(5)	—	406
2012	4	10	14	(2)	(4)	414
2013	8	9	17	(2)	—	429
2014	9	7	16	(4)	(2)	439
2015	3	2	5	(3)	(3)	438

Our store format enables us to have substantial flexibility regarding new store locations. We have successfully operated stores in major metropolitan areas and in areas with as few as 30,000 people. Our 11,000 average square foot store format differentiates us from superstores that typically average over 35,000 square feet, require larger target markets, are more expensive to operate and require higher net sales per store for profitability.

New store openings normally represent attractive investment opportunities due to the relatively low investment required and the relatively short time necessary before our stores typically become profitable. Our store format normally requires investments of approximately $0.5 million in fixtures, equipment and leasehold improvements, net of landlord allowances, and approximately $0.3 million in net working capital with limited pre-opening and real estate expense related to leased locations that are built to our specifications. We seek to maximize new store performance by staffing new store management with experienced personnel from our existing stores.

Our in-house store development personnel analyze new store locations with the assistance of real estate firms that specialize in retail properties. We seek expansion opportunities to further penetrate our established markets, develop recently entered markets and expand into new, contiguous markets with attractive demographic, competitive and economic profiles.

Management Experience

We believe the experience and tenure of our professional staff in the retail industry gives us a competitive advantage. The table below indicates the tenure of our professional staff in some of our key functional areas as of January 3, 2016:

	Number of Employees	Average Number of Years With Us
Executive Management	7	31
Vice Presidents	9	24
Buyers	23	15
Store District / Regional Supervisors	51	24
Store Managers	438	12

Merchandising

We target the competitive and recreational sporting goods customer with a full-line product offering at a wide variety of price points. We offer a product mix that includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, winter and summer recreation and roller sports. We believe we offer consistent value to consumers by offering a distinctive merchandise mix that includes a combination of well-known brand name merchandise, merchandise produced exclusively for us under a manufacturer’s brand name, private label merchandise and specials on quality items we purchase through opportunistic buys of vendor over-stock and close-out merchandise.

Through our 61 years of experience across different demographic, competitive and economic markets, we have refined our merchandising strategy in an effort to offer a selection of products that meets customer demand. Specifically, since fiscal 2012 we have strategically refined our merchandise and marketing strategies in order to better align our product mix and promotional efforts with today's consumer. We have not made wholesale changes to our model, but rather have adjusted the model in an effort to broaden both our product offering and customer base. We have selectively refined our purchase strategy for certain product categories, and have expanded our assortment of branded products and introduced new products, some at higher price points, in an effort to better appeal to those consumers who might be in a position to engage in more discretionary spending in this economic environment.

The following table illustrates our mix of soft goods, which are non-durable items such as shirts and shoes, and hard goods, which are durable items such as exercise equipment and baseball gloves, as a percentage of net sales:

	Fiscal Year				
	2015	2014	2013	2012	2011
Soft goods					
Athletic and sport apparel	19.4 %	18.6 %	17.6 %	16.3 %	16.1 %
Athletic and sport footwear	28.4	28.2	27.8	28.9	29.2
Total soft goods	47.8	46.8	45.4	45.2	45.3
Hard goods	52.2	53.2	54.6	54.8	54.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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

adidas	Crocs	Franklin	JanSport	Rawlings	Spalding
Asics	Crosman	Head	Lifetime	Razor	Speedo
Bearpaw	Dickies	Heelys	Mizuno	Rollerblade	Timex
Bushnell	Easton	Hillerich & Bradsby	Mossberg	Russell Athletic	Titleist
Camp Chef	Everlast	Hi-Tec	Mueller Sports Medicine	Saucony	Under Armour
Carhartt	Fila	Icon (Proform)	New Balance	Shimano	Wilson
Casio	Footjoy	Impex	Nike	Skechers	Winchester
Coleman					

We believe we enjoy significant advantages in making opportunistic buys of vendor over-stock and close-out merchandise because of our strong vendor relationships, purchasing volume and rapid decision-making process. Our strong vendor relationships and purchasing volume also enable us to purchase merchandise produced exclusively for us under a manufacturer's brand name which allows us to differentiate our product selection from competition, obtain volume pricing discounts from vendors and offer unique value to our customers. Our weekly advertising highlights our opportunistic buys together with merchandise produced exclusively for us in order to reinforce our reputation as a retailer that offers attractive values to our customers.

In order to complement our branded product offerings, we offer a variety of private label merchandise, which represents approximately 3% of our net sales. Our sale of private label merchandise enables us to provide our customers with a broader selection of quality merchandise at a wider range of price points and allows us the potential to achieve higher margins than on sales of comparable name brand products. Our private label items include shoes, apparel, binoculars, camping equipment, fishing supplies and snowsport equipment. Private label merchandise is sold under trademarks owned by us or licensed by us from third parties. Our owned trademarks include Golden Bear, Harsh, Pacifica and Rugged Exposure, all of which are registered as federal trademarks. The renewal dates for these trademark registrations range from 2016 to 2018. Our licensed trademarks include Beach Feet, Bearpaw, Body Glove, GoFit, Hi-Tec, Morrow and The Realm. One of the license agreements for these trademarks expires in 2018 and the other license agreements renew automatically on an annual basis unless terminated by either party upon prior written notice. We intend to renew these trademark registrations and license agreements if we are still using the trademarks in commerce and they continue to provide value to us at the time of renewal.

Seasonality influences our buying patterns and we purchase merchandise for seasonal activities in advance of a season. We tailor our merchandise selection on a store-by-store basis in an effort to satisfy each region's specific needs and seasonal buying habits. In the fourth fiscal quarter we normally experience higher inventory purchase volumes in anticipation of the winter and holiday selling season.

Our buyers, who average 15 years of experience with us, work in collaboration with senior management to determine and enhance product selection, promotion and pricing of our merchandise mix. Management utilizes integrated merchandising, business intelligence analytics, distribution, point-of-sale and financial information systems to continuously refine our merchandise mix, pricing strategy, advertising effectiveness and inventory levels to best serve the needs of our customers.

Advertising and Marketing

Through years of targeted advertising, we have solidified our reputation for offering quality products at attractive prices. We have advertised predominantly through weekly print advertisements since 1955. We typically utilize four-page color advertisements to highlight promotions across our merchandise categories. We believe our print advertising, which includes an average weekly distribution of approximately 14.3 million newspaper inserts or mailers, consistently reaches more households in our established markets than that of our full-line sporting goods competitors. For non-subscribers of newspapers, we provide our print advertisements through carrier delivery and direct mail. The consistency and reach of our print advertising programs drive sales and create high customer awareness of the name “Big 5 Sporting Goods.”

We use our own professional in-house advertising staff to generate our advertisements, including design, layout, production and media management. Our in-house advertising department provides management with the flexibility to react quickly to merchandise trends and to maximize the effectiveness of our weekly inserts and mailers. We are able to effectively target different population zones for our advertising expenditures. We place inserts in over 225 newspapers throughout our markets, supplemented in many areas by mailer distributions to create market saturation.

Though print advertising is the core of our promotional advertising, we also promote our products through digital marketing programs that include e-mail marketing (the “E-Team”), search engine marketing, social media including Facebook, Twitter and Pinterest, mobile programs and other website initiatives.

Our digital promotional strategy is designed to provide additional opportunities to connect with potential customers and enable us to promote the Big 5 brand. Our e-mail marketing program invites our customers to subscribe to our E-Team for weekly advertisements, special deals and product information disseminated on a regular basis. We use search engine marketing methods as a means to reach those customers searching the Internet to gather information about our products. Within our social media program, our customers have the opportunity to engage in conversations with other sports-minded people and receive exclusive information about new products and unique weekly offers. All of these marketing methods are intended to simplify the shopping experience for our customers and further demonstrate our commitment to provide great brands at great values.

Our website features a broad representation of our product assortment and provides visibility of store inventory to our customers, thereby enabling them to determine if items featured on our website are in-stock in one or more of our store locations. In fiscal 2014, we launched our e-commerce platform to deliver an online shopping experience to our customers. We continue to develop our online capabilities to meet customer expectations of being able to shop at their convenience.

We have developed a strong cause marketing platform through our 16-year support of the March of Dimes annual fundraising campaign and numerous other charities and organizations throughout our marketplace. We also build brand awareness by providing sponsorship support of established, high profile events that benefit our customers’ active lifestyles, such as the “LA Marathon” in Los Angeles, California, and the “Duke City Marathon” in Albuquerque, New Mexico, for which we are the title sponsor. Additionally, in fiscal 2013, we entered into a three-year sponsorship agreement with the Los Angeles Lakers, Inc. (“Lakers”) to be the “Official Sporting Goods Retailer of the Lakers” within the Lakers’ marketing territory.

We offer a loyalty program that provides youth-league organizations the ability to earn cash rebates and team discounts through their supporters' purchases at our stores.

Vendor Relationships

We have developed strong vendor relationships over the past 61 years. We currently purchase merchandise from over 700 vendors. In fiscal 2015, only one vendor represented greater than 5% of total purchases, at 10.8%. We believe current relationships with our vendors are good. We benefit from the long-term working relationships with vendors that our senior management and our buyers have carefully nurtured throughout our history.

Information Technology Systems

We have fully integrated information technology ("IT") systems that support critical business functions, such as sales reporting, merchandise management, inventory receiving and distribution functions and provide pertinent information for financial reporting, as well as robust business intelligence and retail analytics tools. We manage IT solutions for e-commerce, email, backup systems and systems support, as well as all networks that connect our system users to enterprise-level systems and tools. This includes connecting our store systems to enterprise-level systems via a managed wide area network ("WAN") connection comprised of DSL, T1 and cable communications with 4G or satellite backup for purchasing card (i.e., credit and debit card) encryption, tokenization, authorization and processing, as well as daily polling of sales and merchandise movement at the store level. The stores also use this WAN connection for access to valuable tools such as collaboration, online training, workforce management, online hiring, company website functions and corporate communications. Our disaster recovery site, which is located in Phoenix, Arizona, houses redundant network and application systems to be used in the event of an emergency or unplanned outage to our production systems. We believe our IT systems are effectively supporting our current operations and continue to provide a foundation for future growth.

Distribution

We operate a distribution center located in Riverside, California, that services all of our stores. The facility has approximately 953,000 square feet of storage and office space. The distribution center warehouse management system is fully integrated with our enterprise-level IT systems and provides comprehensive warehousing and distribution capabilities. We generally distribute merchandise from our distribution center to our stores at least once per week, using our fleet of leased tractors, as well as contract carriers. Our lease for the distribution center is scheduled to expire on August 31, 2020, and includes two additional five-year renewal options.

In November 2015, we commenced operations at an additional 171,000 square foot distribution space adjacent to our distribution center in Riverside, California that will enable us to more efficiently fulfill our expanding distribution requirements. Our lease for this additional facility is scheduled to expire on August 31, 2020, and includes four additional five-year renewal options.

We operate a small distribution hub in Oregon to help mitigate fuel costs. This approximately 12,000 square-foot facility enables us to ship full trailers of product from our Riverside distribution center to the Pacific Northwest, where we separate products for regional delivery. This distribution hub has greatly reduced the number of transportation miles logged to distribute our product to the Pacific Northwest. Our lease for the Oregon hub is scheduled to expire on January 31, 2019, and includes four additional five-year renewal options.

Industry and Competition

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

Sporting Goods Superstores. Stores in this category typically are larger than 35,000 square feet and tend to be free-standing locations. These stores emphasize high volume sales and a large number of stock-keeping units. Examples include Academy Sports & Outdoors, Dick's Sporting Goods, The Sports Authority and Sport Chalet.

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

Specialty Sporting Goods Stores. Specialty sporting goods retailers are stores that typically carry a wide assortment of one specific product category, such as athletic shoes, golf, or outdoor equipment. Examples of these retailers include Bass Pro Shops, Cabela’s, Foot Locker, Gander Mountain, Golfsmith and REI. This category also includes pro shops that often are single-store operations.

Mass Merchandisers. This category includes discount retailers such as Kmart, Target and Wal-Mart and department stores such as JC Penney, Kohl’s and Sears. These stores range in size from 50,000 to 200,000 square feet and are primarily located in regional malls, shopping centers or on free-standing sites. Sporting goods merchandise and apparel represent a small portion of the total merchandise in these stores and the selection is often more limited than in other sporting goods retailers.

E-commerce and Catalog Retailers. This category consists of many retailers that sell a broad array of new and used sporting goods products via e-commerce or catalogs, including Amazon.com. The types of retailers mentioned above may also sell their products through e-commerce. E-commerce has been a rapidly growing sales channel, particularly with younger consumers, and an increasing source of competition in the sporting goods retail industry.

In competing with the retailers discussed above, we focus on what we believe are the primary factors of competition in the sporting goods retail industry, including experienced and knowledgeable personnel; customer service; breadth, depth, price and quality of merchandise offered; advertising; purchasing and pricing policies; effective sales techniques; direct involvement of senior officers in monitoring store operations; enterprise-level IT systems and store location and format.

Employees

As of January 3, 2016, we had approximately 9,000 active full and part-time employees. The General Teamsters, Airline, Aerospace and Allied Employees, Warehousemen, Drivers, Construction, Rock and Sand, Local Union No. 986, affiliated with the International Brotherhood of Teamsters ("Local 986") represents approximately 450 hourly employees in our distribution center and select stores. In October 2012, we negotiated a five-year contract with Local 986 for our distribution center bargaining unit employees, and in November 2012, we negotiated a five-year contract with Local 986 for our store bargaining unit employees. Both contracts were retroactive to September 1, 2012 and expire on August 31, 2017. We have not had a strike or work stoppage in over 30 years, although such a disruption could have a significant negative impact on our business operations and financial results. We believe we provide working conditions and wages that are comparable to those offered by other retailers in the sporting goods industry and that employee relations are good.

Employee Training

We have developed a comprehensive training program that is tailored for each store and corporate position. All new store employees are given an orientation and reference materials that stress excellence in customer service, product knowledge and selling skills. All full-time store employees, including salespeople, cashiers and management trainees, receive additional training specific to their job responsibilities. With over 100 available learning resources and multiple training opportunities hosted every month, our tiered curriculum includes seminars, interactive online courses, live webinars, online message boards, reference guides, individual instruction and performance evaluations designed to promote employee development. The manager trainee program utilizes a blended learning approach that includes classroom-style courses, online courses and quizzes, live webinars, self-directed and one-on-one training designed to teach key operational responsibilities such as product merchandising strategy, HR compliance, policies, procedures, systems utilization, loss prevention and inventory control. Moreover, each manager trainee must complete a progressive series of outlines and evaluations in order to be considered for the next successive level of advancement. Ongoing store management training includes advanced merchandising, delegation, personnel management, scheduling, payroll control, harassment prevention and loss prevention. We also provide unique opportunities for our employees to gain first-hand knowledge about our products through periodic "hands-on" training, seminars, online courses and webinars. Our training strategy and learning management system enables us to efficiently manage, monitor, assign and report employee training online.

Description of Service Marks and Trademarks

We use the "Big 5" and "Big 5 Sporting Goods" names as service marks in connection with our business operations and have registered these names as federal service marks. The renewal dates for these service mark registrations are in 2025 and 2023, respectively. We have also registered the names Golden Bear, Harsh, Pacifica and Rugged Exposure as federal trademarks under which we sell a variety of merchandise. The renewal dates for these trademark registrations range from 2016 to 2018. We intend to renew these service mark and trademark registrations if we are still using the marks in commerce and they continue to provide value to us at the time of renewal.

ITEM 1A. RISK FACTORS

An investment in the Company entails risks and uncertainties including the following. You should carefully consider these risk factors when evaluating any investment in the Company. Any of these risks and uncertainties could cause our actual results to differ materially from the results contemplated by the forward-looking statements set forth herein, and could otherwise have a significant adverse impact on our business, prospects, financial condition or results of operations or on the price of our common stock.

Risks Related to Our Business and Industry

Disruptions in the overall economy and the financial markets may adversely impact our business and results of operations.

The retail industry can be greatly affected by macroeconomic factors, including changes in national, regional and local economic conditions, as well as consumers' perceptions of such economic factors. In general, sales represent discretionary spending by our customers. Discretionary spending is affected by many factors, including general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, currency exchange rates, taxation, gasoline prices, income, unemployment trends, home values and other matters that influence consumer confidence and spending, among others. Many of these factors are outside of our control. We have experienced, and may continue to experience, increased inflationary pressure on our product costs. Our customers' purchases of discretionary items, including our products, generally decline during periods when disposable income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions.

As discussed in prior reports, the consumer environment has been challenging in recent years. The economic recession deteriorated the consumer spending environment and reduced consumer income, liquidity, credit and confidence in the economy, and resulted in substantial reductions in consumer spending. Further deterioration of the consumer spending environment could be harmful to our financial position and results of operations, could adversely affect our ability to comply with covenants under our credit facility and, as a result, may negatively impact our ability to continue payment of our quarterly dividend, to repurchase our stock and to open additional stores in the manner that we have in the past.

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

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

- sporting goods superstores, such as Academy Sports & Outdoors, Dick's Sporting Goods, The Sports Authority and Sport Chalet;
- traditional sporting goods stores and chains, such as Hibbett Sports and Modell's;
- specialty sporting goods shops and pro shops, such as Bass Pro Shops, Cabela's, Foot Locker, Gander Mountain, Golfsmith and REI;
- mass merchandisers, discount stores and department stores, such as JC Penney, Kmart, Kohl's, Sears, Target and Wal-Mart; and
- e-commerce and catalog retailers, such as Amazon.com, and mass merchandisers and other sporting goods stores that also have substantial e-commerce sales operations.

Some of our competitors have a larger number of stores and greater financial, distribution, marketing and other resources than we have. If our competitors reduce their prices, it may be difficult for us to reach our net sales goals without reducing our prices, which could impact our margins. As a result of this competition, we may also need to spend more on advertising and promotion than we anticipate. Increased competition in our current markets or the adoption or proliferation by competitors of innovative store formats, aggressive pricing strategies and retail sales methods, such as e-commerce, could cause us to lose market share and could have a material adverse effect on our business.

E-commerce has been a rapidly growing sales channel, particularly with younger consumers, and an increasing source of competition in the retail industry. We began selling products through our e-commerce platform in late fiscal 2014. We have no assurance that our e-commerce efforts will prove profitable, whether due to product preferences of online buyers, ability to compete with other (often more established) online retailers, or for other reasons, such as the cannibalization of sales from our existing store base. If we are unable to compete successfully, our operating results may suffer.

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

Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty. These preferences are also subject to change and can be impacted by sports participation levels in our market areas and the performance of sports teams for which we sell licensed products. Our success depends upon our ability to anticipate and respond in a timely manner to trends in sporting goods merchandise and consumers' participation in sports. If we fail to identify and respond to these changes, our net sales may decline. In addition, because we often make commitments to purchase products from our vendors up to six months in advance of the proposed delivery, if we misjudge the market for our merchandise, we may over-stock unpopular products and be forced to take inventory markdowns that could have a negative impact on profitability.

Our quarterly net sales and operating results, reported and expected, can fluctuate substantially, which may adversely affect the market price of our common stock.

Our net and same store sales and results of operations, reported and expected, have fluctuated in the past and will vary from quarter to quarter in the future. These fluctuations may adversely affect our financial condition and the market price of our common stock. A number of factors, many of which are outside our control, have historically caused and will continue to cause variations in our quarterly net and same store sales and operating results, including changes in consumer demand for our products, competition in our markets, inflation, changes in pricing or other actions taken by our competitors, weather conditions in our markets, natural disasters, litigation, political events, government regulation, changes in accounting standards, changes in management's accounting estimates or assumptions and economic conditions, including those specific to our western markets.

Increased costs or declines in the effectiveness of print advertising, or a reduction in publishers of print advertising, could cause our operating results to suffer.

Our business relies heavily on print advertising. We utilize print advertising programs that include newspaper inserts, direct mailers and courier-delivered inserts in order to effectively deliver our message to our targeted markets. Newspaper circulation and readership has been declining, which could limit the number of people who receive or read our advertisements. Additionally, declining newspaper demand and the weak macroeconomic environment are adversely impacting newspaper publishers and could jeopardize their ability to operate, which could restrict our ability to advertise in the manner we have in the past. If we are unable to develop other effective strategies to reach potential customers within our desired markets, awareness of our stores, products and promotions could decline and our net sales could suffer. In addition, an increase in the cost of print advertising, paper or postal or other delivery fees could increase the cost of our advertising and adversely affect our operating results.

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

Our stores are located in the western United States. Because of this, we are subject to regional risks, such as the economy, including downturns in the housing market, state financial conditions, unemployment and gas prices. Other regional risks include adverse weather conditions, power outages, earthquakes and other natural disasters specific to the states in which we operate. For example, particularly in southern California where we have a high concentration of stores, seasonal factors such as unfavorable weather conditions or other localized conditions such as flooding, drought, fires, earthquakes or electricity blackouts could impact our sales and harm our operations. State and local regulatory compliance also can impact our financial results. Economic downturns or other adverse regional events could have an adverse impact upon our net sales and profitability and our ability to open additional stores in the manner that we have in the past.

A significant amount of our sales is impacted by seasonal weather conditions in our markets.

Because many of the products we sell are used for seasonal outdoor sporting activities, our business is significantly impacted by unseasonable weather conditions in our markets. For example, our winter sports and apparel sales are dependent on cold winter weather and snowfall in our markets, and can be negatively impacted by unseasonably warm or dry weather in our markets during the winter product selling season. Conversely, sales of our spring products and summer products, such as baseball gear and camping and water sports equipment, can be adversely impacted by unseasonably cold or wet weather in those periods. Accordingly, our sales results and financial condition will typically suffer when weather patterns do not conform to seasonal norms.

Our business is subject to seasonal fluctuations, and unanticipated changes in our customers' seasonal buying patterns can impact our business.

We experience seasonal fluctuations in our net sales and operating results. 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. 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. 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.

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

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

All of our stores rely on a single distribution center. Any disruption or other operational difficulties at this distribution center could reduce our net sales or increase our operating expense.

We rely on a single distribution center located in Riverside, California to service our business. Any natural disaster or other serious disruption to the distribution center due to fire, earthquake or any other cause could damage a significant portion of our inventory and could materially impair both our ability to adequately stock our stores and our net sales and profitability. If the security measures used at our distribution center do not prevent inventory theft, our gross margin may significantly decrease. Our distribution center is staffed in part by employees represented by the General Teamsters, Airline, Aerospace and Allied Employees, Warehousemen, Drivers, Construction, Rock and Sand, Local Union No. 986, affiliated with the International Brotherhood of Teamsters. We have not had a strike or work stoppage in over 30 years, although such a disruption could have a significant negative impact on our business operations and financial results. Further, in the event that we are unable to grow our net sales sufficiently to allow us to leverage the costs of this distribution center in the manner we anticipate, our financial results could be negatively impacted.

Additionally, because we rely on a single distribution center, our growth could be limited if our distribution center reaches full capacity. Such a constraint could result in a loss of market share and our inability to execute our business plan, which could have a material adverse effect on our financial condition and results of operations.

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

One of our strategies includes opening profitable stores in new and existing markets. As a result, at the end of fiscal 2015 we operated approximately 10% more stores than we did at the end of fiscal 2010.

Our ability to successfully implement and capitalize on our growth strategy could be negatively affected by various factors including:

- we may slow our expansion efforts, or close underperforming stores, as a result of challenging conditions in the retail industry and the economy overall;
- we may not be able to find suitable sites available for leasing;
- we may not be able to negotiate acceptable lease terms;
- we may not be able to hire and retain qualified store personnel; and
- we may not have the financial resources necessary to fund our expansion plans.

In addition, our expansion in new and existing markets may present competitive, merchandising, marketing and distribution challenges that differ from our current challenges. These potential new challenges include competition among our stores, added strain on our distribution center, additional information to be processed by our IT systems, diversion of management attention from ongoing operations and challenges associated with managing a substantially larger enterprise. We face additional challenges in entering new markets, including consumers' lack of awareness of us, difficulties in hiring personnel and problems due to our unfamiliarity with local real estate markets and demographics. New markets may also have different competitive conditions, consumer tastes, responsiveness to print advertising and discretionary spending patterns than our existing markets. To the extent that we are not able to meet these new challenges, our net sales could decrease and our operating expense could increase.

Our IT systems are vulnerable to damage, theft or intrusion that could harm our business.

Our success, in particular our ability to successfully manage inventory levels and process customer transactions, largely depends upon the efficient operation of our IT systems. We use IT systems to track inventory at the store level and aggregate daily sales information, communicate customer information and process purchasing card transactions, process shipments of goods and report financial information. These systems and our operations are vulnerable to damage or interruption from:

- earthquake, fire, flood and other natural disasters;
- power loss, computer systems failures, Internet and telecommunications or data network failures, operator negligence, improper operation by or supervision of employees;
- physical and electronic loss of data, security breaches, misappropriation, data theft and similar events; and
- computer viruses, worms, Trojan horses, intrusions, or other external threats.

Any failure of our IT systems that causes an interruption in our operations or a decrease in inventory tracking could result in reduced net sales and profitability. Additionally, if any data intrusion, security breach, misappropriation or theft were to occur, we could incur significant costs in responding to such event, including responding to any resulting claims, litigation or investigations, which could harm our operating results.

Breach of data security or other unauthorized disclosure of sensitive or confidential information could harm our business, employees and standing with our customers.

The protection of our customer, employee and business data is critical to us. Our business, like that of most retailers, involves the receipt, storage and transmission of customers' personal information, consumer preferences and payment card information, as well as confidential information about our employees, our suppliers and our Company. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of all such data, including confidential information. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors, or other similar events. Unauthorized parties may attempt to gain access to our systems or information through fraud or other means, including deceiving our employees or third party service providers. The methods used to obtain unauthorized access, disable or degrade service, or sabotage systems are also constantly changing and evolving, and may be difficult to anticipate or detect for long periods of time. We have implemented and regularly review and update our control systems, processes and procedures to protect against unauthorized access to or use of secured data and to prevent data loss. However, the ever-evolving threats mean we must continually evaluate and adapt our systems and processes, and there is no guarantee that they will be adequate to safeguard against all data security breaches or misuses of data. Any security breach involving the misappropriation, loss or other unauthorized disclosure of customer payment card or personal information or employee personal or confidential information, whether by us or our vendors, could damage our reputation, expose us to risk of litigation and liability, disrupt our operations, harm our business and have an adverse impact upon our net sales and profitability. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and changing requirements applicable to our business, compliance with those requirements could also result in additional costs.

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

We purchase merchandise from over 700 vendors. Although only one vendor represented more than 5.0% of our total purchases during fiscal 2015, our dependence on principal suppliers involves risk. Our 20 largest vendors collectively accounted for 41.5% of our total purchases during fiscal 2015. If there is a disruption in supply from a principal supplier or distributor, we may be unable to obtain merchandise that we desire to sell and that consumers desire to purchase. A vendor could discontinue or restrict selling products to us at any time for reasons that may or may not be within our control. Our net sales and profitability could decline if we are unable to promptly replace a vendor who is unwilling or unable to satisfy our requirements with a vendor providing equally appealing products. Moreover, many of our suppliers provide us with incentives, such as return privileges, volume purchase allowances and co-operative advertising. A decline or discontinuation of these incentives could reduce our profits.

Because many of the products that we sell are manufactured abroad, we may face delays, increased cost or quality control deficiencies in the importation of these products, which could reduce our net sales and profitability.

Like many other sporting goods retailers, a significant portion of the products that we purchase for resale, including those purchased from domestic suppliers, is manufactured abroad in China and other countries. In addition, we believe most, if not all, of our private label merchandise is manufactured abroad. Foreign imports subject us to the risks of changes in import duties or quotas, new restrictions on imports, loss of "most favored nation" status with the United States for a particular foreign country, work stoppages, delays in shipment, freight expense increases, product cost increases due to foreign currency fluctuations or revaluations and economic uncertainties (including the United States imposing antidumping or countervailing duty orders, safeguards, remedies or compensation and retaliation due to illegal foreign trade practices). If any of these or other factors were to cause a disruption of trade from the countries in which the suppliers of our vendors are located, we may be unable to obtain sufficient quantities of products to satisfy our requirements or our cost of obtaining products may increase. In addition, to the extent that any foreign manufacturers which supply products to us directly or indirectly utilize quality control standards, labor practices or other practices that vary from those legally mandated or commonly accepted in the United States, we could be hurt by any resulting negative publicity or, in some cases, face potential liability. Historically, instability in the political and economic environments of the countries in which our vendors or we obtain our products has not had a material adverse effect on our operations. However, we cannot predict the effect that future changes in economic or political conditions in such foreign countries may have on our operations. In the event of disruptions or delays in supply due to economic or political conditions in foreign countries, such disruptions or delays could adversely affect our results of operations unless and until alternative supply arrangements could be made. In addition, merchandise purchased from alternative sources may be of lesser quality or more expensive than the merchandise we currently purchase abroad.

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

A substantial amount of our inventory is manufactured abroad. From time to time, shipping ports experience capacity constraints, labor strikes, work stoppages or other disruptions that may delay the delivery of imported products. A contract dispute, such as the one we experienced in the Ports of Los Angeles and Long Beach in 2015, may lead to protracted delays in the movement of our products, which could further delay the delivery of products to our stores and impact net sales and profitability. In addition, other conditions outside of our control, such as adverse weather conditions or acts of terrorism, could significantly disrupt operations at shipping ports or otherwise impact transportation of the imported merchandise we sell.

Future disruptions in transportation services or at a shipping port at which our products are received may result in delays in the transportation of such products to our distribution center and may ultimately delay the stocking of our stores with the affected merchandise. As a result, our net sales and profitability could decline.

Our costs may change as a result of currency exchange rate fluctuations or inflation in the purchase cost of merchandise manufactured abroad.

We source goods from various countries, including China, and thus changes in the value of the U.S. dollar compared to other currencies, or foreign labor and raw material cost inflation, may affect the cost of goods that we purchase. If the cost of goods that we purchase increases, we may not be able to similarly increase the retail prices of goods that we charge consumers without impacting our sales and our operating profits may suffer.

Increases in transportation costs due to rising fuel costs, climate change regulation and other factors may negatively impact our operating results.

We rely upon various means of transportation, including ship and truck, to deliver products from vendors to our distribution center and from our distribution center to our stores. Consequently, our results can vary depending upon the price of fuel. The price of oil has fluctuated drastically over the last few years, creating volatility in our fuel costs. In addition, efforts to combat climate change through reduction of greenhouse gases may result in higher fuel costs through taxation or other means. Any such future increases in fuel costs would increase our transportation costs for delivery of product to our distribution center and distribution to our stores, as well as our vendors’ transportation costs, which could decrease our operating profits.

In addition, labor shortages or other factors in the transportation industry could negatively affect transportation costs and our ability to supply our stores in a timely manner. In particular, our business is highly dependent on the trucking industry to deliver products to our distribution center and our stores. Our operating results may be adversely affected if we or our vendors are unable to secure adequate trucking resources at competitive prices to fulfill our delivery schedules to our distribution center or stores.

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

Terrorist attacks or acts of war may cause damage or disruption to us and our employees, facilities, information systems, vendors and customers, which could significantly impact our net sales, profitability and financial condition. Terrorist attacks could also have a significant impact on ports or international shipping on which we are substantially dependent for the supply of much of the merchandise we sell. Our corporate headquarters is located near Los Angeles International Airport and the Port of Los Angeles, which have been identified as potential terrorism targets. The potential for future terrorist attacks, the national and international responses to terrorist attacks and other acts of war or hostility may cause greater uncertainty and cause our business to suffer in ways that we cannot currently predict. Military action taken in response to such attacks could also have a short or long-term negative economic impact upon the financial markets, international shipping and our business in general.

Risks Related to Our Capital Structure

We are leveraged, future cash flows may not be sufficient to meet our obligations and we might have difficulty obtaining more financing or refinancing our existing indebtedness on favorable terms.

As of January 3, 2016, the aggregate amount of our outstanding indebtedness, including capital lease obligations, was $58.7 million. Our leveraged financial position means:

- our ability to obtain financing in the future for working capital, capital expenditures and general corporate purposes might be impeded;
- we are more vulnerable to economic downturns and our ability to withstand competitive pressures is limited; and
- we are more vulnerable to increases in interest rates, which may affect our interest expense and negatively impact our operating results.

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

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

The level of our indebtedness, and our ability to service our indebtedness, is directly affected by our cash flows from operations. If we are unable to generate sufficient cash flows from operations to meet our obligations, commitments and covenants of our revolving credit facility, we may be required to refinance or restructure our indebtedness, raise additional debt or equity capital, sell material assets or operations, delay or forego expansion opportunities, or cease or curtail our quarterly dividends or share repurchase plans. These alternative strategies might not be effected on satisfactory terms, if at all.

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

The terms of our revolving credit facility impose operating and financial restrictions on us, including, among other things, covenants that require us to maintain a fixed-charge coverage ratio of not less than 1.0 to 1.0 in certain circumstances, restrictions on our ability to 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. For example, our ability to engage in the foregoing transactions will depend upon, among other things, our level of indebtedness at the time of the proposed transaction and whether we are in default under our revolving credit facility. As a result, our ability to respond to changing business and economic conditions and to secure additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might further our growth strategy or otherwise benefit us and our stockholders without obtaining consent from our lenders. In addition, our revolving credit facility is secured by a perfected security interest in our assets. In the event of our insolvency, liquidation, dissolution or reorganization, the lenders under our revolving credit facility would be entitled to payment in full from our assets before distributions, if any, were made to our stockholders.

Disruptions in the economy and financial markets may adversely impact our lenders.

Volatility in capital and credit markets can impact the ability of financial institutions to meet their lending obligations. Based on information available to us, all of the lenders under our revolving credit facility are currently able to fulfill their commitments thereunder. However, circumstances could arise that may impact their ability to fund their obligations in the future. Although we believe the commitments from our lenders under the revolving credit facility, together with our cash on hand and anticipated operating cash flows, should be sufficient to meet our near-term borrowing requirements, if Wells Fargo Bank, National Association, our principal lender, or any other lender, is for any reason unable to perform its lending or administrative commitments under the facility, then disruptions to our business could result and may require us to replace this facility with a new facility or to raise capital from alternative sources on less favorable terms, including higher rates of interest.

Risks Related to Regulatory, Legislative and Legal Matters

Current and future government regulation may negatively impact demand for our products and increase our cost of conducting business.

The conduct of our business, and the distribution, sale, advertising, labeling, safety, transportation and use of many of our products are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States. These laws and regulations may change, sometimes dramatically, as a result of political, economic or social events. Changes in laws, regulations or governmental policy may alter the environment in which we do business and the demand for our products and, therefore, may impact our financial results or increase our liabilities. Some of these laws and regulations include:

- laws and regulations governing the manner in which we advertise or sell our products;
- laws and regulations that prohibit or limit the sale, in certain localities, of certain products we offer, such as firearm-related products;
- laws and regulations governing the activities for which we sell products, such as hunting and fishing;
- laws and regulations governing consumer products generally, such as the federal Consumer Product Safety Act and Consumer Product Safety Improvement Act, as well as similar state laws;
- labor and employment laws, such as minimum wage or living wage laws, paid time off and other wage and hour laws;
- laws requiring mandatory health insurance for employees, such as the Affordable Care Act; and
- U.S. customs laws and regulations pertaining to proper item classification, quotas and payment of duties and tariffs.

Changes in these and other laws and regulations or additional regulation could cause the demand for and sales of our products to decrease. Moreover, complying with increased or changed regulations could cause our operating expense to increase. This could adversely affect our net sales and profitability.

We may be subject to periodic litigation that may adversely affect our business and financial performance.

From time to time, we may be involved in lawsuits and regulatory actions relating to our business, certain of which may be maintained in jurisdictions with reputations for aggressive application of laws and procedures against corporate defendants. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have a material adverse impact on our business, results of operations and financial condition. In addition, regardless of the outcome of any litigation or regulatory proceedings, these proceedings could result in substantial costs and may require that we devote substantial resources to defend against these claims, which could impact our results of operations.

In particular, we may be involved in lawsuits related to employment, advertising and other matters, including class action lawsuits brought against us for alleged violations of the Fair Labor Standards Act, state wage and hour laws, state or federal advertising laws and other laws. An unfavorable outcome or settlement in any such proceeding could, in addition to requiring us to pay any settlement or judgment amount, increase our operating expense as a consequence of any resulting changes we might be required to make in employment, advertising or other business practices.

In addition, we sell products manufactured by third parties, some of which may be defective. Many such products are manufactured overseas in countries which may utilize quality control standards that vary from those legally allowed or commonly accepted in the United States, which may increase our risk that such products may be defective. If any products that we sell were to cause physical injury or injury to property, the injured party or parties could bring claims against us as the retailer of the products based upon strict product liability. In addition, our products are subject to the federal Consumer Product Safety Act and the Consumer Product Safety Improvement Act, which empower the Consumer Product Safety Commission to protect consumers from hazardous products. The Consumer Product Safety Commission has the authority to exclude from the market and recall certain consumer products that are found to be hazardous. Similar laws exist in some states and cities in the United States. If we fail to comply with government and industry safety standards or reporting requirements, we may be subject to claims, lawsuits, product recalls, fines and negative publicity that could harm our results of operations and financial condition.

We also sell firearm-related products, which may be associated with an increased risk of injury and related lawsuits. We may incur losses due to lawsuits relating to our performance of background checks on firearms purchases as mandated by state and federal law or the improper use of firearms sold by us, including lawsuits by individuals, municipalities or other organizations attempting to recover damages or costs from firearms manufacturers and retailers relating to the misuse of firearms. Commencement of these lawsuits against us could reduce our net sales and decrease our profitability.

Our insurance coverage may not be adequate to cover claims that could be asserted against us. If a successful claim was to be brought against us in excess of our insurance coverage, or for which we have no insurance coverage, it could harm our business. Even unsuccessful claims could result in the expenditure of funds and management time and could have a negative impact on our business.

The sale of firearm-related products is subject to strict regulation, which could affect our operating results.

Because we sell firearm-related products, we are required to comply with federal, state and local laws and regulations pertaining to the purchase, storage, transfer and sale of such products. These laws and regulations require us to, among other things, obtain and maintain federal, state or local permits or licenses in order to sell firearms, ensure that all purchasers of firearms are subjected to a pre-sale background check and other requirements, record the details of each firearm sale on appropriate government-issued forms, record each receipt or transfer of a firearm at our distribution center or any store location on acquisition and disposition records, and maintain these records for a specified period of time. We also are required to timely respond to traces of firearms by law enforcement agencies. Over the past several years, the purchase and sale of firearm-related products has been the subject of increased federal, state and local regulation. These regulatory efforts are likely to continue in our current markets and other markets into which we may expand. If enacted, new laws and regulations could limit the types of firearm-related products that we are permitted to purchase and sell, impose new restrictions and requirements on the manner in which we purchase and sell these products, and impact our ability to offer these products in certain retail locations or markets. If we fail to comply with existing or newly enacted laws and regulations relating to the purchase and sale of firearm-related products, our permits or licenses to sell firearm-related products at our stores or maintain inventory of firearm-related products at our distribution center may be suspended or revoked. If this occurs, our net sales and profitability could suffer. Further, complying with increased regulation relating to the sale of firearm-related products could cause our operating expense to increase and this could adversely affect our results of operations.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results.

Accounting principles generally accepted in the United States of America (“GAAP”) and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, such as revenue recognition; lease accounting; 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 are highly complex and may involve many subjective assumptions, estimates and judgments by our management. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance.

Risks Related to Investing in Our Common Stock

The declaration of discretionary dividend payments or the repurchase of our common stock pursuant to our share repurchase program may not continue.

We currently pay quarterly dividends subject to capital availability and periodic determinations that cash dividends are in the best interest of us and our stockholders. Our dividend policy may be affected by, among other items, business conditions, our views on potential future capital requirements, the terms of our debt instruments, legal risks, changes in federal income tax law and challenges to our business model. Our dividend policy may change from time to time and we may or may not continue to declare discretionary dividend payments. Additionally, although we have a share repurchase program authorized by our Board of Directors, we are not obligated to make any purchases under the program and we may discontinue it at any time.

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

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws as well as provisions of Delaware law could discourage, delay or prevent a merger, acquisition or other change in control of our company, even if such change in control would be beneficial to our stockholders. We have agreed to present to our stockholders at our 2016 annual stockholder meeting, and recommend the adoption of, proposals to eliminate certain of the provisions below. However, there is no assurance that those proposals will be adopted by our stockholders. The provisions of our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law that could discourage, delay or prevent a merger, acquisition or other change in control include:

- a Board of Directors that is classified such that two to four of the eight directors, depending on classification, are elected each year (we will propose at our 2016 stockholder meeting that this provision be phased out and eliminated);
- limitations on the ability of stockholders to call special meetings of stockholders;
- prohibition of stockholder action by written consent and requiring all stockholder actions to be taken at a meeting of our stockholders;
- a requirement in our certificate of incorporation that stockholder amendments to our bylaws and certain amendments to our certificate of incorporation must be approved by 80% of the outstanding shares of our capital stock (we will propose at our 2016 stockholder meeting that this provision be eliminated);
- authorization of the issuance of “blank check” preferred stock that could be issued by our Board of Directors to increase the number of outstanding shares and thwart a takeover attempt; and
- establishment of advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

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

Significant stockholders or potential stockholders may attempt to effect changes or acquire control over our company, which could adversely affect our results of operations and financial condition.

Stockholders may from time to time attempt to effect changes, engage in proxy solicitations or advance stockholder proposals, such as the publicly disclosed proxy contest that the Company settled on April 30, 2015. Responding to proxy contests and other actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of our Board of Directors and senior management from the pursuit of business strategies. As a result, shareholder campaigns could adversely affect our results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES
Properties

Our primary corporate headquarters are located at 2525 East El Segundo Boulevard, El Segundo, California 90245, with a satellite office located nearby at 2401 East El Segundo Boulevard, El Segundo, California 90245. We lease approximately 55,000 square feet of office and adjoining retail space related to our primary corporate headquarters, and we lease approximately 11,500 square feet related to our satellite office. The lease for the primary corporate headquarters is scheduled to expire on February 28, 2021 and provides us with two five-year renewal options, while the lease for the satellite office is scheduled to expire on February 28, 2021 and provides us with one five-year renewal option.

Our distribution facility is located in Riverside, California and has approximately 953,000 square feet of warehouse and office space. Our lease for the distribution center is scheduled to expire on August 31, 2020, and includes two additional five-year renewal options. In the first quarter of fiscal 2015, we executed a lease for approximately 171,000 square feet of additional distribution space adjacent to our distribution center in Riverside, California that will enable us to more efficiently fulfill our expanding distribution requirements. Our lease for this additional facility is scheduled to expire on August 31, 2020, and includes four additional five-year renewal options. We commenced operations in this facility in November 2015. We have a distribution hub located in Salem, Oregon, utilizing approximately 12,000 square feet of space to separate consolidated truckloads of product for delivery to our regional markets. Our lease for the hub is scheduled to expire on January 31, 2019, and includes four additional five-year renewal options.

We lease all of our retail store sites. Most of our store leases contain multiple fixed-price renewal options having a typical duration of five years per option. As of January 3, 2016, of our total store leases, 50 leases are due to expire in the next five years without renewal options. In most cases, as current leases expire, we believe we will be able to obtain lease renewals for existing store locations or new leases for equivalent locations in the same general area.

Our Stores

Throughout our history, we have focused on operating traditional, full-line sporting goods stores. Our stores generally range from 8,000 to 15,000 square feet and average approximately 11,000 square feet. Our typical store is located in either a free-standing street location or a multi-store shopping center. Our numerous convenient locations and accessible store format encourage frequent customer visits, resulting in approximately 28.1 million sales transactions and an average transaction size of approximately $37 in fiscal 2015. The following table details our store locations by state as of January 3, 2016:

State	Year Entered	Number of Stores	Percentage of Total Number of Stores	
California	1955	223	50.9	%
Washington	1984	50	11.4	
Arizona	1993	40	9.2	
Oregon	1995	28	6.4	
Colorado	2001	22	5.0	
Nevada	1978	18	4.1	
New Mexico	1995	18	4.1	
Utah	1997	18	4.1	
Idaho	1994	11	2.5	
Texas	1995	9	2.1	

Wyoming	2010	1	0.2	
Total		438	100.0	%

Our same store sales per square foot were approximately $208 for fiscal 2015. Our same store sales per square foot combined with our efficient store-level operations and low store maintenance costs have allowed us to historically generate strong store-level returns.

ITEM 3. 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 alleged 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 alleged, 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 sought, 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 believed that the complaint was without merit. The Company was not 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. On October 20, 2015, the court granted final approval of the settlement. Under the terms of the 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 total payments pursuant to this settlement have been reflected in a legal settlement accrual initially recorded in the fourth quarter of fiscal 2014 prior to the settlement and subsequently adjusted in the first quarter of fiscal 2015 to reflect the settlement. The Company admitted no liability or wrongdoing with respect to the claims set forth in the lawsuit. The settlement constitutes a full and complete settlement and release of all claims related to the lawsuit.

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

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock, par value $0.01 per share, trades on The NASDAQ Stock Market LLC under the symbol "BGFV." The following table sets forth the high and low closing sale prices for our common stock as reported by The NASDAQ Stock Market LLC during fiscal 2015 and 2014:

	2015		2014	
Fiscal Period	High	Low	High	Low
First Quarter	$14.88	$11.91	$20.10	$14.39
Second Quarter	$14.80	$12.14	$16.46	$11.18
Third Quarter	$15.34	$10.35	$13.05	$9.69
Fourth Quarter	$11.30	$8.82	$14.68	$9.27

As of February 24, 2016, the closing price for our common stock as reported on The NASDAQ Stock Market LLC was $13.15 per share.

As of February 24, 2016, there were 21,914,082 shares of common stock outstanding held by 399 holders of record.

Performance Graph

Set forth below is a graph comparing the cumulative total stockholder return for our common stock with the cumulative total return of (i) the NASDAQ Composite Stock Market Index and (ii) the NASDAQ Retail Trade Index. The information in this graph is provided at annual intervals for the fiscal years ended 2011, 2012, 2013, 2014 and 2015. This graph shows historical stock price performance (including reinvestment of dividends) and is not necessarily indicative of future performance:

Dividend Policy

Dividends are paid at the discretion of the Board of Directors. In fiscal 2013, 2014 and 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 first quarter of fiscal 2016, our Board of Directors declared a quarterly cash dividend of $0.125 per share of outstanding common stock, which will be paid on March 22, 2016 to stockholders of record as of March 8, 2016.

The agreement governing our revolving credit facility imposes restrictions on our ability to make dividend payments. For example, our ability to pay cash dividends on our common stock will depend upon, among other things, our compliance with certain availability and fixed charge coverage ratio requirements at the time of the proposed dividend or distribution, and whether we are in default under the agreement. Our future dividend policy will also depend on the requirements of any future credit or other financing agreements to which we may be a party and other factors considered relevant by our Board of Directors, including the General Corporation Law of the State of Delaware, which provides that dividends are only payable out of surplus or current net profits.

Issuer Repurchases

The following tabular summary reflects the Company's share repurchase activity during the quarter ended January 3, 2016:

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)
September 28 – October 25	38,900	$ 10.34	38,900	$ 3,507,000
October 26 – November 29	33,848	$ 9.28	33,848	$ 3,193,000
November 30 – January 3	28,940	$ 9.28	28,940	$ 2,924,000
Total	101,688		101,688	$ 2,924,000

(1) All shares were purchased under the Company's current share repurchase program, which was announced on November 1, 2007 and authorizes the repurchase of the Company's common stock totaling $20.0 million. Under the authorization, the Company may purchase shares from time to time in the open market or in privately negotiated transactions in compliance with the applicable rules and regulations of the SEC. However, the timing and amount of such purchases, if any, would be at the discretion of management and would depend upon market conditions and other considerations. Since the inception of the initial share repurchase program in May 2006 through January 3, 2016, the Company has repurchased a total of 2,530,607 shares for $32.1 million, leaving a total of $2.9 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 II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources, of this Annual Report on Form 10-K 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 6. SELECTED FINANCIAL DATA

The "Statement of Operations Data" and the "Balance Sheet Data" for all years presented below have been derived from our audited consolidated financial statements. Selected consolidated financial data under the captions "Store Data" and "Other Financial Data" have been derived from the unaudited internal records of our operations. The information contained in these tables should be read in conjunction with our consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Annual Report on Form 10 K.

	Fiscal Year (1)				
	2015	2014	2013	2012	2011
	(Dollars and shares in thousands, except per share and certain store data)				
Statement of Operations Data:					
Net sales (2)	$1,029,098	$977,860	$993,323	$940,490	$902,134
Cost of sales (3)	704,134	664,411	664,583	637,721	610,531
Gross profit (2)	324,964	313,449	328,740	302,769	291,603
Selling and administrative expense (2) (4) (5) (6)	298,425	288,274	281,313	276,797	272,436
Operating income	26,539	25,175	47,427	25,972	19,167
Interest expense	1,791	1,667	1,745	2,202	2,561
Income before income taxes	24,748	23,508	45,682	23,770	16,606
Income taxes	9,451	8,632	17,736	8,855	4,933
Net income (2) (5) (6)	$15,297	$14,876	$27,946	$14,915	$11,673
Earnings per share:					
Basic	$0.70	$0.68	$1.28	$0.70	$0.54
Diluted	$0.70	$0.67	$1.27	$0.69	$0.53
Dividends per share	$0.40	$0.40	$0.40	$0.30	$0.30
Weighted-average shares of common stock outstanding:					
Basic	21,741	21,933	21,765	21,394	21,656
Diluted	21,927	22,133	22,083	21,616	21,869

	2015	2014	2013	2012	2011
Store Data:					
Same store sales increase (decrease) (7)	1.3 %	(2.9)%	3.9 %	2.5 %	(1.2)%
Same store sales per square foot (in dollars) (8)	$208	$203	$212	$205	$202
End of period stores	438	439	429	414	406
End of period same stores	414	402	394	387	378
Same store sales per store (9)	$2,383	$2,324	$2,415	$2,336	$2,286
Other Financial Data:					
Gross profit margin	31.6 %	32.1 %	33.1 %	32.2 %	32.3 %
Selling and administrative expense as a percentage of net sales	29.0 %	29.5 %	28.3 %	29.4 %	30.2 %
Operating margin	2.6 %	2.6 %	4.8 %	2.8 %	2.1 %
Depreciation and amortization	$21,410	$21,505	$20,192	$18,895	$18,544

Capital expenditures (10)	$24,567	$22,565	$22,035	$12,901	$12,990
Inventory turns (11)	2.2x	2.1x	2.3x	2.3x	2.3x
Balance Sheet Data:					
Cash	$7,119	$11,503	$9,400	$7,635	$4,900
Working capital (12)	$183,110	$193,689	$168,693	$150,010	$156,909
Total assets	$445,029	$455,576	$441,888	$406,660	$394,064
Long-term debt and capital leases, less current portion	$57,238	$67,467	$44,613	$50,316	$66,621
Stockholders' equity	$198,831	$195,004	$190,770	$164,420	$156,590

(See notes on following page:)

(Notes to table on previous page)

(1) Our fiscal year is the 52 or 53 week reporting period ending on the Sunday nearest December 31. Fiscal 2015 included 53 weeks and fiscal 2014, 2013, 2012 and 2011 each included 52 weeks.

(2) In fiscal 2015, 2014 and 2013, we recorded pre-tax charges of $0.4 million, $1.4 million and $1.3 million, respectively, reflecting legal accruals. In fiscal 2015 and 2014, the amounts were classified as selling and administrative expense. In fiscal 2013, $0.3 million was classified as a reduction to net sales and $1.0 million was classified as selling and administrative expense. These charges reduced net income in fiscal 2015, 2014 and 2013 by $0.2 million, or $0.01 per diluted share, $0.9 million, or $0.04 per diluted share, and $0.8 million, or $0.04 per diluted share, respectively.

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

(4) 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.

(5) In fiscal 2012, we recorded a pre-tax charge related to store closing costs of $1.2 million. This charge reduced net income in fiscal 2012 by $0.8 million, or $0.03 per diluted share.

(6) In fiscal 2015, 2014, 2013, 2012 and 2011, we recorded pre-tax non-cash impairment charges of $0.2 million, $1.2 million, $0.1 million, $0.2 million and $2.1 million, respectively, related to certain underperforming stores. These impairment charges reduced net income in fiscal 2015, 2014, 2013, 2012 and 2011 by $0.1 million, or $0.00 per diluted share, $0.8 million, or $0.03 per diluted share, $44,000, or $0.00 per diluted share, $0.1 million, or $0.01 per diluted share, and $1.5 million, or $0.07 per diluted share, respectively.

(7) Same store sales for a period reflect net sales from stores operated throughout that period as well as the full corresponding prior year period. For purposes of reporting same store sales comparisons to fiscal 2014, we use comparable 53-week periods.

(8) Same store sales per square foot is calculated by dividing net sales for same stores, as defined above, by the total square footage for those stores.

(9) Same store sales per store is calculated by dividing net sales for same stores, as defined above, by total same store count.

(10) Capital expenditures in 2015, 2014 and 2013 reflected an increased investment in existing store remodeling to support our merchandising initiatives, amounts related to our computer system replacement program, added costs related to the development of an e-commerce platform and enhanced security measures to support our infrastructure. Fiscal 2015 also included increased investment in our distribution center to support overall growth, while fiscal 2015 and 2014 included added costs related to the development of a new point-of-sale system.

(11) Inventory turns equal fiscal year cost of sales divided by the fiscal year four-quarter weighted-average cost of merchandise inventory.

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

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

Throughout this section, the Big 5 Sporting Goods Corporation ("we," "our," "us") fiscal years ended January 3, 2016, December 28, 2014 and December 29, 2013 are referred to as fiscal 2015, 2014 and 2013, respectively. The following discussion and analysis of our financial condition and results of operations for fiscal 2015, 2014 and 2013 includes information with respect to our plans and strategies for our business and should be read in conjunction with the consolidated financial statements and related notes, the risk factors and the cautionary statement regarding forward-looking information included elsewhere in this Annual Report on Form 10-K.

Our fiscal year ends on the Sunday nearest December 31. Fiscal 2015 included 53 weeks and fiscal 2014 and 2013 each included 52 weeks.

Overview

We are a leading sporting goods retailer in the western United States, operating 438 stores and an e-commerce platform under the name "Big 5 Sporting Goods" as of January 3, 2016. We provide a full-line product offering in a traditional sporting goods store format that averages approximately 11,000 square feet. In the fourth quarter of fiscal 2014, we launched our e-commerce platform to also offer selected products online and e-commerce sales for fiscal 2015 and 2014 were not material. 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.

We believe that over our 61-year history we have developed a reputation with the competitive and recreational sporting goods customer as a convenient neighborhood sporting goods retailer that consistently delivers value on quality merchandise. Our stores carry a wide range of products at competitive prices from well-known brand name manufacturers, including adidas, Coleman, Everlast, New Balance, Nike, Rawlings, Skechers, Spalding, Under Armour and Wilson. We also offer brand name merchandise produced exclusively for us, private label merchandise and specials on quality items we purchase through opportunistic buys of vendor over-stock and close-out merchandise. We reinforce our value reputation through weekly print advertising in major and local newspapers, direct mailers and digital marketing designed to generate customer traffic, drive sales and build brand awareness. We also maintain social media sites to enhance distribution capabilities for our promotional offers and to enable communication with our customers.

Throughout our history, we have emphasized controlled growth. In fiscal 2015, we opened five new stores and closed six stores, three of which were relocations. In fiscal 2014, we opened 16 new stores, four of which were relocations, and closed six stores, four of which were relocations. In fiscal 2013, we opened 17 new stores, three of which were relocations, and closed two stores, both of which were relocations. In fiscal 2015, we slowed our store growth as we maintained a cautious approach toward store openings in the current retail environment. The following table summarizes our store count for the periods presented:

	Fiscal Year		
	2015	2014	2013
Big 5 Sporting Goods stores:			
Beginning of period	439	429	414
New stores [1]	5	16	17
Stores relocated	(3)	(4)	(2)
Stores closed	(3)	(2)	—
End of period	438	439	429
Stores (closed) opened per year, net	(1)	10	15

(1) Stores that are relocated are classified as new stores. Sales from the prior location are treated as sales from a closed store and thus are excluded from same store sales calculations.

Executive Summary

Our improved operating results for fiscal 2015 compared to fiscal 2014 were mainly attributable to our higher sales levels in fiscal 2015, which included an increase in same store sales of 1.3% compared to the same period last year. Our higher same store sales primarily reflected increased sales of winter-related merchandise in our primary markets in the first quarter and fourth quarter of fiscal 2015. For the current fiscal year, same store sales for our major merchandise categories of footwear and apparel increased while hard goods were down slightly.

- Net sales for fiscal 2015 increased 5.2% to $1,029.1 million compared to fiscal 2014. The increase in net sales was primarily attributable to added revenue from new stores, an extra week of sales in fiscal 2015 and an increase in same store sales of 1.3%, partially offset by reduced closed store sales. 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. For purposes of reporting same store sales comparisons to fiscal 2014, we use comparable 53-week periods.
- Net income for fiscal 2015 increased 2.8% to $15.3 million, or $0.70 per diluted share, compared to $14.9 million, or $0.67 per diluted share, for fiscal 2014. The increase was driven primarily by higher net sales, partially offset by lower merchandise margins and increased selling and administrative expense.
- Gross profit for fiscal 2015 represented 31.6% of net sales, compared with 32.1% in the prior year. Merchandise margins were ten basis points lower than last year, combined with higher distribution and store occupancy expense as a percentage of net sales.
- Selling and administrative expense for fiscal 2015 increased 3.5% to $298.4 million, or 29.0% of net sales, compared to $288.3 million, or 29.5% of net sales, for fiscal 2014. The increase was primarily attributable to higher employee labor and benefit-related expense and higher operating expense to support new store openings, partially offset by a decrease in print advertising expense.

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.

- Operating cash flow for fiscal 2015 increased to $39.6 million from $28.5 million in fiscal 2014.
- Capital expenditures for fiscal 2015 increased to $24.6 million from $22.6 million in fiscal 2014.
- We ended fiscal 2015 with a balance under our revolving credit facility of $54.8 million compared with $66.3 million at the end of fiscal 2014.
- We paid aggregate cash dividends in fiscal 2015 of $8.8 million, or $0.40 per share.
- We repurchased 379,930 shares of common stock for $4.2 million in fiscal 2015.

Results of Operations

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

	Fiscal Year [1]					
	2015		2014		2013	
	(Dollars in thousands)					
Statement of Operations Data:						
Net sales	$1,029,098	100.0%	$977,860	100.0%	$993,323	100.0%
Cost of sales [2]	704,134	68.4	664,411	67.9	664,583	66.9
Gross profit	324,964	31.6	313,449	32.1	328,740	33.1
Selling and administrative expense [3]	298,425	29.0	288,274	29.5	281,313	28.3
Operating income	26,539	2.6	25,175	2.6	47,427	4.8
Interest expense	1,791	0.2	1,667	0.2	1,745	0.2
Income before income taxes	24,748	2.4	23,508	2.4	45,682	4.6
Income taxes	9,451	0.9	8,632	0.9	17,736	1.8
Net income	$15,297	1.5 %	$14,876	1.5 %	$27,946	2.8 %
Other Financial Data:						
Net sales change		5.2 %		(1.6)%		5.6 %
Same store sales change [4]		1.3 %		(2.9)%		3.9 %
Net income change		2.8 %		(46.6)%		87.4 %

(1) Fiscal 2015 included 53 weeks and fiscal 2014 and 2013 each included 52 weeks.

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

(3) 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.

(4) 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. For purposes of reporting same store sales comparisons to the prior year, we use comparable 53-week periods.

Fiscal 2015 Compared to Fiscal 2014

Net Sales. Net sales increased by $51.2 million, or 5.2%, to $1,029.1 million for fiscal 2015 from $977.9 million for fiscal 2014. The change in net sales was primarily attributable to the following:

- Added sales from new stores reflected the opening of 21 new stores since December 29, 2013, partially offset by a reduction in closed store sales.
- The extra week in fiscal 2015 contributed $22.8 million to net sales.
- Same store sales increased 1.3% for fiscal 2015 versus fiscal 2014. Our higher same store sales reflected increased sales of winter-related merchandise as a result of favorable winter-weather conditions in our primary markets in the first quarter and fourth quarter of fiscal 2015. For the current fiscal year, our major merchandise categories of footwear and apparel increased while hard goods were down slightly. 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. For purposes of

reporting same store sales comparisons to fiscal 2014, we use comparable 53-week periods.

- Although we experienced decreased customer transactions in our retail stores, the average sale per transaction increased in fiscal 2015 compared to fiscal 2014, continuing to reflect a shift in our product mix to more branded merchandise.

Store count at the end of fiscal 2015 was 438 versus 439 at the end of fiscal 2014. We opened five new stores and closed six stores, three of which were relocations, in fiscal 2015. For fiscal 2016, we anticipate opening between five and eight new stores and closing approximately ten stores.

Gross Profit. Gross profit increased by $11.6 million to $325.0 million, or 31.6% of net sales, in fiscal 2015 from $313.4 million, or 32.1% of net sales, in fiscal 2014. The change in gross profit was primarily attributable to the following:

- Net sales increased by $51.2 million in fiscal 2015 compared to the prior year.
- Merchandise margins, which exclude buying, occupancy and distribution expense, decreased ten basis points from fiscal 2014.
- Store occupancy expense for fiscal 2015 increased by $5.6 million, or ten basis points, year over year due primarily to increased rent associated with store lease renewals and new store openings.
- Distribution expense increased $3.9 million, or 17 basis points, primarily resulting from higher employee labor and benefit-related expense due in part to an additional week of payroll expense, and lower costs capitalized into inventory, partially offset by reduced fuel expense.

Selling and Administrative Expense. Selling and administrative expense increased by $10.1 million, or 3.5%, to $298.4 million, or 29.0% of net sales, in fiscal 2015 from $288.3 million, or 29.5% of net sales, in fiscal 2014. The change in selling and administrative expense was primarily attributable to the following:

- Store-related expense, excluding occupancy, increased by $9.6 million due primarily to higher labor and employee benefit-related expense of $8.1 million that reflected an additional fiscal week of payroll expense, legislated minimum wage increases and personnel increases associated with new store openings, along with added operating expense for new stores.
- Administrative expense increased by $3.3 million, primarily reflecting expense associated with the following items:
  - Higher employee labor and benefit-related expense of $2.3 million due, in part, to an additional fiscal week of payroll expense.
  - A publicly-disclosed proxy contest, which was settled on April 30, 2015. The proxy contest and related matters negatively impacted our administrative expense during fiscal 2015 by approximately $1.6 million.
  - Expenses of $0.4 million to evaluate store growth strategies and potential profit improvement opportunities.
  - A pre-tax charge of $0.4 million for a legal settlement in fiscal 2015. Administrative expense in fiscal 2014 included pre-tax charges of $1.4 million for legal accruals. These charges are further discussed in Note 13 to the consolidated financial statements included in Part II, Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.
  - A pre-tax non-cash impairment charge of $0.2 million in fiscal 2015 related to an underperforming store. Administrative expense in fiscal 2014 included a pre-tax non-cash impairment charge of $1.2 million related to certain underperforming stores. These charges are further discussed in Note 4 to the consolidated financial statements included in Part II, Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.
- Advertising expense for fiscal 2015 decreased by $2.8 million, due primarily to lower newspaper advertising, partially offset by increases in digital marketing programs to support sales.

Interest Expense. Interest expense increased by $0.2 million, or 7.4%, to $1.8 million in fiscal 2015 from $1.6 million in fiscal 2014. The increase in interest expense reflects an increase in average debt levels of $6.3 million to $69.6 million in fiscal 2015 from $63.3 million in fiscal 2014. Average interest rates remained unchanged at 1.9% in fiscal 2015 compared with fiscal 2014.

Income Taxes. The provision for income taxes was $9.5 million for fiscal 2015 compared with $8.6 million for fiscal 2014. This increase was primarily due to a higher effective tax rate and higher pre-tax income in fiscal 2015. Our effective tax rate was 38.2% for fiscal 2015 compared with 36.7% for fiscal 2014. The higher effective tax rate year over year primarily resulted from a reduced amount of income tax credits for the current year. In the first and second quarters of fiscal 2016, we anticipate writing off deferred tax assets related to share-based compensation, which we estimate will result in charges ranging between $0.6 million to $0.8 million and $0.1 million to $0.3 million, respectively, and will negatively impact our respective effective tax rates.

Fiscal 2014 Compared to Fiscal 2013

Net Sales. Net sales decreased by $15.4 million, or 1.6%, to $977.9 million for fiscal 2014 from $993.3 million for fiscal 2013. The change in net sales was primarily attributable to the following:

- Same store sales decreased 2.9% for fiscal 2014 versus fiscal 2013. Our lower same store sales reflected reduced demand for firearm-related products, combined with lower sales of winter-related merchandise as a result of unseasonably warm and dry winter-weather conditions in our primary markets in the first quarter and fourth quarter of fiscal 2014. Our sales comparisons to the prior year generally improved in the second half of fiscal 2014 as improved sales for a number of product categories offset the lower demand for firearm-related products compared to fiscal 2013.
- Added sales from new stores reflected the opening of 33 new stores since December 30, 2012, partially offset by a reduction in closed store sales.
- We experienced decreased customer transactions in our retail stores, and the average sale per transaction also declined slightly in fiscal 2014 compared to fiscal 2013, primarily as a result of the reduced demand for firearm-related products in fiscal 2014.

Store count at the end of fiscal 2014 was 439 versus 429 at the end of fiscal 2013. We opened 16 new stores, four of which were relocations, and closed six stores, four of which were relocations, in fiscal 2014.

Gross Profit. Gross profit decreased by $15.3 million to $313.4 million, or 32.1% of net sales, in fiscal 2014 from $328.7 million, or 33.1% of net sales, in fiscal 2013. The change in gross profit was primarily attributable to the following:

- Net sales decreased by $15.4 million in fiscal 2014 compared to fiscal 2013.
- Merchandise margins, which exclude buying, occupancy and distribution expense, decreased 27 basis points from fiscal 2013, when merchandise margins increased 50 basis points versus fiscal 2012. The lower merchandise margins primarily reflected reduced sales of higher-margin winter-related products and increased sales promotions.
- Store occupancy expense for fiscal 2014 increased by $5.1 million, or 65 basis points, year over year due primarily to increased rent associated with store lease renewals and the increase in store count.
- Distribution expense increased $0.5 million, or 12 basis points, primarily resulting from higher employee labor and benefit-related expense and increased trucking expense, partially offset by higher costs capitalized into inventory.

Selling and Administrative Expense. Selling and administrative expense increased by $7.0 million, or 2.5%, to $288.3 million, or 29.5% of net sales, in fiscal 2014 from $281.3 million, or 28.3% of net sales, in fiscal 2013. The change in selling and administrative expense was primarily attributable to the following:

- Store-related expense, excluding occupancy, increased by $6.4 million due primarily to higher employee benefit-related expense and higher operating expense to support the increase in store count.
- Administrative expense increased by $2.4 million, primarily reflecting higher employee labor and benefit-related expense. Administrative expense in fiscal 2014 also included pre-tax charges of $1.4 million reflecting legal accruals and a pre-tax non-cash impairment charge of $1.2 million related to certain underperforming stores. Administrative expense for fiscal 2013 included a pre-tax charge of $1.0 million related to legal accruals.
- Advertising expense for fiscal 2014 decreased by $1.9 million, due primarily to lower newspaper advertising, partially offset by increases in digital marketing programs and other advertising to support sales.

Interest Expense. Interest expense decreased by $0.1 million, or 4.5%, to $1.6 million in fiscal 2014 from $1.7 million in fiscal 2013. The decrease in interest expense reflects the impact of lower average interest rates of 20 basis points to 1.9% in fiscal 2014 from 2.1% in fiscal 2013, partially offset by an increase in average debt levels of $19.3 million to $63.3 million in fiscal 2014 from $44.0 million in fiscal 2013.

Income Taxes. The provision for income taxes was $8.6 million for fiscal 2014 compared with $17.7 million for fiscal 2013. This decrease was primarily due to lower pre-tax income and a lower effective tax rate in fiscal 2014. Our effective tax rate was 36.7% for fiscal 2014 compared with 38.8% for fiscal 2013. The lower effective tax rate year over year primarily resulted from increased income tax credits for the current year. The effective tax rate for fiscal 2013 included the retroactive reinstatement of the work opportunity tax credit (“WOTC”) for 2012, which resulted from enactment of The American Taxpayer Relief Act of 2012. Reinstatement of the WOTC reduced the effective tax rate for the first quarter of fiscal 2013 by 137 basis points.

Liquidity and Capital Resources

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

We ended fiscal 2015 with $7.1 million of cash compared with $11.5 million in fiscal 2014. We decreased our long-term debt by $11.5 million, or 17.3%, during fiscal 2015 to $54.8 million from $66.3 million at the end of fiscal 2014, after increasing our long-term debt by $23.3 million, or 54.1%, during fiscal 2014. The following table summarizes our cash flows from operating, investing and financing activities for each of the past three fiscal years:

	Fiscal Year		
	2015	2014	2013
	(In thousands)		
Total cash provided by (used in):			
Operating activities	$39,645	$28,535	$26,287
Investing activities	(24,567)	(22,465)	(22,035)
Financing activities	(19,462)	(3,967)	(2,487)
Net (decrease) increase in cash	$(4,384)	$2,103	$1,765

The seasonality of our business historically provides greater cash flows from operations during the holiday and winter selling season. We use operating cash flows and borrowings under our revolving credit facility to fund inventory increases in anticipation of the holidays and our inventory levels are normally at their highest in the months leading up to Christmas. As holiday sales typically reduce inventory levels, this reduction, combined with net income, historically provides us with strong cash flows from operations at the end of our fiscal year.

For fiscal 2015, the level of inventory purchases in the months leading up to Christmas was lower compared to the prior year, resulting in reduced inventory and accounts payable balances at the end of fiscal 2015 compared to fiscal 2014. Additionally, improved net sales in fiscal 2015 compared to fiscal 2014 contributed to higher operating cash flows, which allowed us to significantly pay down debt balances year over year.

For fiscal 2014, we reduced the level of inventory purchases in the months leading up to Christmas compared to the prior year due in part to a carryover of winter-related merchandise from the prior season as a result of unfavorable weather conditions. For the fiscal 2014 full year, our operating cash flow increased over fiscal 2013 as the impact of reduced inventory purchases in fiscal 2014, due in part to lower sales levels, offset the effect of lower earnings. The increase in our debt at the end of fiscal 2014 primarily reflected our lower earnings, a significant reduction in outstanding check payable balances year over year from fiscal 2013, along with amounts paid for cash dividends and to repurchase stock.

For fiscal 2013, while we increased inventory purchases in the months leading up to Christmas, weaker-than-anticipated sales during the fourth quarter of fiscal 2013 resulted in higher-than-expected inventory levels and lower operating cash flows in the fourth quarter of fiscal 2013. However, healthy net sales and net income for the fiscal 2013 full year contributed sufficient levels of operating cash flows that allowed us to pay down debt balances year over year.

Operating Activities. Net cash provided by operating activities for fiscal 2015, 2014 and 2013 was $39.6 million, $28.5 million and $26.3 million, respectively. The increase in cash provided by operating activities for fiscal 2015 compared to fiscal 2014 was due primarily to the favorable effect of a reduction in merchandise inventory levels at the end of fiscal 2015 reflecting improved sales as a result of favorable winter-weather conditions in fiscal 2015, compared with the end of fiscal 2014. The increase in cash provided by operating activities for fiscal 2014 compared to fiscal 2013 was due primarily to reduced funding of inventory purchases, partially offset by the impact of lower net income, increases in prepaid expense largely related to the timing of rent payments and lower accrued expenses for certain employee benefits.

Investing Activities. Net cash used in investing activities for fiscal 2015, 2014 and 2013 was $24.6 million, $22.5 million and $22.0 million, respectively. In fiscal 2014 we received proceeds of $0.1 million as part of a local utility rebate program related to the implementation of a green energy system at our distribution center. Our capital spending is primarily to fund the opening of new stores, store-related remodeling, distribution center equipment and computer hardware and software purchases. Capital expenditures by category for each of the last three fiscal years are as follows:

	Fiscal Year		
	2015	2014	2013
	(In thousands)		
New stores	$5,508	$9,373	$10,996
Store-related remodels	8,607	7,094	7,600
Distribution center	7,866	2,270	871
Computer hardware, software and other	2,586	3,828	2,568
Total	$24,567	$22,565	$22,035

Our capital expenditures included five new stores in fiscal 2015, 16 new stores in fiscal 2014 and 17 new stores in fiscal 2013. Capital expenditures in all years presented reflected an increased investment in existing store remodeling to support our merchandising initiatives, amounts related to our computer system replacement program, added costs related to the development of an e-commerce platform and enhanced security measures to support our infrastructure. Fiscal 2015 also included increased investment in our distribution center to support overall growth, while fiscal 2015 and 2014 included added costs related to the development of a new point-of-sale system.

Financing Activities. Net cash used in financing activities for fiscal 2015, 2014 and 2013 was $19.5 million, $4.0 million and $2.5 million, respectively. For fiscal 2015, we used cash provided from operating activities primarily to pay down borrowings from our revolving credit facility, fund dividend payments, treasury stock repurchases and capital lease payments. For fiscal 2014, we used cash provided from operating activities primarily to fund dividend payments, treasury stock repurchases and capital lease payments, partially offset by increased borrowings under our revolving credit facility. For fiscal 2013, we used cash provided from operating activities primarily to pay dividends, pay down borrowings from our revolving credit facility and make capital lease payments. These payments were partially offset by amounts received from employee share-based awards.

As of January 3, 2016, we had revolving credit borrowings of $54.8 million and letter of credit commitments of $0.5 million outstanding. These balances compare to borrowings of $66.3 million and letter of credit commitments of $0.5 million outstanding as of December 28, 2014.

Our revolving credit facility balances have historically increased from the end of the first quarter to the end of the second quarter and from the end of the third quarter to the week of Thanksgiving. The historical increases in our revolving credit facility balances reflect the build-up of inventory in anticipation of our summer and winter selling seasons. Revolving credit facility balances typically fall from the week of Thanksgiving to the end of the fourth quarter, reflecting inventory sales during the holiday and winter selling season.

In fiscal 2013, 2014 and 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 first quarter of fiscal 2016, our Board of Directors declared a quarterly cash dividend of $0.125 per share of outstanding common stock, which will be paid on March 22, 2016 to stockholders of record as of March 8, 2016.

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. We repurchased 379,930 shares of common stock for $4.2 million in fiscal 2015 and we repurchased 223,051 shares of common stock for $2.5 million in fiscal 2014. We did not repurchase shares of common stock during fiscal 2013. Since the inception of our initial share repurchase program in May 2006 through January 3, 2016, we have repurchased a total of 2,530,607 shares for $32.1 million, leaving a total of $2.9 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 million sublimit for issuances of letters of credit and a $20.0 million sublimit for swingline loans. As of January 3, 2016 and December 28, 2014, our total remaining borrowing availability under the Credit Agreement, after subtracting letters of credit, was $84.7 million and $73.2 million, 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”). 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 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 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 are 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.

The following table provides information about our revolving credit borrowings as of and for the periods indicated:

	Fiscal Year	
	2015	2014
	(Dollars in thousands)	
Fiscal year-end balance	$54,846	$66,312
Average interest rate	1.90 %	1.90 %
Maximum outstanding during the year	$103,238	$96,004
Average outstanding during the year	$69,575	$63,335

Future Capital Requirements. We had cash on hand of $7.1 million as of January 3, 2016. We expect capital expenditures for fiscal 2016, excluding non-cash acquisitions, to range from approximately $17.0 million to $21.0 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. For fiscal 2016, we anticipate opening between five and eight new stores and closing approximately ten stores.

In fiscal 2013, 2014 and 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 first quarter of fiscal 2016, our Board of Directors declared a quarterly cash dividend of $0.125 per share of outstanding common stock, which will be paid on March 22, 2016 to stockholders of record as of March 8, 2016.

As of January 3, 2016, a total of $2.9 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 twelve 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. There is no assurance that we will be able to generate sufficient cash flows or that we will be able to maintain our ability to borrow under our revolving credit facility.

Off-Balance Sheet Arrangements and Contractual Obligations. Our material off-balance sheet arrangements are operating lease obligations. We excluded these items from the balance sheet in accordance with accounting principles generally accepted in the United States of America (“GAAP”). A summary of our operating lease obligations and other commitments by fiscal year is included in the table below. Additional information regarding our operating leases is available in Item 2, Properties and Note 7, Lease Commitments, of the notes to consolidated financial statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Our future obligations and commitments as of January 3, 2016, include the following:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
	(In thousands)				
Capital lease obligations	$4,017	$1,533	$1,983	$501	$—
Lease commitments:					
Operating lease commitments	369,013	78,426	131,996	86,606	71,985
Other occupancy expense	65,640	14,283	24,353	15,499	11,505
Other liabilities	13,188	4,873	3,141	1,637	3,537
Revolving credit facility	54,846	—	54,846	—	—
Letters of credit	525	525	—	—	—
Total	$507,229	$99,640	$216,319	$104,243	$87,027

Capital lease obligations, which include imputed interest, consist principally of leases for some of our distribution center delivery tractors, IT systems hardware and point-of-sale equipment for our stores. Payments for these lease obligations are provided by cash flows generated from operations or through borrowings from our revolving credit facility.

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.

Operating lease commitments also include a lease commitment for a building adjacent to our corporate office. The lease term for this property commenced in 2009 and the primary term expires on February 28, 2019. In accordance with terms of the lease agreement, we are committed to the construction of a new retail building on the premises before the primary term expires in 2019. We are not yet able to determine the ultimate amount of the construction commitment.

Other occupancy expense includes estimated property maintenance fees and property taxes for our stores, distribution center and corporate headquarters.

Other liabilities consist principally of actuarially-determined reserve estimates related to self-insurance liabilities, of which certain self-insurance liabilities are secured by surety bonds, a contractual obligation for the surviving spouse of Robert W. Miller, our co-founder, and asset retirement obligations related to the removal and retirement of leasehold improvements for certain stores upon termination of their leases.

Periodic interest payments on the Credit Agreement are not included in the preceding table because interest expense is based on variable indices, and the balance of our Credit Agreement fluctuates daily depending on operating, investing and financing cash flows. Assuming no changes in our revolving credit facility debt or interest rates as of the fiscal 2015 year-end, our projected annual interest payments would be approximately $1.1 million.

Issued and outstanding letters of credit were $0.5 million as of January 3, 2016, and were related primarily to securing insurance program liabilities.

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

Our critical accounting estimates are included in our significant accounting policies as described in Note 2 of the consolidated financial statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. Those consolidated financial statements were prepared in accordance with GAAP. Critical accounting estimates are those that we believe are most important to the portrayal of our financial condition and results of operations. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expense. Our estimates are evaluated on an ongoing basis and drawn from historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. Actual results may differ from our estimates. Management believes that the following accounting estimates reflect the more significant judgments and estimates we use in preparing our consolidated financial statements.

Valuation of Merchandise Inventories, Net

Our 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 consists of the direct purchase price of merchandise inventory, net of vendor allowances and cash discounts, in-bound freight-related costs and allocated overhead costs associated with our distribution center.

We record valuation reserves on a quarterly basis 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. Factors included in determining slow-moving or obsolescence reserve estimates include current and anticipated demand or customer preferences, merchandise aging, seasonal trends and decisions to discontinue certain products. Because of our merchandise mix, we have not historically experienced significant occurrences of obsolescence. Our inventory valuation reserves for damaged and defective merchandise, slow-moving or obsolete merchandise and for lower of cost or market provisions totaled $3.9 million and $3.1 million as of January 3, 2016 and December 28, 2014, respectively, representing approximately 1% of our merchandise inventory for both periods.

Inventory shrinkage is accrued as a percentage of merchandise sales based on historical inventory shrinkage trends. We perform physical inventories at each of our stores at least once per year and cycle count inventories encompassing all inventory items at least once every quarter at our distribution center. 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. Inventory shrinkage can be impacted by internal factors such as the level of investment in employee training and loss prevention and external factors such as the health of the overall economy, and shrink reserve estimates can vary from actual results. Our reserve for inventory shrinkage was $2.3 million and $2.2 million as of January 3, 2016 and December 28, 2014, respectively, representing approximately 1% of our merchandise inventory for both periods.

A 10% change in our inventory reserves estimate in total as of January 3, 2016, would result in a change in reserves of approximately $0.6 million and a change in pre-tax earnings by the same amount. Our 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 our expectations. At this time, we do not believe that there is a reasonable likelihood that there will be a material change in the future estimates or assumptions that we use to calculate our inventory reserves.

Valuation of Long-Lived Assets

We review our 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 net 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 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 the impairment provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360, Property, Plant, and Equipment.

We determine 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. 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 our future expectations, competitive factors in our 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.

Our evaluation resulted in a pre-tax impairment charge of $0.2 million, $1.2 million and $0.1 million recognized in fiscal 2015, 2014 and 2013, respectively, related to certain underperforming stores.

A 10% change in the sum of our undiscounted cash flow estimates resulting from different assumptions used as of January 3, 2016 for those asset groups included in our evaluation would not result in a change in long-lived asset impairment charges for fiscal 2015.

Self-Insurance Liabilities

We maintain self-insurance programs for our estimated commercial general liability risk and, in certain states, our estimated workers' compensation liability risk. In addition, we have a self-insurance program for a portion of our employee medical benefits. Under these programs, we maintain insurance coverage for losses in excess of specified per-occurrence amounts. Estimated costs under the self-insured workers' compensation and medical benefits programs, including incurred but not reported claims, are recorded as expense based upon historical experience, trends of paid and incurred claims, and other actuarial assumptions. If actual claims trends under these programs, including the severity or frequency of claims, differ from our estimates, our financial results may be significantly impacted. Our estimated self-insurance liabilities, which are reported gross of expected workers' compensation insurance reimbursements, are classified in our balance sheet as accrued expenses or other long-term liabilities based upon whether they are expected to be paid during or beyond our normal operating cycle of 12 months from the date of our consolidated financial statements. As of January 3, 2016 and December 28, 2014, our self-insurance liabilities totaled $11.2 million and $10.7 million, respectively.

A 10% change in our estimated self-insurance liabilities estimate as of January 3, 2016, would result in a change in our liability of approximately $1.1 million and a change in pre-tax earnings by the same amount.

Seasonality and Impact of Inflation

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

In fiscal 2013 and 2014, we experienced minor inflation in the purchase cost, including transportation expense, of certain products. In 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.

Recently Issued Accounting Updates

See Note 2 to consolidated financial statements included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Forward-Looking Statements

This document includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, our financial condition, our results of operations, our growth strategy and the business of our company generally. In some cases, you can identify such statements by terminology such as “may,” “could,” “project,” “estimate,” “potential,” “continue,” “should,” “expects,” “p “anticipates,” “believes,” “intends” or other such terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. These risks and uncertainties include, among other things, continued or worsening weakness in the consumer spending environment and the U.S. financial and credit markets, fluctuations in consumer holiday spending patterns, breach of data security or other unauthorized disclosure of sensitive personal or confidential information, the competitive environment in the sporting goods industry in general and in our specific market areas, inflation, product availability and growth opportunities, changes in the current market for (or regulation of) 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 I, Item 1A, Risk Factors, in this report. 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to risks resulting from interest rate fluctuations since interest on our borrowings under our 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 January 3, 2016, our interest expense would change approximately $0.5 million on an annual basis based on the outstanding balance of our borrowings under our Credit Facility as of January 3, 2016.

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 provides us with greater vendor product return privileges and 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and the supplementary financial information required by this Item and included in this Annual Report on Form 10-K are listed in the “Index to Consolidated Financial Statements” beginning on page F-1.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures that are designed to provide reasonable assurance that information which is required to be timely disclosed is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), in a timely fashion. We conducted an evaluation, under the supervision and with the participation of our CEO and 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 January 3, 2016. Based on such evaluation, our CEO and CFO have concluded that, as of January 3, 2016, 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.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and that receipts and expenditures are being made only in accordance with the authorization of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of January 3, 2016, based upon the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as of January 3, 2016, we maintained effective internal control over financial reporting. The attestation report issued by Deloitte & Touche LLP, our independent registered public accounting firm, on our internal control over financial reporting is included herein.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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 audited the internal control over financial reporting of Big 5 Sporting Goods Corporation and subsidiaries (the “Company”) as of January 3, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 3, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended January 3, 2016 of the Company and our report dated March 2, 2016 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Los Angeles, California

March 2, 2016

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended January 3, 2016.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended January 3, 2016.

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

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended January 3, 2016.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended January 3, 2016.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended January 3, 2016.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

(1) Financial Statements.

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

(2) Financial Statement Schedule.

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

(3) Exhibits.

See Index to Exhibits on page E-1 hereof immediately following the financial statements, which is hereby incorporated by reference into this Item 15. Certain exhibits are incorporated by reference from documents previously filed by the Company with the SEC as required by Item 601 of Regulation S-K.

SIGNATURES

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

BIG 5 SPORTING GOODS CORPORATION,
a Delaware corporation

Date: March 2, 2016 By: /s/ Steven G. Miller
Steven G. Miller
Chairman of the Board of Directors,
President, Chief Executive Officer and
Director of the Company

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

Signatures	Title	Date
/s/ Steven G. Miller Steven G. Miller	Chairman of the Board of Directors, President, Chief Executive Officer and Director of the Company (Principal Executive Officer)	March 2, 2016
/s/ Barry D. Emerson Barry D. Emerson	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 2, 2016
/s/ Sandra N. Bane Sandra N. Bane	Director of the Company	March 2, 2016
/s/ Dominic P. DeMarco Dominic P. DeMarco	Director of the Company	March 2, 2016
/s/ Nicholas E. Donatiello, Jr. Nicholas E. Donatiello, Jr.	Director of the Company	March 2, 2016
/s/ Jennifer H. Dunbar Jennifer H. Dunbar	Director of the Company	March 2, 2016
/s/ Robert C. Galvin Robert C. Galvin	Director of the Company	March 2, 2016

/s/ Van B. Honeycutt Van B. Honeycutt	Director of the Company	March 2, 2016
/s/ David R. Jessick David R. Jessick	Director of the Company	March 2, 2016

BIG 5 SPORTING GOODS CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 audited the accompanying consolidated balance sheets of Big 5 Sporting Goods Corporation and subsidiaries (the "Company") as of January 3, 2016 and December 28, 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended January 3, 2016, December 28, 2014, and December 29, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Big 5 Sporting Goods Corporation and subsidiaries as of January 3, 2016 and December 28, 2014, and the results of their operations and their cash flows for the years ended January 3, 2016, December 28, 2014, and December 29, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 3, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Los Angeles, California

March 2, 2016

BIG 5 SPORTING GOODS CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	January 3, 2016	December 28, 2014
ASSETS		
Current assets:		
Cash	$7,119	$11,503
Accounts receivable, net of allowances of $61 and $110, respectively	14,180	15,680
Merchandise inventories, net	299,446	310,088
Prepaid expenses	12,185	9,358
Deferred income taxes	11,100	11,025
Total current assets	344,030	357,654
Property and equipment, net	82,036	78,440
Deferred income taxes	12,302	12,792
Other assets, net of accumulated amortization of $1,244 and $1,067, respectively	2,228	2,257
Goodwill	4,433	4,433
Total assets	$445,029	$455,576
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$89,961	$92,369
Accrued expenses	69,524	70,399
Current portion of capital lease obligations	1,435	1,197
Total current liabilities	160,920	163,965
Deferred rent, less current portion	19,516	20,736
Capital lease obligations, less current portion	2,392	1,155
Long-term debt	54,846	66,312
Other long-term liabilities	8,524	8,404
Total liabilities	246,198	260,572
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value, authorized 50,000,000 shares; issued 24,562,799 and 24,445,345 shares, respectively; outstanding 21,917,982 and 22,180,458 shares, respectively	246	245
Additional paid-in capital	112,236	110,707
Retained earnings	118,998	112,521
Less: Treasury stock, at cost; 2,644,817 and 2,264,887 shares, respectively	(32,649)	(28,469)
Total stockholders' equity	198,831	195,004
Total liabilities and stockholders' equity	$445,029	$455,576

See accompanying notes to consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended January 3, 2016	December 28, 2014	December 29, 2013
Net sales	$1,029,098	$977,860	$993,323
Cost of sales	704,134	664,411	664,583
Gross profit	324,964	313,449	328,740
Selling and administrative expense	298,425	288,274	281,313
Operating income	26,539	25,175	47,427
Interest expense	1,791	1,667	1,745
Income before income taxes	24,748	23,508	45,682
Income taxes	9,451	8,632	17,736
Net income	$15,297	$14,876	$27,946
Earnings per share:			
Basic	$0.70	$0.68	$1.28
Diluted	$0.70	$0.67	$1.27
Dividends per share	$0.40	$0.40	$0.40
Weighted-average shares of common stock outstanding:			
Basic	21,741	21,933	21,765
Diluted	21,927	22,133	22,083

See accompanying notes to consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share amounts)

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock, At Cost	Total
Balance as of December 30, 2012	21,741,248	$ 238	$ 102,658	$ 87,464	$ (25,940)	$ 164,420
Net income	—	—	—	27,946	—	27,946
Dividends on common stock ($0.40 per share)	—	—	—	(8,845)	—	(8,845)
Issuance of nonvested share awards	127,020	1	(1)	—	—	—
Exercise of share option awards	482,295	5	4,581	—	—	4,586
Share-based compensation	—	—	1,877	—	—	1,877
Tax benefit from share-based awards activity	—	—	1,427	—	—	1,427
Forfeiture of nonvested share awards	(11,050)	—	—	—	—	—
Retirement of common stock for payment of withholding tax	(41,812)	—	(641)	—	—	(641)
Balance as of December 29, 2013	22,297,701	244	109,901	106,565	(25,940)	190,770
Net income	—	—	—	14,876	—	14,876
Dividends on common stock ($0.40 per share)	—	—	—	(8,920)	—	(8,920)
Issuance of nonvested share awards	152,920	2	(2)	—	—	—
Exercise of share option awards	18,125	—	121	—	—	121
Share-based compensation	—	—	1,924	—	—	1,924
Tax deficiency from share-based awards activity	—	—	(429)	—	—	(429)
Forfeiture of nonvested share awards	(12,310)	—	—	—	—	—
Retirement of common stock for payment of withholding tax	(52,927)	(1)	(808)	—	—	(809)
Purchases of treasury stock	(223,051)	—	—	—	(2,529)	(2,529)
Balance as of December 28, 2014	22,180,458	245	110,707	112,521	(28,469)	195,004
Net income	—	—	—	15,297	—	15,297
Dividends on common stock ($0.40 per share)	—	—	—	(8,820)	—	(8,820)
Issuance of nonvested share awards	152,140	2	(2)	—	—	—
Exercise of share option awards	25,875	—	147	—	—	147
Share-based compensation	—	—	2,235	—	—	2,235
Tax deficiency from share-based awards activity	—	—	(167)	—	—	(167)
Forfeiture of nonvested share awards	(7,940)	—	—	—	—	—

Retirement of common stock for payment of withholding tax	(52,621)	(1)	(684)	—	—	(685)
Purchases of treasury stock	(379,930)	—	—	—	(4,180)	(4,180)
Balance as of January 3, 2016	21,917,982	$ 246	$ 112,236	$ 118,998	$ (32,649)	$ 198,831

See accompanying notes to consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended January 3, 2016	December 28, 2014	December 29, 2013
Cash flows from operating activities:			
Net income	$15,297	$14,876	$27,946
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,410	21,505	20,192
Impairment of store assets	192	1,164	72
Share-based compensation	2,235	1,924	1,877
Excess tax benefit related to share-based awards	(137)	(194)	(1,733)
Amortization of debt issuance costs	177	177	254
Deferred income taxes	415	1,747	(864)
Changes in operating assets and liabilities:			
Accounts receivable, net	1,500	621	(1,004)
Merchandise inventories, net	10,642	(9,136)	(30,602)
Prepaid expenses and other assets	(3,142)	(2,591)	3,863
Accounts payable	(7,368)	(349)	4,234
Accrued expenses and other long-term liabilities	(1,576)	(1,209)	2,052
Net cash provided by operating activities	39,645	28,535	26,287
Cash flows from investing activities:			
Purchases of property and equipment	(24,567)	(22,565)	(22,035)
Proceeds from solar energy rebate	—	100	—
Net cash used in investing activities	(24,567)	(22,465)	(22,035)
Cash flows from financing activities:			
Principal borrowings under revolving credit facility	202,218	216,086	248,263
Principal payments under revolving credit facility	(213,684)	(192,792)	(252,706)
Changes in book overdraft	6,992	(13,748)	7,115
Debt issuance costs	—	—	(164)
Principal payments under capital lease obligations	(1,599)	(1,602)	(1,807)
Proceeds from exercise of share option awards	147	121	4,586
Excess tax benefit related to share-based awards	137	194	1,733
Purchases of treasury stock	(4,180)	(2,529)	(75)
Tax withholding payments for share-based compensation	(685)	(809)	(641)
Dividends paid	(8,808)	(8,888)	(8,791)
Net cash used in financing activities	(19,462)	(3,967)	(2,487)
Net (decrease) increase in cash	(4,384)	2,103	1,765

Cash at beginning of year	11,503	9,400	7,635
Cash at end of year	$7,119	$11,503	$9,400
Supplemental disclosures of non-cash investing and financing activities:			
Property and equipment acquired under capital leases	$3,074	$792	$392
Property and equipment additions unpaid	$2,663	$5,121	$3,309
Supplemental disclosures of cash flow information:			
Interest paid	$1,691	$1,502	$1,475
Income taxes paid	$8,331	$9,995	$18,602

See accompanying notes to consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of Business

The accompanying consolidated financial statements as of January 3, 2016 and December 28, 2014 and for the years ended January 3, 2016 (“fiscal 2015”), December 28, 2014 (“fiscal 2014”) and December 29, 2013 (“fiscal 2013”) represent the financial position, results of operations and cash flows of Big 5 Sporting Goods Corporation (the “Company”) and its 100%-owned subsidiary, Big 5 Corp., and Big 5 Corp.’s 100%-owned subsidiary, Big 5 Services Corp. The Company is a leading sporting goods retailer in the western United States, operating 438 stores and an e-commerce platform as of January 3, 2016. The Company operates as one reportable segment under the “Big 5 Sporting Goods” name and 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.

(2) Summary of Significant Accounting Policies

Consolidation

The accompanying consolidated 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 2015 included 53 weeks and fiscal 2014 and 2013 each included 52 weeks.

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 No. 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. In August 2015, the FASB issued ASU No. 2015-15, Interest—Imputation of Interest (Subtopic 835-30) – Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting, which amends Subtopic 835-30 to add Securities and Exchange Commission ("SEC") paragraphs relative to the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The effective date of ASU No. 2015-03 was unaffected by the issuance of ASU No. 2015-15. When adopted, ASU No. 2015-03 and ASU No. 2015-15 are not expected to have a material impact on the Company's consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

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.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330)—Simplifying the Measurement of Inventory, which requires all inventory, other than inventory measured at last-in, first-out ("LIFO") or the retail inventory method, to be measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments in this ASU should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. When adopted, ASU No. 2015-11 is not expected to have a material impact on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740)—Balance Sheet Classification of Deferred Taxes, which requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. Prior to the issuance of this guidance, deferred tax liabilities and assets were required to be separately classified into a current amount and a noncurrent amount in the balance sheet. The new accounting guidance represents a change in accounting principle and the standard is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments in this ASU should be applied either prospectively or retrospectively, with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is still evaluating the method of application of ASU No. 2015-17. When adopted, and in accordance with this ASU, the Company will reclassify current deferred taxes to noncurrent deferred taxes on its consolidated balance sheet. Because the application of ASU No. 2015-17 affects classification only, such reclassification is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Consistent with current accounting principles generally accepted in the United States of America ("GAAP"), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—the new ASU will require both types of leases to be recognized on the balance sheet. The ASU will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. This ASU shall be applied at the beginning of the earliest period presented using the modified retrospective approach, which includes a number of practical expedients that an entity may elect to apply. Early application of ASU No. 2016-02 is permitted. The Company is evaluating the adoption of this ASU and the potential effects on the consolidated financial statements.

There have been no other recently issued accounting updates that had a material impact on the Company’s consolidated financial statements.

Use of Estimates

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

BIG 5 SPORTING GOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Segment Reporting

The Company operates solely as a sporting goods retailer, which includes both retail stores and an e-commerce platform, that offers a broad range of products in the western United States and online, and whose Chief Operating Decision Maker ("CODM") is the Chief Executive Officer. The CODM reviews financial information presented on a consolidated basis, for purposes of allocating resources and evaluating financial performance. The Company's stores typically have similar square footage, with the stores and e-commerce platform offering a similar general product mix. The Company's core customer demographic remains similar across all sales channels, as does the Company's process for the procurement and marketing of its product mix. Furthermore, the Company distributes its product mix for both the stores and e-commerce platform from a single distribution center. Given the consolidated level of review by the CODM, the Company operates as one reportable segment as defined by Accounting Standards Codification ("ASC") 280, Segment Reporting.

The approximate net sales attributable to hard goods, athletic and sport apparel, athletic and sport footwear and other for the periods presented are set forth as follows:

	Fiscal Year		
	2015	2014	2013
	(In thousands)		
Hard goods	$534,864	$517,968	$540,698
Athletic and sport apparel	199,109	181,722	174,021
Athletic and sport footwear	291,325	274,355	275,744
Other sales	3,800	3,815	2,860
Net sales	$1,029,098	$977,860	$993,323

The Company launched its e-commerce platform in the fourth quarter of fiscal 2014 and e-commerce net sales for fiscal 2015 and 2014 were not material.

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.

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 fiscal 2015). The Company recognized approximately $0.4 million, $0.4 million and $0.4 million in gift card breakage revenue for fiscal 2015, 2014 and 2013, respectively. The Company had outstanding gift card liabilities of $4.9 million and $5.2 million as of January 3, 2016 and December 28, 2014, respectively, which are included in accrued expenses.

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

BIG 5 SPORTING GOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Cost of Sales

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

Selling and Administrative Expense

Selling and administrative expense includes store-related expense, other than store occupancy expense, as well as advertising, depreciation and amortization, expense associated with operating the Company’s corporate headquarters and impairment charges, if any.

Vendor Allowances

The Company receives allowances for co-operative advertising and volume purchase rebates earned through programs with certain vendors. The Company records a receivable for these allowances which are earned but not yet received when it is determined the amounts are probable and reasonably estimable, in accordance with ASC 605. Amounts relating to the purchase of merchandise are treated as a reduction of inventory cost and reduce cost of goods sold as the merchandise is sold. Amounts that represent a reimbursement of costs incurred, such as advertising, are recorded as a reduction in selling and administrative expense. The Company performs detailed analyses to determine the appropriate amount of vendor allowances to be applied as a reduction of merchandise cost and selling and administrative expense.

Advertising Expense

Advertising is expensed when the advertising first occurs. Advertising expense, net of co-operative advertising allowances, amounted to $39.8 million, $42.6 million and $44.5 million for fiscal 2015, 2014 and 2013, respectively. Advertising expense is included in selling and administrative expense in the accompanying consolidated statements of operations. The Company receives co-operative advertising allowances from product vendors in order to subsidize qualifying advertising and similar promotional expenditures made relating to vendors’ products. These advertising allowances are recognized as a reduction to selling and administrative expense when the Company incurs the advertising expense eligible for the credit. Co-operative advertising allowances recognized as a reduction to selling and administrative expense amounted to $6.0 million, $5.9 million and $6.2 million for fiscal 2015, 2014 and 2013, respectively.

Share-Based Compensation

The Company accounts for its share-based compensation in accordance with ASC 718, Compensation—Stock Compensation. The Company recognizes compensation expense on a straight-line basis over the requisite service period using the fair-value method for share option awards, nonvested share awards and nonvested share unit awards granted with service-only conditions. See Note 14 to the consolidated financial statements for a further discussion on share-based compensation.

Pre-opening Costs

Pre-opening costs for new stores, which are not material, consist primarily of payroll and recruiting expense, training, marketing, rent, travel and supplies, and are expensed as incurred.

Cash

Cash consists of cash on hand, and the Company has no cash equivalents. Book overdrafts are classified as current liabilities.

Accounts Receivable

Accounts receivable consist primarily of third party purchasing card receivables, amounts due from inventory vendors for returned products, volume purchase rebates or co-operative advertising, amounts due from lessors for tenant improvement allowances and insurance recovery receivables. Accounts receivable have not historically resulted in any material credit losses. An allowance for doubtful accounts is provided when accounts are determined to be uncollectible.

BIG 5 SPORTING GOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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. 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.

Prepaid Expenses

Prepaid expenses include the prepayment of various operating expenses such as insurance, rent, income and property taxes, software maintenance and supplies, which are expensed when the operating cost is realized.

Property and Equipment, Net

Property and equipment are stated at cost and are being depreciated or amortized utilizing the straight-line method over the following estimated useful lives:

Leasehold improvements	Shorter of estimated useful life or term of lease
Furniture and equipment	3 – 10 years
Internal-use software	3 – 7 years

Maintenance and repairs are expensed as incurred.

In fiscal 2015 and 2014, the Company incurred costs to purchase and develop software for internal use which included costs for its website associated with the development and implementation of an e-commerce platform, and also included costs related to the development of a new point-of-sale system. Costs related to the application development stage are capitalized and amortized over the estimated useful life of the software. Costs related to the design or maintenance of internal-use software are expensed as incurred. The Company placed software relating to website development for its e-commerce initiative into service in fiscal 2014, at which time amortization commenced.

Goodwill

Goodwill represents the excess of purchase price over fair value of net assets acquired. Under ASC 350, Intangibles—Goodwill and Other, goodwill is not amortized but evaluated for impairment annually or whenever events or changes in circumstances indicate that the value may not be recoverable.

The Company performed an annual impairment test as of the end of fiscal 2015, 2014 and 2013, and determined that goodwill was not impaired. Furthermore, the Company has no accumulated impairment losses as of January 3, 2016.

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.

BIG 5 SPORTING GOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 net 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. 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.

In fiscal 2015, 2014 and 2013, the Company recognized pre-tax non-cash impairment charges of $0.2 million, $1.2 million and $0.1 million, respectively, related to certain underperforming stores. These impairment charges are included in selling and administrative expense in the consolidated statements of operations.

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, information technology 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.

Asset Retirement Obligations

The Company accounts for its asset retirement obligations ("ARO") in accordance with ASC 410, Asset Retirement and Environmental Obligations, which requires the recognition of a liability for the fair value of a legally required asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company's ARO liabilities are associated with the disposal and retirement of leasehold improvements resulting from contractual obligations at the end of a lease to restore the facility back to a condition specified in the lease agreement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The Company records the net present value of the ARO liability and also records a related capital asset in an equal amount for those leases that contractually obligate the Company with an asset retirement obligation. The estimate of the ARO liability is based on a number of assumptions including store closing costs, inflation rates and discount rates. Accretion expense related to the ARO liability is recognized as operating expense. The capitalized asset is depreciated on a straight-line basis over the useful life of the leasehold improvement. Upon ARO removal, any difference between the actual retirement expense incurred and the recorded estimated ARO liability is recognized as an operating gain or loss in the consolidated statements of operations. The ARO liability, which totaled $0.8 million and $0.7 million as of January 3, 2016 and December 28, 2014, respectively, is included in other long-term liabilities in the accompanying consolidated balance sheets.

Self-Insurance Liabilities

The Company maintains self-insurance programs for its commercial general liability risk and, in certain states, its estimated workers’ compensation liability risk. The Company also has a self-funded insurance program for a portion of its employee medical benefits. Under these programs, the Company maintains insurance coverage for losses in excess of specified per-occurrence amounts. Estimated expenses incurred under the self-insured workers’ compensation and medical benefits programs, including incurred but not reported claims, are recorded as expense based upon historical experience, trends of paid and incurred claims, and other actuarial assumptions. If actual claims trends under these programs, including the severity or frequency of claims, differ from the Company’s estimates, its financial results may be significantly impacted. The Company’s estimated self-insurance liabilities, which are reported gross of expected workers’ compensation insurance reimbursements, are classified on the balance sheet as accrued expenses or other long-term liabilities based upon whether they are expected to be paid during or beyond the normal operating cycle of 12 months from the date of the consolidated financial statements. Self-insurance liabilities totaled $11.2 million and $10.7 million as of January 3, 2016 and December 28, 2014, respectively, of which $4.8 million and $4.4 million were recorded as a component of accrued expenses as of January 3, 2016 and December 28, 2014, respectively, and $6.4 million and $6.3 million were recorded as a component of other long-term liabilities as of January 3, 2016 and December 28, 2014, respectively, in the accompanying consolidated balance sheets.

Income Taxes

Under the asset and liability method prescribed within 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. Certain prior period deferred tax disclosures may be reclassified to conform with current period presentation.

ASC 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. ASC 740 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company’s practice is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expense. At January 3, 2016 and December 28, 2014, the Company had no accrued interest or penalties.

Concentration of Risk

The Company maintains its cash accounts in financial institutions, and accounts at these institutions are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to $250,000.

The Company primarily operates traditional sporting goods retail stores located in the western United States. Because of this, the Company is subject to regional risks, such as the economy, including downturns in the housing market, state financial conditions, unemployment and gas prices. Other regional risks include weather conditions, power outages, droughts, earthquakes and other natural disasters specific to the states in which the Company operates.

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The Company relies on a single distribution center located in Riverside, California, which services all of its stores and e-commerce platform. Any natural disaster or other serious disruption to the distribution center due to fire, earthquake or any other cause could damage a significant portion of inventory and could materially impair the Company’s ability to adequately stock its stores and fulfill its e-commerce business.

A substantial amount of the Company’s inventory is manufactured abroad. From time to time, shipping ports experience capacity constraints, labor strikes, work stoppages or other disruptions that may delay the delivery of imported products. A contract dispute, such as the one the Company experienced in the Ports of Los Angeles and Long Beach in 2015, may lead to protracted delays in the movement of the Company’s products, which could further delay the delivery of products to the Company’s stores and impact net sales and profitability. In addition, other conditions outside of the Company’s control, such as adverse weather conditions or acts of terrorism, could significantly disrupt operations at shipping ports or otherwise impact transportation of the imported merchandise we sell.

The Company purchases merchandise from over 700 suppliers, and the Company’s 20 largest suppliers accounted for 41.5% of total purchases in fiscal 2015. One vendor represented greater than 5% of total purchases, at 10.8%, in fiscal 2015. A significant portion of the Company’s inventory is manufactured abroad in China and other countries. If a disruption of trade were to occur from the countries in which the suppliers of the Company’s vendors are located, the Company may be unable to obtain sufficient quantities of products to satisfy its requirements, or the cost of obtaining products may increase.

The Company could be exposed to credit risk in the event of nonperformance by any lender under its revolving credit facility. Instability in the financial and capital markets brings additional potential risks to the Company, including higher costs of credit, potential lender defaults, and potential commercial bank failures. The Company has received no indication that any such events will negatively impact the lenders under its current revolving credit facility; however, the possibility does exist.

(3) Property and Equipment, Net

Property and equipment, net, consist of the following:

	January 3, 2016	December 28, 2014
	(In thousands)	
Furniture and equipment	$128,781	$ 118,297
Leasehold improvements	150,617	143,056
Internal-use software	25,215	24,264

	304,613	285,617
Accumulated depreciation and amortization [1]	(228,701)	(211,422)
	75,912	74,195
Assets not placed into service [2]	6,124	4,245
Property and equipment, net	$82,036	$ 78,440

(1) Includes accumulated amortization for internal-use software development costs of $20.5 million and $19.0 million as of January 3, 2016 and December 28, 2014, respectively.

(2) Includes internal-use software development costs of $5.2 million and $2.7 million related to the development of a new point-of-sale system as of January 3, 2016 and December 28, 2014, respectively.

As of January 3, 2016, to provide additional information, the Company separately disclosed internal-use software and related amortization expense. Prior year amounts related to this footnote have also been reclassified to conform to the current year presentation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Depreciation expense associated with property and equipment, including assets leased under capital leases, was $8.3 million, $8.8 million and $9.0 million for fiscal 2015, 2014 and 2013, respectively. Amortization expense for leasehold improvements was $11.6 million, $11.5 million and $10.2 million for fiscal 2015, 2014 and 2013, respectively. Amortization expense for internal-use software was $1.5 million, $1.2 million and $1.0 million for fiscal 2015, 2014 and 2013, respectively. The gross cost of equipment under capital leases, included above, was $9.4 million and $8.5 million as of January 3, 2016 and December 28, 2014, respectively. The accumulated amortization related to these capital leases was $5.6 million and $5.9 million as of January 3, 2016 and December 28, 2014, respectively.

(4) Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In fiscal 2015, 2014 and 2013, the Company recognized pre-tax non-cash impairment charges of $0.2 million, $1.2 million and $0.1 million, respectively, related to certain underperforming stores. The weak sales performance, coupled with future undiscounted cash flow projections, indicated that the carrying value of these stores' assets exceeded their estimated fair values as determined by their future discounted cash flow projections. When projecting the stream of future cash flows associated with an individual store for purposes of determining long-lived asset recoverability, management considers local market conditions and makes assumptions about key store variables including sales growth rates, gross profit and operating expense. If economic conditions deteriorate in the markets in which the Company conducts business, or if other negative market conditions develop, the Company may experience additional impairment charges in the future for underperforming stores. These impairment charges are included in selling and administrative expense for fiscal 2015, 2014 and 2013 in the consolidated statements of operations.

(5) Fair Value Measurements

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

As of January 3, 2016 and December 28, 2014, the Company's only significant assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition were assets subject to long-lived asset impairment related to certain underperforming stores. As discussed in Note 4 to the consolidated financial statements, the Company estimated the fair values of these long-lived assets based on the Company's own judgments about the assumptions that market participants would use in pricing the asset and on observable market data, when available. The Company classified these fair value measurements as Level 3 inputs, which are unobservable inputs for which market data are not available and that are developed using the best information available about pricing assumptions used by market participants in accordance with ASC 820, Fair Value Measurement. After the impairment charges, the carrying values of the remaining assets of these stores were not material.

(6) Accrued Expenses

The major components of accrued expenses are as follows:

	January 3, 2016	December 28, 2014
	(In thousands)	
Payroll and related expense	$ 24,090	$ 22,568
Sales tax	11,307	10,432
Occupancy expense	10,693	9,412
Other	23,434	27,987
Accrued expenses	$ 69,524	$ 70,399

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(7) Lease Commitments

The Company currently leases stores, distribution and headquarters facilities under non-cancelable operating leases. The Company's leases generally contain multiple renewal options for periods ranging from five to ten years and require the Company to pay all executory costs such as maintenance and insurance. Certain of the Company's store leases provide for the payment of contingent rent based on a percentage of sales.

Rent expense for operating leases consisted of the following:

	Year Ended January 3, 2016	December 28, 2014	December 29, 2013
	(In thousands)		
Rent expense	$71,541	$ 66,276	$ 62,777
Contingent rent	654	858	1,081
Total rent expense	$72,195	$ 67,134	$ 63,858

Rent expense includes sublease rent income of $0.1 million, $0.1 million and $0.1 million for fiscal 2015, 2014 and 2013, respectively.

Future minimum lease payments under non-cancelable leases as of January 3, 2016 are as follows:

Year Ending:	Capital Leases	Operating Leases	Total
	(In thousands)		
2016	$1,533	$78,426	$79,959
2017	1,138	70,385	71,523
2018	845	61,611	62,456
2019	437	50,145	50,582
2020	64	36,461	36,525
Thereafter	—	71,985	71,985
Total minimum lease payments	4,017	$369,013	$373,030
Imputed interest	(190)		
Present value of minimum lease payments	$3,827		

In February 2008, the Company entered into a lease for a parcel of land with an existing building adjacent to its corporate headquarters location. The lease term commenced in 2009 and the primary term expires on February 28, 2019, which may be renewed for six successive periods of five years each. In accordance with terms of the lease agreement, the Company is committed to the construction of a new retail building on the premises before the primary term expires in 2019, regardless of whether or not any renewal options are exercised.

In November 2015, the Company commenced operations at an additional 171,000 square foot distribution space adjacent to its distribution center in Riverside, California that will enable the Company to more efficiently fulfill its expanding distribution requirements. The lease for this additional facility is scheduled to expire on August 31, 2020, and includes four additional five-year renewal options.

(8) 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.

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

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

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 are 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 are 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 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.

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As of January 3, 2016 and December 28, 2014, the one-month LIBO rate was 0.5% and 0.2%, respectively, and the Wells Fargo Bank prime lending rate was 3.50% and 3.25%, respectively. The average interest rate on the Company's revolving credit borrowings during fiscal 2015 and 2014 was 1.90% and 1.90%, respectively. As of January 3, 2016 and December 28, 2014, the Company had long-term revolving credit borrowings outstanding bearing interest at both LIBO and the prime lending rates as follows:

	January 3, 2016	December 28, 2014
	(In thousands)	
LIBO rate	$ 53,000	$ 62,000
Prime rate	1,846	4,312
Total borrowings	$ 54,846	$ 66,312

Total remaining borrowing availability, after subtracting letters of credit, was $84.7 million and $73.2 million as of January 3, 2016 and December 28, 2014, respectively, and letter of credit commitments were $0.5 million and $0.5 million as of January 3, 2016 and December 28, 2014, respectively.

(9) Income Taxes

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

	Current	Deferred	Total
	(In thousands)		
Fiscal 2015:			
Federal	$ 7,478	$ 378	$ 7,856
State	1,558	37	1,595
	$ 9,036	$ 415	$ 9,451
Fiscal 2014:			