

BofA Finance LLC  
Form 424B2  
June 28, 2018

Pricing Supplement

(To Prospectus dated November 4, 2016,

Series A Prospectus Supplement dated November 4, 2016 and

Product Supplement EQUITY-1 dated January 24, 2017)

Dated June 26, 2018

Filed Pursuant to Rule 424(b)(2)

Registration Statement No. 333-213265

**\$1,476,000**

**BofA Finance LLC**

**Contingent Income Auto-Callable Notes Linked to the Least Performing of the S&P 500® Index and the Russell 2000® Index, due July 1, 2025**

**Fully and Unconditionally Guaranteed by Bank of America Corporation**

The CUSIP number for the notes is **09709TEX5**.

The notes are senior unsecured obligations issued by BofA Finance LLC (“BofA Finance”), a direct, wholly-owned subsidiary of Bank of America Corporation (“BAC” or the “Guarantor”), which are fully and unconditionally guaranteed by the Guarantor. Any payments due on the notes, including any repayment of principal, will be subject to the credit risk of BofA Finance, as issuer of the notes, and the credit risk of BAC, as guarantor of the notes.

The notes do not guarantee a full return of your principal at maturity, and you could lose up to 100% of the principal amount at maturity.

The notes will mature on July 1, 2025, unless previously called.

Payments on the notes will depend on the individual performance of the S&P 500® Index (the “SPX”) and the Russell 2000® Index (Bloomberg ticker: “RTY”) (each, an “Underlying,” and collectively, the “Underlyings”).

If, on any quarterly Observation Date, the Observation Value of each Underlying is greater than or equal to its Threshold Value, we will pay a Contingent Coupon Payment of \$15.625 per \$1,000 in principal amount (a rate of 1.5625% per quarter, or 6.25% per annum) on the applicable Contingent Payment Date (each as defined below).

Prior to the maturity date, if the Observation Value of **each** Underlying is greater than or equal to its Starting Value on any Observation Date on or after June 26, 2019 but before the final Observation Date, the notes will be automatically redeemed, in whole but not in part, at 100% of the principal amount, together with the Contingent Coupon Payment with respect to that Observation Date. No further amounts will be payable following an early redemption.

At maturity, the amount you will be entitled to receive per \$1,000 in principal amount of the notes (the “Redemption Amount”) will depend on the performance of the Least Performing Underlying (as defined below). If the notes are not automatically redeemed prior to maturity, the Redemption Amount will be determined as follows:

a) If the Ending Value (as defined below) of the Least Performing Underlying is greater than or equal to its Threshold Value, the Redemption Amount will equal the principal amount plus the final Contingent Coupon Payment.

b) If the Ending Value of the Least Performing Underlying is less than its Threshold Value, you will be subject to 1-1 downside exposure to any decrease in the level of the Least Performing Underlying from its Starting Value. In that case, the Redemption Amount will be less than 75% of the principal amount and could be zero.

The “Threshold Value” with respect to each Underlying is 75% of its Starting Value.

The “Least Performing Underlying” will be the Underlying with the lowest Underlying Return (as defined below).

The notes will not be listed on any securities exchange.

The notes will be issued in denominations of \$1,000 and whole multiples of \$1,000.

**The initial estimated value of the notes is less than the public offering price.** The initial estimated value of the notes as of June 26, 2018 (the “pricing date”) is \$952.70 per \$1,000 in principal amount. See “Summary” beginning on page PS-3 of this pricing supplement, “Risk Factors” beginning on page PS-9 of this pricing supplement and

“Structuring the Notes” on page PS-26 of this pricing supplement for additional information. The actual value of your notes at any time will reflect many factors and cannot be predicted with accuracy.

The notes and the related guarantee:

**Are Not FDIC Insured   Are Not Bank Guaranteed   May Lose Value**

	Per Note	Total
Public Offering Price	\$1,000.00	\$1,476,000
Underwriting Discount	\$32.50	\$ 47,970
Proceeds (before expenses) to BofA Finance	\$967.50	\$1,428,030

*The notes and the related guarantee of the notes by the Guarantor are unsecured and are not savings accounts, deposits, or other obligations of a bank. The notes are not guaranteed by Bank of America, N.A. or any other bank, are not insured by the Federal Deposit Insurance Corporation or any other governmental agency and involve investment risks. Potential purchasers of the notes should consider the information in “Risk Factors” beginning on page PS-9 of this pricing supplement, page PS-5 of the accompanying product supplement, page S-4 of the accompanying prospectus supplement, and page 7 of the accompanying prospectus. **You may lose some or all of your principal amount in the notes.***

*None of the Securities and Exchange Commission (the “SEC”), any state securities commission, or any other regulatory body has approved or disapproved of these notes or the guarantee, or passed upon the adequacy or accuracy of this pricing supplement, or the accompanying product supplement, prospectus supplement or prospectus. Any representation to the contrary is a criminal offense.*

We will deliver the notes in book-entry form only through The Depository Trust Company on June 29, 2018 against payment in immediately available funds.

**BofA Merrill Lynch**

Selling Agent

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**SUMMARY**

The Contingent Income Auto-Callable Notes Linked to the Least Performing of the S&P 500<sup>®</sup> Index and the Russell 2000<sup>®</sup> Index, due July 1, 2025 (the “notes”) are our senior debt securities. Any payments on the notes are fully and unconditionally guaranteed by BAC. The notes and the related guarantee are not insured by the Federal Deposit Insurance Corporation or secured by collateral. **The notes will rank equally with all of our other senior unsecured debt, and the related guarantee will rank equally with all of BAC’s other senior unsecured debt. Any payments due on the notes, including any repayment of the principal amount, will be subject to the credit risk of BofA Finance, as issuer, and BAC, as guarantor.** Unless earlier called, the notes will mature on July 1, 2025.

If, on any quarterly Observation Date, the Observation Value of **each** Underlying is greater than or equal to its Threshold Value, we will pay a Contingent Coupon Payment of \$15.625 per \$1,000 in principal amount (a rate of 1.5625% per quarter, or 6.25% per annum) on the applicable Contingent Payment Date. Prior to the maturity date, if the Observation Value of **each** Underlying is greater than or equal to its Starting Value on any Observation Date on or after June 26, 2019 (other than the final Observation Date), the notes will be automatically redeemed, in whole but not in part, at 100% of the principal amount, together with the relevant Contingent Coupon Payment. No further amounts will be payable following an early redemption. If the notes are not called prior to maturity, and if the Ending Value of the Least Performing Underlying is greater than or equal to its Threshold Value, at maturity you will receive the principal amount plus the final Contingent Coupon Payment. If the Ending Value of the Least Performing Underlying is less than its Threshold Value, you will be subject to 1-1 downside exposure to any decrease in the value of the Least Performing Underlying from its Starting Value. In that case, the Redemption Amount will be less than 75% of the principal amount. The notes are not traditional debt securities and it is possible that the notes will not pay any Contingent Coupon Payments, and you may lose some or all of your principal amount at maturity.

Any payments on the notes, including any Contingent Coupon Payments, depend on the credit risk of BofA Finance and BAC and on the performance of each of the Underlyings. The economic terms of the notes are based on BAC’s internal funding rate, which is the rate it would pay to borrow funds through the issuance of market-linked notes, and the economic terms of certain related hedging arrangements it enters into. BAC’s internal funding rate is typically lower than the rate it would pay when it issues conventional fixed or floating rate debt securities. This difference in funding rate, as well as the underwriting discount and the hedging related charges described below, reduced the economic terms of the notes to you and the initial estimated value of the notes. Due to these factors, the public offering price you pay to purchase the notes is greater than the initial estimated value of the notes as of the pricing date.

On the cover page of this pricing supplement, we have provided the initial estimated value for the notes. For more information about the initial estimated value and the structuring of the notes, see “Risk Factors” beginning on page PS-9 and “Structuring the Notes” on page PS-27.

**Issuer:** BofA Finance LLC (“BofA Finance”)  
**Guarantor:** Bank of America Corporation (“BAC”)  
**Term:** Approximately 7 years, if not previously called.  
**Pricing Date:** June 26, 2018  
**Issue Date:** June 29, 2018  
**Maturity Date:** July 1, 2025  
**Underlyings:** The S&P 500<sup>®</sup> Index (Bloomberg ticker: “SPX”) and the Russell 2000<sup>®</sup> Index (Bloomberg ticker: “RTY”).  
**Automatic Call:** All (but not less than all) of the notes will be automatically called if the Observation Value of **each** Underlying is greater than or equal to its Starting Value on any Observation Date on or after June 26, 2019 (other than the final Observation Date). If the notes are automatically called, the Early

Redemption Payment will be paid on the applicable Contingent Payment Date.

**Observation** Quarterly, on the 26th of each March, June, September and December during the term of the PS-3

<b>Dates:</b>	notes, commencing on September 26, 2018. The Observation Dates are subject to postponement as set forth in “Description of the Notes—Certain Terms of the Notes—Events Relating to Observation Dates” on page PS-19 of product supplement EQUITY-1.
<b>Early Redemption Payment:</b>	The sum of the principal amount plus the Contingent Coupon Payment with respect to the applicable Observation Date.
<b>Contingent Coupon Payment:</b>	If, on any Observation Date, the Observation Value of <b>each</b> Underlying is greater than or equal to its Threshold Value, we will pay a Contingent Coupon Payment of \$15.625 per \$1,000 in principal amount (a rate of 1.5625% per quarter or 6.25% per annum) on the applicable Contingent Payment Date.
<b>Contingent Payment Dates:</b>	The third business day after the relevant Observation Date, provided that the final Contingent Payment Date is the maturity date. If the notes have not been automatically called prior to maturity, the Redemption Amount per note will be:
	a) If the Ending Value of the Least Performing Underlying is greater than or equal to its Threshold Value:
<b>Redemption Amount:</b>	\$1,000 + the final Contingent Coupon Payment
	b) If the Ending Value of the Least Performing Underlying is less than its Threshold Value:
	\$1,000 + (\$1,000 x Underlying Return of the Least Performing Underlying)
	In that case, the Redemption Amount will be less than 75% of the principal amount and could be zero.
<b>Starting Value:</b>	SPX: 2,723.06. RTY: 1,668.527
<b>Threshold Value:</b>	SPX: 2,042.30, which is 75% of its Starting Value, rounded to two decimal places. RTY: 1,251.395, which is 75% of its Starting Value, rounded to three decimal places.
<b>Observation Value:</b>	With respect to each Underlying, its closing level on the applicable Observation Date.
<b>Ending Value: Least Performing Underlying:</b>	With respect to each Underlying, its Observation Value on the final Observation Date.
<b>Underlying Return:</b>	The Underlying with the lowest Underlying Return. With respect to each Underlying, $\frac{\text{Ending Value} - \text{Starting Value}}{\text{Starting Value}}$
<b>Calculation Agent:</b>	Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”), an affiliate of BofA Finance.
<b>Selling Agent:</b>	MLPF&S

You should read carefully this entire pricing supplement, product supplement, prospectus supplement, and prospectus to understand fully the terms of the notes, as well as the tax and other considerations important to you in making a decision about whether to invest in the notes. In particular, you should review carefully the section in this pricing supplement entitled “Risk Factors,” which highlights a number of risks of an investment in the notes, to determine whether an investment in the notes is appropriate for you. If information in this pricing supplement is inconsistent with the product supplement, prospectus supplement or prospectus, this pricing supplement will supersede those documents. You are urged to consult with your own attorneys and business and tax advisors before making a decision to purchase any of the notes.

The information in this “Summary” section is qualified in its entirety by the more detailed explanation set forth elsewhere in this pricing supplement and the accompanying product supplement, prospectus supplement and prospectus. You should rely only on the information contained in this pricing supplement and the accompanying product supplement, prospectus supplement and prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. None of us, the Guarantor or MLPF&S is making an offer to sell these notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this pricing supplement, the accompanying product supplement, prospectus supplement, and prospectus is accurate only as of the date on their respective front covers.

Capitalized terms used but not defined in this pricing supplement have the meanings set forth in the accompanying product supplement, prospectus supplement and prospectus. Unless otherwise indicated or unless the context requires otherwise, all references in this pricing supplement to “we,” “us,” “our,” or similar references are to BofA Finance, and not to BAC (or any other affiliate of BofA Finance).

The above documents may be accessed at the following links:

Product supplement EQUITY-1 dated January 24, 2017:

<https://www.sec.gov/Archives/edgar/data/70858/000119312517016445/d331325d424b5.htm>

Series A MTN prospectus supplement dated November 4, 2016 and prospectus dated November 4, 2016:

<https://www.sec.gov/Archives/edgar/data/70858/000119312516760144/d266649d424b3.htm>

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### Hypothetical Payments on the Notes

The following table is for purposes of illustration only. It assumes that the notes have not been called by the issuer prior to maturity and is based on **hypothetical** values and show **hypothetical** returns on the notes. It illustrates the calculation of the Redemption Amount and return on the notes based on a hypothetical Starting Value of 100 and a hypothetical Threshold Value of 75 for the Least Performing Underlying, the Contingent Coupon Payment of \$15.625 per \$1,000 in principal amount, and a range of hypothetical Ending Values of the Least Performing Underlying. **The actual amount you receive and the resulting total rate of return will depend on the actual Starting Values, Threshold Values, Observation Values and Ending Values of the Underlyings, whether the notes are called prior to maturity, and whether you hold the notes to maturity.** The numbers appearing in the table below have been rounded for ease of analysis, and do not take into account any tax consequences from investing in the notes.

For recent actual levels of the Underlyings, see “The Underlyings” section below. The Ending Value of each Underlying will not include any income generated by dividends paid on the securities represented by that Underlying, which you would otherwise be entitled to receive if you invested in those securities directly. In addition, all payments on the notes are subject to issuer credit risk.

Ending Value of the Least Performing Underlying	Underlying Return of the Least Performing Underlying	Redemption Amount per Note	Return on the Notes <sup>(1)</sup>
0.00	-100.00%	\$0.000	-100.0000%
10.00	-90.00%	\$100.000	-90.0000%
20.00	-80.00%	\$200.000	-80.0000%
30.00	-70.00%	\$300.000	-70.0000%
40.00	-60.00%	\$400.000	-60.0000%
50.00	-50.00%	\$500.000	-50.0000%
60.00	-40.00%	\$600.000	-40.0000%
70.00	-30.00%	\$700.000	-30.0000%
74.99	-25.01%	\$749.900	-25.0100%
<b>75.00<sup>(2)</sup></b>	<b>-25.00%</b>	<b>\$1,015.625<sup>(3)</sup></b>	<b>1.5625%</b>
80.00	-20.00%	\$1,015.625	1.5625%
90.00	-10.00%	\$1,015.625	1.5625%
<b>100.00<sup>(4)</sup></b>	<b>0.00%</b>	<b>\$1,015.625</b>	<b>1.5625%</b>
110.00	10.00%	\$1,015.625	1.5625%
120.00	20.00%	\$1,015.625	1.5625%
140.00	40.00%	\$1,015.625	1.5625%
160.00	60.00%	\$1,015.625	1.5625%
180.00	80.00%	\$1,015.625	1.5625%
200.00	100.00%	\$1,015.625	1.5625%

The “Return on the Notes” is calculated based on the Redemption Amount, not including any Contingent Coupon Payments paid prior to maturity.

b. This is the **hypothetical** Threshold Value of the Least Performing Underlying.

c. This amount represents the sum of the principal amount and the final Contingent Coupon Payment.

d. The **hypothetical** Starting Value of 100 used in the table above has been chosen for illustrative purposes only. The actual Starting Value of the SPX is 2,723.06, and the actual Starting Value of the RTY is 1,668.527.



**Total Contingent Coupon Payments**

The table below illustrates the hypothetical total Contingent Coupon Payments per \$1,000 in principal amount over the term of the notes, based on the Contingent Coupon Payment of \$15.625 per note, depending on how many Contingent Coupon Payments are payable prior to early redemption or maturity. Depending on the performance of the Underlyings, you may not receive any Contingent Coupon Payments during the term of the notes.

Number of Contingent Coupon Payments	Total Contingent Coupon Payments
0	\$0.000
1	\$15.625
5	\$78.125
10	\$156.25
15	\$234.375
20	\$312.50
25	\$390.625
28	\$437.500

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## RISK FACTORS

*Your investment in the notes entails significant risks, many of which differ from those of a conventional debt security. Your decision to purchase the notes should be made only after carefully considering the risks of an investment in the notes, including those discussed below, with your advisors in light of your particular circumstances. The notes are not an appropriate investment for you if you are not knowledgeable about significant elements of the notes or financial matters in general.*

**Your investment may result in a loss; there is no guaranteed return of principal.** The notes are not principal protected. There is no fixed principal repayment amount on the notes at maturity. If the notes are not called and the Ending Value of **any** Underlying is less than its Threshold Value, you will lose 1% of the principal amount for each 1% that the Ending Value of the Least Performing Underlying is less than its Starting Value. In that case, you will lose all or a substantial portion of your principal.

**Your return on the notes is limited to the return represented by the Contingent Coupon Payments, if any, over the term of the notes.** Your return on the notes is limited to the Contingent Coupon Payments paid over the term of the notes, regardless of the extent to which the Ending Value of any Underlying exceeds its Starting Value. Similarly, the amount payable at maturity or upon a call will never exceed the sum of the principal amount and the applicable Contingent Coupon Payment, regardless of the extent to which the Observation Value of any Underlying exceeds its Starting Value.

In contrast, a direct investment in the securities included in one or more of the Underlyings would allow you to receive the benefit of any appreciation in their values. Thus, any return on the notes will not reflect the return you would realize if you actually owned those securities and received the dividends paid or distributions made on them.

**The notes are subject to a potential automatic early redemption, which would limit your ability to receive the Contingent Coupon Payments over the full term of the notes.** The notes are subject to a potential automatic early redemption. Prior to maturity, the notes will be automatically called on any Observation Date on or after June 26, 2019 (other than the final Observation Date) if the Observation Value of each Underlying is greater than or equal to its Starting Value. If the notes are redeemed prior to the maturity date, you will be entitled to receive the principal amount and the Contingent Coupon Payments with respect to the applicable Observation Date. In this case, you will lose the opportunity to continue to receive Contingent Coupon Payments after the date of early redemption. If the notes are redeemed prior to the maturity date, you may be unable to invest in other securities with a similar level of risk that could provide a return that is similar to the notes.

**You may not receive any Contingent Coupon Payments.** Investors in the notes will not necessarily receive Contingent Coupon Payments on the notes. If the Observation Value of either Underlying is less than its Threshold Value on an Observation Date, you will not receive the Contingent Coupon Payment applicable to that Observation Date. If the Observation Value of either Underlying is less than its Threshold Value on all the Observation Dates during the term of the notes, you will not receive any Contingent Coupon Payment during the term of the notes, and will not receive a positive return on the notes.

**Your return on the notes may be less than the yield on a conventional debt security of comparable maturity.** Any return that you receive on the notes, which could be negative, may be less than the return you would earn if you purchased a conventional debt security with the same maturity date. As a result, your investment in the notes may not reflect the full opportunity cost to you when you consider factors, such as inflation, that affect the time value of money.

**Any payment on the notes is subject to our credit risk and the credit risk of the Guarantor, and actual or perceived changes in our or the Guarantor's creditworthiness are expected to affect the value of the notes.** The notes are our senior unsecured debt securities. Any payment on the notes will be fully and unconditionally guaranteed by the Guarantor. The notes are not guaranteed by any entity other than the Guarantor. As a result, your receipt of all payments on the notes will be dependent upon our ability and the ability of the Guarantor to repay our obligations under the notes on the applicable payment date, regardless of the Observation Value of any Underlying as compared to its Threshold Value or Starting Value. No assurance can be given as to what our financial condition or the financial condition of the Guarantor will be at any time during the term of the notes. If we and the Guarantor become unable to meet our respective financial obligations as they become due, you may not receive the amounts payable under the terms of the notes.

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In addition, our credit ratings and the credit ratings of the Guarantor are assessments by ratings agencies of our respective abilities to pay our obligations. Consequently, our or the Guarantor's perceived creditworthiness and actual or anticipated decreases in our or the Guarantor's credit ratings or increases in the spread between the yield on our respective securities and the yield on U.S. Treasury securities (the "credit spread") prior to the maturity date may adversely affect the market value of the notes. However, because your return on the notes depends upon factors in addition to our ability and the ability of the Guarantor to pay our respective obligations, such as the values of the Underlyings, an improvement in our or the Guarantor's credit ratings will not reduce the other investment risks related to the notes.

**We are a finance subsidiary and, as such, will have limited assets and operations.** We are a finance subsidiary of BAC and will have no assets, operations or revenues other than those related to the issuance, administration and repayment of our debt securities that are guaranteed by the Guarantor. As a finance subsidiary, to meet our obligations under the notes, we are dependent upon payment or contribution of funds and/or repayment of outstanding loans from the Guarantor and/or its other subsidiaries. Therefore, our ability to make payments on the notes may be limited. In addition, we will have no independent assets available for distributions to holders of the notes if they make claims in respect of the notes in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders may be limited to those available under the related guarantee by the Guarantor, and that guarantee will rank equally with all other senior unsecured obligations of the Guarantor.

**The public offering price you pay for the notes exceeds the initial estimated value.** The estimated value that is provided on the cover page of this pricing supplement, is an estimate only, determined as of the pricing date by reference to our and our affiliates' pricing models. These pricing models consider certain assumptions and variables, including our credit spreads and those of the Guarantor, the Guarantor's internal funding rate, mid-market terms on hedging transactions, expectations on interest rates, dividends and volatility, price-sensitivity analysis, and the expected term of the notes. These pricing models rely in part on certain forecasts about future events, which may prove to be incorrect.

The initial estimated value does not represent a minimum or maximum price at which we, the Guarantor, MLPF&S or any of our other affiliates would be willing to purchase your notes in any secondary market (if any exists) at any time. The value of your notes at any time after the pricing date will vary based on many factors that cannot be predicted with accuracy, including our and the Guarantor's creditworthiness and changes in market conditions.

If you attempt to sell the notes prior to maturity, their market value may be lower than the price you paid for them and lower than their initial estimated value. This is due to, among other things, changes in the values of the Underlyings, the Guarantor's internal funding rate, and the inclusion in the public offering price of the underwriting discount and the hedging related charges, all as further described in "Structuring the Notes" below. These factors, together with various credit, market and economic factors over the term of the notes, are expected to reduce the price at which you may be able to sell the notes in any secondary market and will affect the value of the notes in complex and unpredictable ways.

**We cannot assure you that a trading market for your notes will ever develop or be maintained.** We will not list the notes on any securities exchange. We cannot predict how the notes will trade in any secondary market or whether that market will be liquid or illiquid.

The development of a trading market for the notes will depend on the Guarantor's financial performance and other factors, including changes in the values of the Underlyings. The number of potential buyers of your notes in any secondary market may be limited. We anticipate that MLPF&S will act as a market-maker for the notes, but none of us, the Guarantor or MLPF&S is required to do so. There is no assurance that any party will be willing to purchase your notes at any price in any secondary market. MLPF&S may discontinue its market-making activities as to the

notes at any time. To the extent that MLPF&S engages in any market-making activities, it may bid for or offer the notes. Any price at which MLPF&S may bid for, offer, purchase, or sell any notes may differ from the values determined by pricing models that it may use, whether as a result of dealer discounts, mark-ups, or other transaction costs. These bids, offers, or completed transactions may affect the prices, if any, at which the notes might otherwise trade in the market.

In addition, if at any time MLPF&S were to cease acting as a market-maker as to the notes, it is likely that there would be significantly less liquidity in the secondary market. In such a case, the price at which the notes could be sold likely would be lower than if an active market existed.

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**The payments on the notes will not reflect changes in the values of the Underlyings other than on the Observation Dates.** Changes in the values of the Underlyings during the term of the notes other than on the Observation Dates will not affect payments on the notes. The calculation agent will determine whether each Contingent Coupon Payment is payable, and calculate the Redemption Amount, by comparing only the Starting Value or the Threshold Value, as applicable, to the Observation Value or the Ending Value for each Underlying. No other values of the Underlyings will be taken into account. As a result, if the notes are not called prior to maturity, you will receive less than the principal amount at maturity even if the value of each Underlying has increased at certain times during the term of the notes before the Least Performing Underlying decreases to a value that is less than its Threshold Value as of the final Observation Date.

**The notes are subject to risks associated with small-size capitalization companies.** The stocks composing the RTY are issued by companies with small-sized market capitalization. The stock prices of small-size companies may be more volatile than stock prices of large capitalization companies. Small-size capitalization companies may be less able to withstand adverse economic, market, trade and competitive conditions relative to larger companies. Small-size capitalization companies may also be more susceptible to adverse developments related to their products or services.

**Because the notes are linked to the least performing (and not the average performance) of the two Underlyings, you may not receive any return on the notes and may lose some or all of your principal amount even if the Observation Value of one or more Underlyings is always greater than or equal to its Threshold Value.** Your notes are linked to the least performing of two Underlyings, and a change in the value of one Underlying may not correlate with changes in the value of the other Underlying. The notes are not linked to a basket composed of the Underlyings, where the depreciation in the value of one Underlying could be offset to some extent by the appreciation in the value of the other Underlying. In the case of the notes that we are offering, the individual performance of each Underlying would not be combined, and the depreciation in the value of one Underlying would not be offset by any appreciation in the value of the other Underlying. Even if the Observation Values of one Underlying is at or above its respective Threshold Value on an Observation Date, you will not receive the Contingent Coupon Payment with respect to that Observation Date if the Observation Value of the other Underlying is below its Threshold Value on that day. In addition, even if the Ending Values of one Underlying is at or above its respective Threshold Value, you will lose at least 25% of your principal if the Ending Value of the other Underlying is below its Threshold Value.

**Trading and hedging activities by us, the Guarantor and any of our other affiliates may affect your return on the notes and their market value.** We, the Guarantor and our other affiliates, including MLPF&S, may buy or sell the securities held by or included in an Underlying, or futures or options contracts on an Underlying or those securities, or other listed or over-the-counter derivative instruments linked to an Underlying or those securities. We, the Guarantor and any of our other affiliates, including MLPF&S, may execute such purchases or sales for our own or their own accounts, for business reasons, or in connection with hedging our obligations under the notes. These transactions could affect the value of an Underlying in a manner that could be adverse to your investment in the notes. On or before the pricing date, any purchases or sales by us, the Guarantor or our other affiliates, including MLPF&S or others on its behalf (including for the purpose of hedging anticipated exposures), may have affected the value of an Underlying. Consequently, the value of an Underlying may change subsequent to the pricing date, adversely affecting the market value of the notes.

We, the Guarantor or one or more of our other affiliates, including MLPF&S, may have engaged in hedging activities that could have affected the value of an Underlying on the pricing date. In addition, these activities may decrease the market value of your notes prior to maturity, and may affect the amounts to be paid on the notes. We, the Guarantor or one or more of our other affiliates, including MLPF&S, may purchase or otherwise acquire a long or short position in the notes and may hold or resell the notes. For example, MLPF&S may enter into these transactions in connection with any market making activities in which it engages. We cannot assure you that these activities will not adversely affect the value of an Underlying, the market value of your notes prior to maturity or the amounts payable on the

notes.

**Our trading, hedging and other business activities may create conflicts of interest with you.** We, the Guarantor or one or more of our other affiliates, including MLPF&S, may engage in trading activities related to the Underlyings or the securities represented by the Underlyings that are not for your account or on your behalf. We, the Guarantor or one or more of our other affiliates, including MLPF&S, also may issue or underwrite other financial instruments with returns based upon the Underlyings. These trading and other business activities may present a conflict of interest between your interest in the notes and the interests we, the Guarantor and our other affiliates, including MLPF&S, may have in our proprietary accounts, in facilitating transactions, including block trades, for our or their other customers,

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and in accounts under our or their management. These trading and other business activities, if they influence the values of the Underlyings or secondary trading in your notes, could be adverse to your interests as a beneficial owner of the notes.

We expect to enter into arrangements or adjust or close out existing transactions to hedge our obligations under the notes. We, the Guarantor or our other affiliates, including MLPF&S, also may enter into hedging transactions relating to other notes or instruments, some of which may have returns calculated in a manner related to that of the notes offered hereby. We may enter into such hedging arrangements with one of our affiliates. Our affiliates may enter into additional hedging transactions with other parties relating to the notes and the Underlyings. This hedging activity is expected to result in a profit to those engaging in the hedging activity, which could be more or less than initially expected, or the hedging activity could also result in a loss. We and our affiliates will price these hedging transactions with the intent to realize a profit, regardless of whether the value of the notes increases or decreases. Any profit in connection with such hedging activities will be in addition to any other compensation that we, the Guarantor and our other affiliates, including MLPF&S, receive for the sale of the notes, which creates an additional incentive to sell the notes to you.

**There may be potential conflicts of interest involving the calculation agent, which is an affiliate of ours.** We have the right to appoint and remove the calculation agent. One of our affiliates will be the calculation agent for the notes and, as such, will make a variety of determinations relating to the notes, including the amounts that will be paid on the notes. Under some circumstances, these duties could result in a conflict of interest between its status as our affiliate and its responsibilities as calculation agent. These conflicts could occur, for instance, in connection with the calculation agent's determination as to whether a Market Disruption Event (as defined in the product supplement) has occurred. The calculation agent will be required to carry out its duties in good faith and use its reasonable judgment. However, because we expect that the Guarantor will control the calculation agent, potential conflicts of interest could arise.

**The U.S. federal income tax consequences of an investment in the notes are uncertain, and may be adverse to a holder of the notes.** No statutory, judicial, or administrative authority directly addresses the characterization of the notes or securities similar to the notes for U.S. federal income tax purposes. As a result, significant aspects of the U.S. federal income tax consequences of an investment in the notes are not certain. Under the terms of the notes, you will have agreed with us to treat the notes as contingent income bearing single financial contracts, as described under "U.S. Federal Income Tax Summary—General." If the Internal Revenue Service (the "IRS") were successful in asserting an alternative characterization for the notes, the timing and character of income, gain or loss with respect to the notes may differ. No ruling will be requested from the IRS with respect to the notes and no assurance can be given that the IRS will agree with the statements made in the section entitled "U.S. Federal Income Tax Summary." **You are urged to consult with your own tax advisor regarding all aspects of the U.S. federal income tax consequences of investing in the notes.**

\* \* \*

*Investors in the notes should review the additional risk factors set forth beginning on page PS-5 of the product supplement prior to making an investment decision.*

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## DESCRIPTION OF THE NOTES

### General

The notes will be part of a series of medium-term notes entitled “Senior Medium-Term Notes, Series A” issued under the senior indenture, as amended and supplemented from time to time, among us, the Guarantor and The Bank of New York Mellon Trust Company N.A., as trustee. The senior indenture is more fully described in the prospectus supplement and prospectus. The following description of the notes supplements the description of the general terms and provisions of the notes and debt securities set forth under the headings “Description of the Notes” in the prospectus supplement and “Description of Debt Securities” in the prospectus. These documents should be read in connection with this pricing supplement.

Our payment obligations on the notes are fully and unconditionally guaranteed by the Guarantor. The notes will rank equally with all of our other senior unsecured debt from time to time outstanding. The guarantee of the notes will rank equally with all other senior unsecured obligations of the Guarantor. Any payments due on the notes, including any repayment of principal, are subject to our credit risk, as issuer, and the credit risk of BAC, as guarantor.

The notes will be issued in denominations of \$1,000 and whole multiples of \$1,000. You may transfer the notes only in whole multiples of \$1,000.

Prior to maturity, the notes are not repayable at our option or at your option.

If any scheduled Contingent Payment Date, including the maturity date, is not a business day, the payment will be postponed to the next business day, and no interest will be payable as a result of that postponement.

### Contingent Coupon Payment

If, on any quarterly Observation Date, the Observation Value of each Underlying is greater than or equal to its Threshold Value, we will pay the Contingent Coupon Payment on the applicable Contingent Payment Date.

The “Contingent Coupon Payment” will be \$15.625 per \$1,000 in principal amount (a rate of 1.5625% per quarter or 6.25% per annum).

The “Threshold Value” for each Underlying (which is 75% of its Starting Value) is set forth on page PS-4 above.

For so long as the notes are held in book-entry only form, we will pay the Contingent Coupon Payment to the persons in whose names the notes are registered at the close of business one business day prior to each Contingent Payment Date. If the notes are not held in book-entry only form, the record dates will be the fifteenth calendar day preceding the applicable payment date, whether or not that date is a business day.

Notwithstanding the foregoing, the Redemption Amount, including the final Contingent Coupon Payment with respect to the final Observation Date, if payable, will be paid to the persons in whose names the notes are registered on the maturity date.

### Automatic Early Redemption

The notes will be automatically called in whole, but not in part, prior to maturity if the Observation Value of each Underlying on any Observation Date on or after June 26, 2019 (other than the final Observation Date) is greater than or equal to its Starting Value. Upon an early redemption, you will receive the Early Redemption Payment on the

applicable Contingent Payment Date. You will not receive any additional payments on the notes after the early redemption date.

The “Early Redemption Payment” will be the principal amount of your notes, plus the Contingent Coupon Payment with respect to the applicable Observation Date.

**Redemption Amount**

If your notes are not called prior to maturity, then at maturity, subject to our credit risk as issuer

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of the notes and the credit risk of the Guarantor as guarantor of the notes, you will receive the Redemption Amount per note that you hold, denominated in U.S. dollars. The Redemption Amount per note will be calculated as follows:

- If the Ending Value of **each** Underlying is greater than or equal to its Threshold Value, the Redemption Amount will equal the principal amount plus the Contingent Coupon Payment with respect to the final Observation Date.
- If the Ending Value of **any Underlying** is less than its Threshold Value, the Redemption Amount per note will equal:  $\$1,000 + (\$1,000 \times \text{the Underlying Return of the Least Performing Underlying})$

In this case, the Redemption Amount will be less than or equal to 75% of the principal amount of the notes, and you will lose 25% to 100% of your principal.

With respect to each Underlying, its “Underlying Return” will equal:

Ending Value – Starting Value

Starting Value

### **Determining the Starting Value, the Observation Value and the Ending Value of Each Underlying**

With respect to each Underlying, the “Starting Value” is set forth on page PS-4 above.

With respect to each Underlying, the “Observation Value” will be its closing level on the applicable Observation Date.

With respect to each Underlying, the “Ending Value” will be its Observation Value on the final Observation Date.

The Observation Dates are subject to postponement as set forth in the product supplement, in the section “Description of the Notes—Certain Terms of the Notes—Events Relating to Observation Dates.”

### **Events of Default and Acceleration**

If an Event of Default, as defined in the senior indenture and in the section entitled “Events of Default and Rights of Acceleration” beginning on page 35 of the accompanying prospectus, with respect to the notes occurs and is continuing, the amount payable to a holder of the notes upon any acceleration permitted under the senior indenture will be equal to the amount described under the caption “—Redemption Amount,” calculated as though the date of acceleration were the maturity date of the notes and as though the final Observation Date were the third trading day prior to the date of acceleration. We will also determine whether the final Contingent Coupon Payment is payable based upon the prices of the Underlyings on the deemed final Observation Date; any such final Contingent Coupon Payment will be prorated by the calculation agent to reflect the length of the final contingent payment period. In case of a default in the payment of the notes, whether at their maturity or upon acceleration, the notes will not bear a default interest rate.

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## **THE UNDERLYINGS**

All disclosures contained in this pricing supplement regarding the Underlyings, including, without limitation, their make-up, method of calculation, and changes in their components, have been derived from publicly available sources. The information reflects the policies of, and is subject to change by each of S&P Dow Jones Indices LLC (“SPDJI”), the sponsor of the SPX and FTSE Russell, the sponsor of the RTY. We refer to SPDJI and FTSE Russell as the “Underlying Sponsors.”

### **The S&P 500® Index**

The SPX is intended to provide an indication of the pattern of common stock price movement. The calculation of the level of the SPX is based on the relative value of the aggregate market value of the common stocks of 500 companies as of a particular time compared to the aggregate average market value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943.

Eleven main groups of companies constitute the SPX, with the approximate percentage of the market capitalization of the SPX included in each group as of May 31, 2018 indicated in parentheses: Information Technology (26.0%); Financials (14.2%); Health Care (13.9%); Consumer Discretionary (12.9%); Industrials (9.9%); Consumer Staples (6.7%); Energy (6.3%); Materials (2.8%); Utilities (2.8%); Real Estate (2.7%) and Telecommunication Services (1.8%). The Underlying Sponsor may from time to time, in its sole discretion, add companies to, or delete companies from, the SPX to achieve the objectives stated above.

The Underlying Sponsor calculates the SPX by reference to the prices of the constituent stocks of the SPX without taking account of the value of dividends paid on those stocks. As a result, the return on the notes will not reflect the return you would realize if you actually owned the SPX constituent stocks and received the dividends paid on those stocks.

### **Computation of the SPX**

While the Underlying Sponsor currently employs the following methodology to calculate the SPX, no assurance can be given that the Underlying Sponsor will not modify or change this methodology in a manner that may affect the Redemption Amount.

Historically, the market value of any component stock of the SPX was calculated as the product of the market price per share and the number of then outstanding shares of such component stock. In March 2005, the Underlying Sponsor began shifting the SPX halfway from a market capitalization weighted formula to a float-adjusted formula, before moving the SPX to full float adjustment on September 16, 2005. The Underlying Sponsor’s criteria for selecting stocks for the SPX did not change with the shift to float adjustment. However, the adjustment affects each company’s weight in the SPX.

Under float adjustment, the share counts used in calculating the SPX reflect only those shares that are available to investors, not all of a company’s outstanding shares. Float adjustment excludes shares that are closely held by control groups, other publicly traded companies or government agencies.

In September 2012, all shareholdings representing more than 5% of a stock’s outstanding shares, other than holdings by “block owners,” were removed from the float for purposes of calculating the SPX. Generally, these “control holders” will include officers and directors, private equity, venture capital and special equity firms, other publicly traded companies that hold shares for control, strategic partners, holders of restricted shares, ESOPs, employee and family trusts, foundations associated with the company, holders of unlisted share classes of stock, government entities at all

levels (other than government retirement/pension funds) and any individual person who controls a 5% or greater stake in a company as reported in regulatory filings. However, holdings by block owners, such as depository banks, pension funds, mutual funds and ETF providers, 401(k) plans of the company, government retirement/pension funds, investment funds of insurance companies, asset managers and investment funds, independent foundations and savings and investment plans, will ordinarily be considered part of the float.

Treasury stock, stock options, equity participation units, warrants, preferred stock, convertible stock, and rights are not part of the float. Shares held in a trust to allow investors in countries outside the country of domicile, such as depository shares and Canadian exchangeable shares are normally part of the float unless those shares form a control block. If a company has multiple classes of stock outstanding, shares in an unlisted or non-traded class are treated as a control block.

For each stock, an investable weight factor (“IWF”) is calculated by dividing the available float shares by the total shares outstanding. Available float shares are defined as the total shares outstanding less shares held by control holders. This calculation is subject to a 5% minimum threshold for control blocks. For example, if a company’s officers and directors hold 3% of the company’s shares, and no other control group holds 5% of the company’s shares, the Underlying Sponsor would assign that company an IWF of 1.00, as no control group meets the 5% threshold. However, if a company’s officers and directors

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hold 3% of the company's shares and another control group holds 20% of the company's shares, the Underlying Sponsor would assign an IWF of 0.77, reflecting the fact that 23% of the company's outstanding shares are considered to be held for control. As of July 31, 2017, companies with multiple share class lines are no longer eligible for inclusion in the SPX. Constituents of the SPX prior to July 31, 2017 with multiple share class lines will be grandfathered in and continue to be included in the SPX. If a constituent company of the Index reorganizes into a multiple share class line structure, that company will remain in the SPX at the discretion of the S&P Index Committee in order to minimize turnover.

The SPX is calculated using a base-weighted aggregate methodology. The level of the SPX reflects the total market value of all component stocks relative to the base period of the years 1941 through 1943. An indexed number is used to represent the results of this calculation in order to make the level easier to work with and track over time. The actual total market value of the component stocks during the base period of the years 1941 through 1943 has been set to an indexed level of 10. This is often indicated by the notation 1941-43 = 10. In practice, the daily calculation of the SPX is computed by dividing the total market value of the component stocks by the "index divisor." By itself, the index divisor is an arbitrary number. However, in the context of the calculation of the SPX, it serves as a link to the original base period level of the SPX. The index divisor keeps the SPX comparable over time and is the manipulation point for all adjustments to the SPX, which is index maintenance.

### **Index Maintenance**

Index maintenance includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends, and stock price adjustments due to company restructuring or spinoffs. Some corporate actions, such as stock splits and stock dividends, require changes in the common shares outstanding and the stock prices of the companies in the SPX, and do not require index divisor adjustments.

To prevent the level of the SPX from changing due to corporate actions, corporate actions which affect the total market value of the SPX require an index divisor adjustment. By adjusting the index divisor for the change in market value, the level of the SPX remains constant and does not reflect the corporate actions of individual companies in the SPX. Index divisor adjustments are made after the close of trading and after the calculation of the SPX closing level.

Changes in a company's shares outstanding of 5.00% or more due to mergers, acquisitions, public offerings, tender offers, Dutch auctions, or exchange offers are made as soon as reasonably possible. Share changes due to mergers or acquisitions of publicly held companies that trade on a major exchange are implemented when the transaction occurs, even if both of the companies are not in the same headline index, and regardless of the size of the change. All other changes of 5.00% or more (due to, for example, company stock repurchases, private placements, redemptions, exercise of options, warrants, conversion of preferred stock, notes, debt, equity participation units, at-the-market offerings, or other recapitalizations) are made weekly and are announced on Fridays for implementation after the close of trading on the following Friday. Changes of less than 5.00% are accumulated and made quarterly on the third Friday of March, June, September, and December, and are usually announced two to five days prior.

If a change in a company's shares outstanding of 5.00% or more causes a company's IWF to change by five percentage points or more, the IWF is updated at the same time as the share change. IWF changes resulting from partial tender offers are considered on a case-by-case basis.

*The following graph sets forth the daily historical performance of the SPX in the period from January 1, 2008 through the pricing date. This historical data on the SPX is not necessarily indicative of its future performance or what the value of the notes may be. Any historical upward or downward trend in the level of the SPX during any period set forth below is not an indication that the level of the SPX is more or less likely to increase or decrease at any time over the term of the notes. The horizontal red line in the graph represents the Threshold Value of 2,042.30, which is 75% of its Starting Value of 2,723.06.*

Before investing in the notes, you should consult publicly available sources for the levels of the SPX.

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## License Agreement

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S&P DOW JONES INDICES DO NOT GUARANTEE THE ADEQUACY, ACCURACY, TIMELINESS AND/OR THE COMPLETENESS OF THE SPX OR ANY DATA RELATED THERETO OR ANY COMMUNICATION, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATION (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P DOW JONES INDICES SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS, OR DELAYS THEREIN. S&P DOW JONES INDICES MAKE NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OR AS TO RESULTS TO BE OBTAINED BY US, BAC, MLPF&S, HOLDERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE SPX OR WITH RESPECT TO ANY DATA RELATED THERETO. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P DOW JONES INDICES BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY, OR OTHERWISE. THERE ARE NO THIRD PARTY BENEFICIARIES OF ANY AGREEMENTS OR ARRANGEMENTS BETWEEN S&P DOW JONES INDICES AND MLPF&S, OTHER THAN THE LICENSORS OF S&P DOW JONES INDICES.

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## **The Russell 2000® Index**

The RTY was developed by Russell Investments (“Russell”) before FTSE International Limited and Russell combined in 2015 to create FTSE Russell, which is wholly owned by London Stock Exchange Group. Additional information on the RTY is available at the following website: <http://www.ftserussell.com>. No information on that website is deemed to be included or incorporated by reference in this pricing supplement.

Russell began dissemination of the RTY (Bloomberg L.P. index symbol “RTY”) on January 1, 1984. FTSE Russell calculates and publishes the RTY. The RTY was set to 135 as of the close of business on December 31, 1986. The RTY is designed to track the performance of the small capitalization segment of the U.S. equity market. As a subset of the Russell 3000® Index, the RTY consists of the smallest 2,000 companies included in the Russell 3000® Index. The Russell 3000® Index measures the performance of the largest 3,000 U.S. companies, representing approximately 98% of the investable U.S. equity market. The RTY is determined, comprised, and calculated by FTSE Russell without regard to the notes.

## **Selection of Stocks Comprising the RTY**

All companies eligible for inclusion in the RTY must be classified as a U.S. company under FTSE Russell’s country-assignment methodology. If a company is incorporated, has a stated headquarters location, and trades in the same country (American Depositary Receipts and American Depositary Shares are not eligible), then the company is assigned to its country of incorporation. 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 snow conditions, inclement weather or other localized conditions such as flooding, fires, earthquakes or electricity blackouts could 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

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apparel sales are dependent on cold winter weather and snowfall in our markets, and can be negatively impacted by unseasonably warm weather in our markets. In that regard, unseasonably warm and dry weather during the 2011 holiday period and first quarter of fiscal 2012 had a substantial negative impact on our sales for those periods. 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 don't 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. 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 shortfall from expected fourth fiscal quarter net sales can negatively impact our annual operating results, as occurred in fiscal 2011.

***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 costs.***

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, Aerospace and Allied Employees, Warehousemen, Drivers, Construction, Rock and Sand; Airline Employees, Local Union No. 986, affiliated with the International Brotherhood of Teamsters, Local Union No. 986 (Local 986). 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.

***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 2012 we operated approximately 14% more stores than we did at the end of fiscal 2007. In response to

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the economic recession, we slowed our store expansion program substantially in fiscal 2009, and resumed our expansion efforts in fiscal 2010, 2011 and 2012 in anticipation of an improved economic environment.

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

we may again slow our expansion efforts, or close underperforming stores, as a result of challenging conditions in the retail industry and the economic recession 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 management information 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 costs could increase.

### ***Our hardware and software 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 computer hardware and software systems. We use management information 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 computer hardware or software 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 and standing with our customers.***

The protection of our customer, employee and business data is critical to us. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of

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all such data, including confidential information such as payment card and personal 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. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our vendors, could damage our reputation, expose us to risk of litigation and liability, disrupt our operations and harm our business.

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

We purchase merchandise from approximately 800 vendors. Although only one vendor represented more than 5.0% of our total purchases during fiscal 2012, our dependence on principal suppliers involves risk. Our 20 largest vendors collectively accounted for 37.9% of our total purchases during fiscal 2012. 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 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 countries such as China, Taiwan and South Korea. 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 cost 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

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products. In addition, 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 increase, 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.

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### **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 December 30, 2012, the aggregate amount of our outstanding indebtedness, including capital lease obligations, was \$52.0 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.

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### **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 firearms, ammunition and certain related accessories;

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 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 or may not 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

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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, 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 firearms, ammunition and certain related accessories, 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 firearms, ammunition and certain related accessories is subject to strict regulation, which could affect our operating results.***

Because we sell firearms, ammunition and certain related accessories, we are required to comply with federal, state and local laws and regulations pertaining to the purchase, storage, transfer and sale of firearms, ammunition and certain related accessories. These laws and regulations require us, among other things, to ensure that all purchasers of firearms are subjected to a pre-sale background check, to record the details of each firearm sale on appropriate government-issued forms, to record each receipt or transfer of a firearm at our distribution center or any store location on acquisition and disposition records, and to 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 firearms, ammunition and certain related accessories has been the subject of increased federal, state and local regulation. Recently, there have been efforts to pursue comprehensive reforms of federal firearms laws through both executive orders and new federal legislation, some of which has already been introduced. Certain states and municipalities where we operate our retail stores also recently have introduced new legislation pertaining to the purchase and sale of firearms, ammunition and certain related accessories. 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 firearms, ammunition and certain related accessories that we are permitted to purchase and sell and could impose new restrictions and requirements on the manner in which we purchase and sell these products. If we fail to comply with existing or newly enacted laws and regulations relating to the purchase and sale of firearms, ammunition and certain related accessories, our licenses to sell firearms at our stores or maintain inventory of firearms 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 firearms, ammunition and certain related accessories 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

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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 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. A change in our dividend policy could have a negative effect on our stock price.

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

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

a Board of Directors that is classified such that only two or three of the seven directors, depending on classification, are elected each year;

authorization of the issuance of blank check preferred stock that could be issued by our Board of Directors to increase the number of outstanding shares and thwart a takeover attempt;

limitations on the ability of stockholders to call special meetings of stockholders;

prohibition of stockholder action by written consent and requiring all stockholder actions to be taken at a meeting of our stockholders; and

establishment of advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

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

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

#### **Properties**

## Edgar Filing: BofA Finance LLC - Form 424B2

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

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headquarters, and we lease approximately 8,000 square feet related to our satellite office. The lease for the primary corporate headquarters is scheduled to expire on February 28, 2016 and provides us with three five-year renewal options, while the lease for the satellite office is scheduled to expire on February 29, 2016 and provides us with two five-year renewal options.

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, 2015, and includes three additional five-year renewal options. We have a distribution hub located in Salem, Oregon, utilizing approximately 12,000 square feet of space to separate consolidated truck loads 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 and the average lease expiration term from inception of our store leases, taking into account renewal options, is approximately 32 years. As of December 30, 2012, of our total store leases, 43 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 27.4 million sales transactions and an average transaction size of approximately \$34 in fiscal 2012. The following table details our store locations by state as of December 30, 2012:

State	Year Entered	Number of Stores	Percentage of Total Number of Stores
California	1955	210	50.7%
Washington	1984	49	11.8
Arizona	1993	37	8.9
Oregon	1995	25	6.0
Colorado	2001	21	5.1
Utah	1997	17	4.1
Nevada	1978	16	3.9
New Mexico	1995	16	3.9
Idaho	1994	11	2.7
Texas	1995	9	2.2
Oklahoma	2007	2	0.5
Wyoming	2010	1	0.2
<b>Total</b>		<b>414</b>	<b>100.0%</b>

Our store format has resulted in productivity levels that we believe are among the highest of any full-line sporting goods retailer, with same store sales per square foot of approximately \$205 for fiscal 2012. Our high 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. Our same store sales reflect the economic recession and continued uncertainty in the financial sector, which resulted in weak same store sales since fiscal 2007.

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**Table of Contents****ITEM 3. LEGAL PROCEEDINGS**

The Company was served on the following dates with the following nine complaints, each of which was brought as a purported class action on behalf of persons who made purchases at the Company's stores in California using credit cards and were requested or required to provide personal identification information at the time of the transaction: (1) on February 22, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Maria Eugenia Saenz Valiente v. Big 5 Sporting Goods Corporation*, et al., Case No. BC455049; (2) on February 22, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Scott Mossler v. Big 5 Sporting Goods Corporation*, et al., Case No. BC455477; (3) on February 28, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Yelena Matatova v. Big 5 Sporting Goods Corporation*, et al., Case No. BC455459; (4) on March 8, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Neal T. Wiener v. Big 5 Sporting Goods Corporation*, et al., Case No. BC456300; (5) on March 22, 2011, a complaint filed in the California Superior Court in the County of San Francisco, entitled *Donna Motta v. Big 5 Sporting Goods Corporation*, et al., Case No. CGC-11-509228; (6) on March 30, 2011, a complaint filed in the California Superior Court in the County of Alameda, entitled *Steve Holmes v. Big 5 Sporting Goods Corporation*, et al., Case No. RG11563123; (7) on March 30, 2011, a complaint filed in the California Superior Court in the County of San Francisco, entitled *Robin Nelson v. Big 5 Sporting Goods Corporation*, et al., Case No. CGC-11-508829; (8) on April 8, 2011, a complaint filed in the California Superior Court in the County of San Joaquin, entitled *Pamela B. Smith v. Big 5 Sporting Goods Corporation*, et al., Case No. 39-2011-00261014-CU-BT-STK; and (9) on May 31, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Deena Gabriel v. Big 5 Sporting Goods Corporation*, et al., Case No. BC462213. On June 16, 2011, the Judicial Council of California issued an Order Assigning Coordination Trial Judge designating the California Superior Court in the County of Los Angeles as having jurisdiction to coordinate and to hear all nine of the cases as Case No. JCCP4667. On October 21, 2011, the plaintiffs collectively filed a Consolidated Amended Complaint, alleging violations of the California Civil Code, negligence, invasion of privacy and unlawful intrusion. The plaintiffs allege, among other things, that customers making purchases with credit cards at the Company's stores in California were improperly requested to provide their zip code at the time of such purchases. The plaintiffs seek, on behalf of the class members, the following: statutory penalties; attorneys' fees; costs; restitution of property; disgorgement of profits; and injunctive relief. On February 6, 2013 and February 19, 2013, the Company and plaintiffs engaged in Mandatory Settlement Conferences conducted by the court in an effort to negotiate a settlement of this litigation. In connection therewith, the Company received from the plaintiffs an offer to settle this litigation, which the Company is currently considering. Based on the terms of the settlement offer, the Company currently believes that a settlement of this litigation will not have a material negative impact on the Company's results of operations or financial condition. However, if the plaintiffs and the Company are unable to negotiate a settlement, the Company intends to defend this litigation vigorously. If this litigation were to be resolved unfavorably to the Company, such litigation and the costs of defending it could have a material negative impact on the Company's results of operations or financial condition.

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

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**Table of Contents****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 2012 and 2011:

Fiscal Period	2012		2011	
	High	Low	High	Low
First Quarter	\$ 10.17	\$ 7.32	\$ 15.85	\$ 11.24
Second Quarter	\$ 8.62	\$ 6.19	\$ 12.30	\$ 7.81
Third Quarter	\$ 10.04	\$ 7.23	\$ 9.00	\$ 5.91
Fourth Quarter	\$ 14.00	\$ 8.91	\$ 11.02	\$ 5.55

As of February 22, 2013, the closing price for our common stock as reported on The NASDAQ Stock Market LLC was \$14.80 per share.

As of February 22, 2013, there were 21,774,448 shares of common stock outstanding held by approximately 280 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 2008, 2009, 2010, 2011 and 2012. This graph shows historical stock price performance (including reinvestment of dividends) and is not necessarily indicative of future performance:

**Table of Contents****Dividend Policy**

Dividends are paid at the discretion of the Board of Directors. Quarterly dividend payments of \$0.05 per share, for an annual rate of \$0.20 per share, were paid in fiscal 2010. In fiscal 2011 and 2012, our Board of Directors declared quarterly cash dividends of \$0.075 per share of outstanding common stock, for an annual rate of \$0.30 per share. In the first quarter of fiscal 2013, our Board of Directors declared a quarterly cash dividend of \$0.10 per share of outstanding common stock, for an annual rate of \$0.40 per share, which will be paid on March 22, 2013 to stockholders of record as of March 8, 2013.

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 December 30, 2012:

**ISSUER PURCHASES OF EQUITY SECURITIES<sup>(1)(2)</sup>**

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 <sup>(3)</sup>
October 1 - October 28	27,500	\$ 9.10	27,500	\$ 9,781,000
October 29 - November 25	2,500	\$ 9.02	2,500	9,758,000
November 26 - December 30	10,000	\$ 12.47	10,000	9,633,000
Total	40,000		40,000	\$ 9,633,000

(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. Through December 30, 2012, the Company has repurchased 1,190,883 shares of its common stock for \$10.4 million, and a total of \$9.6 million remained available for share repurchases under the current authorization. Since the inception of its initial share repurchase program in May 2006 through December 30, 2012, the Company has repurchased a total of 1,927,626 shares for \$25.4 million.

(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.



**Securities Authorized for Issuance Under Equity Compensation Plans as of December 30, 2012**

See Item 12, *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*, of this Annual Report on Form 10-K.

**Table of Contents****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.

	2012	2011	Fiscal Year <sup>(1)</sup> 2010	2009	2008
	(Dollars and shares in thousands, except per share and certain store data)				
<b>Statement of Operations Data:</b>					
Net sales <sup>(2)</sup>	\$ 940,490	\$ 902,134	\$ 896,813	\$ 895,542	\$ 864,650
Cost of sales <sup>(3)(7)</sup>	637,721	610,531	599,101	597,792	579,165
Gross profit <sup>(2)(7)</sup>	302,769	291,603	297,712	297,750	285,485
<b>Selling and administrative</b>					
expense <sup>(2)(4)(5)(6)(8)</sup>	276,797	272,436	263,488	260,068	257,883
Operating income	25,972	19,167	34,224	37,682	27,602
Interest expense	2,202	2,561	2,108	2,465	5,198
Income before income taxes	23,770	16,606	32,116	35,217	22,404
Income taxes	8,855	4,933	11,554	13,406	8,500
Net income <sup>(2)(5)(6)(7)(8)</sup>	\$ 14,915	\$ 11,673	\$ 20,562	\$ 21,811	\$ 13,904
<b>Earnings per share:</b>					
Basic	\$ 0.70	\$ 0.54	\$ 0.95	\$ 1.02	\$ 0.64
Diluted	\$ 0.69	\$ 0.53	\$ 0.94	\$ 1.01	\$ 0.64
Dividends per share	\$ 0.30	\$ 0.30	\$ 0.20	\$ 0.20	\$ 0.36
<b>Weighted-average shares of common stock outstanding:</b>					
Basic	21,394	21,656	21,552	21,434	21,608
Diluted	21,616	21,869	21,890	21,657	21,619
<b>Store Data:</b>					
Same store sales increase (decrease) <sup>(9)</sup>	2.5%	(1.2)%	0.8%	(0.6)%	(7.0)%
Same store sales per square foot (in dollars) <sup>(10)</sup>	\$ 205	\$ 202	\$ 204	\$ 210	\$ 213
End of period stores	414	406	398	384	381
End of period same stores	387	378	380	362	339
Same store sales per store <sup>(11)</sup>	\$ 2,336	\$ 2,286	\$ 2,315	\$ 2,373	\$ 2,393
<b>Other Financial Data:</b>					
Depreciation and amortization	\$ 18,895	\$ 18,544	\$ 18,627	\$ 19,400	\$ 19,135
Capital expenditures <sup>(12)</sup>	\$ 12,901	\$ 12,990	\$ 15,628	\$ 5,764	\$ 20,447
Inventory turns <sup>(13)</sup>	2.3x	2.3x	2.4x	2.6x	2.4x
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 7,635	\$ 4,900	\$ 5,620	\$ 5,765	\$ 9,058
Working capital <sup>(14)</sup>	\$ 150,010	\$ 156,909	\$ 130,737	\$ 120,541	\$ 129,282
Total assets	\$ 406,660	\$ 394,064	\$ 392,356	\$ 366,122	\$ 388,357

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Long-term debt and capital leases, less current portion	\$ 50,316	\$ 66,621	\$ 49,882	\$ 57,233	\$ 99,447
Stockholders equity	\$ 164,420	\$ 156,590	\$ 150,726	\$ 131,861	\$ 111,800

*(See notes on following page:)*

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*(Notes to table on previous page)*

- (1) Our fiscal year is the 52 or 53 week reporting period ending on the Sunday closest to the calendar year end. Fiscal 2012, 2011, 2010 and 2008 each included 52 weeks, and fiscal 2009 included 53 weeks.
- (2) In fiscal 2010, we recorded a net pre-tax charge of \$2.3 million reflecting a legal settlement accrual, of which \$0.8 million was classified as a reduction to net sales and \$1.5 million was classified as selling and administrative expense. This charge reduced net income in fiscal 2010 by \$1.5 million, or \$0.07 per diluted share.
- (3) Cost of sales includes the cost of merchandise, net of discounts or allowances earned, freight, inventory reserves, buying, distribution center costs and store occupancy costs. Store occupancy costs include 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 costs, 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 2012 and 2011, we recorded pre-tax non-cash impairment charges of \$0.2 million and \$2.1 million, respectively, related to certain underperforming stores. These impairment charges reduced net income in fiscal 2012 and 2011 by \$0.1 million, or \$0.01 per diluted share, and \$1.5 million, or \$0.07 per diluted share, respectively.
- (7) In fiscal 2008, we recorded a nonrecurring pre-tax charge of \$1.5 million to correct an error in our previously recognized straight-line rent expense, substantially all of which related to prior periods and accumulated over a period of 15 years. This charge reduced net income in fiscal 2008 by \$0.9 million, or \$0.04 per diluted share. We have determined this charge to be immaterial to our prior periods consolidated financial statements.
- (8) In fiscal 2009, we recorded a net pre-tax charge of \$1.0 million, which reflected a legal settlement accrual offset by proceeds received from the settlement of a lawsuit relating to credit card fees. This charge reduced net income in fiscal 2009 by \$0.6 million, or \$0.03 per diluted share.
- (9) Same store sales for a period reflect net sales from stores operated throughout that period as well as the full corresponding prior year period. Our same store sales comparisons reflect the economic recession and continued uncertainty in the financial sector, which resulted in weak same store sales since fiscal 2007.
- (10) 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. Fiscal 2012, 2011, 2010, 2009 and 2008 reflect the economic recession and continued uncertainty in the financial sector.
- (11) Same store sales per store is calculated by dividing net sales for same stores, as defined above, by total same store count. Fiscal 2012, 2011, 2010, 2009 and 2008 reflect the economic recession and continued uncertainty in the financial sector.
- (12) Lower capital expenditures in fiscal 2009 reflect substantially fewer store openings when compared with fiscal 2012, 2011, 2010 and 2008 due to the economic recession.
- (13) Inventory turns equal fiscal year cost of sales divided by the fiscal year four-quarter weighted-average cost of merchandise inventory.
- (14) Working capital is defined as current assets less current liabilities.

**Table of Contents****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 December 30, 2012, January 1, 2012 and January 2, 2011 are referred to as fiscal 2012, 2011 and 2010, respectively. The following discussion and analysis of our financial condition and results of operations for fiscal 2012, 2011 and 2010 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 2012, 2011 and 2010 each included 52 weeks.

**Overview**

We are a leading sporting goods retailer in the western United States, operating 414 stores in 12 states under the name Big 5 Sporting Goods at December 30, 2012. We provide a full-line product offering in a traditional sporting goods store format that averages approximately 11,000 square feet. Our product mix includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, snowboarding and roller sports.

We believe that over our 58-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, Easton, New Balance, Nike, Reebok, 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 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.

Throughout our history, we have emphasized controlled growth. In fiscal 2012, we opened 14 new stores, three of which were relocations, and closed six stores, two of which were relocations. In fiscal 2011, we opened 13 new stores, two of which were relocations, and closed three stores as part of relocations that began in fiscal 2010. For fiscal 2013, we expect to open approximately 15 to 20 new stores, including three relocations, and to close approximately three relocated stores. The following table summarizes our store count for the periods presented:

	2012	Fiscal Year 2011	2010
<b>Big 5 Sporting Goods stores:</b>			
Beginning of period	406	398	384
New stores <sup>(1)</sup>	14	13	15
Stores relocated	(2)	(5)	(1)
Stores closed	(4)		
End of period	414	406	398
New stores opened per year, net	8	8	14

<sup>(1)</sup> 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.

**Table of Contents****Executive Summary**

Our improved operating results for fiscal 2012 compared to fiscal 2011 were mainly attributable to our higher sales levels, including an increase in same store sales. We believe our higher sales largely reflect favorable customer response to changes in our merchandise offering and new marketing initiatives. We also believe our operating results for fiscal 2012, 2011 and 2010 continue to reflect challenging macroeconomic conditions in our markets resulting primarily from the lingering effects of the economic recession.

Net sales for fiscal 2012 increased 4.3% to \$940.5 million compared to fiscal 2011. The increase in net sales was primarily attributable to added revenue from new stores combined with increased same store sales of 2.5%.

Net income for fiscal 2012 increased 27.8% to \$14.9 million, or \$0.69 per diluted share, compared to \$11.7 million, or \$0.53 per diluted share, for fiscal 2011. The increase was driven primarily by higher net sales, partially offset by the impact of lower merchandise margins, higher selling and administrative expense and higher income tax expense.

Gross profit for fiscal 2012 represented 32.2% of net sales, compared with 32.3% in the prior year. Merchandise margins were 24 basis points lower than last year, partially offset by reduced store occupancy expense as a percentage of net sales.

Selling and administrative expense for fiscal 2012 increased 1.6% to \$276.8 million, or 29.4% of net sales, compared to \$272.4 million, or 30.2% of net sales, for fiscal 2011. The increase was primarily attributable to higher store-related expense, excluding occupancy, as a result of new store openings and increased employee benefit costs.

Operating income for fiscal 2012 increased 35.5% to \$26.0 million, or 2.8% of net sales, compared to \$19.2 million, or 2.1% of net sales, for fiscal 2011. The higher operating income primarily reflects higher net sales, partially offset by the impact of lower merchandise margins and higher selling and administrative expense.

**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:

	2012 <sup>(1)</sup>		Fiscal Year 2011 <sup>(1)</sup>		2010 <sup>(1)</sup>	
			(Dollars in thousands)			
<b>Statement of Operations Data:</b>						
Net sales <sup>(2)</sup>	\$ 940,490	100.0%	\$ 902,134	100.0%	\$ 896,813	100.0%
Cost of sales <sup>(3)</sup>	637,721	67.8	610,531	67.7	599,101	66.8
Gross profit <sup>(2)</sup>	302,769	32.2	291,603	32.3	297,712	33.2
Selling and administrative expense <sup>(2)(4)(5)(6)</sup>	276,797	29.4	272,436	30.2	263,488	29.4
Operating income	25,972	2.8	19,167	2.1	34,224	3.8
Interest expense	2,202	0.3	2,561	0.3	2,108	0.2
Income before income taxes	23,770	2.5	16,606	1.8	32,116	3.6
Income taxes	8,855	0.9	4,933	0.5	11,554	1.3
Net income <sup>(2)(5)(6)</sup>	\$ 14,915	1.6%	\$ 11,673	1.3%	\$ 20,562	2.3%

**Other Financial Data:**

Net sales change	4.3%	0.6%	0.1%
Same store sales change <sup>(7)</sup>	2.5%	(1.2)%	0.8%
Net income change	27.8%	(43.2)%	(5.7)%

<sup>(1)</sup> Fiscal 2012, 2011 and 2010 each included 52 weeks.

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- (2) In fiscal 2010, we recorded a net pre-tax charge of \$2.3 million reflecting a legal settlement accrual, of which \$0.8 million was classified as a reduction to net sales and \$1.5 million was classified as selling and administrative expense. This charge reduced net income in fiscal 2010 by \$1.5 million, or \$0.07 per diluted share.
- (3) Cost of sales includes the cost of merchandise, net of discounts or allowances earned, freight, inventory reserves, buying, distribution center costs and store occupancy costs. Store occupancy costs include 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 costs, 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 was included in selling and administrative expense, and reduced net income in fiscal 2012 by \$0.8 million, or \$0.03 per diluted share.
- (6) In fiscal 2012 and 2011, we recorded pre-tax non-cash impairment charges of \$0.2 million and \$2.1 million, respectively, related to certain underperforming stores. These impairment charges are included in selling and administrative expense, and reduced net income in fiscal 2012 and 2011 by \$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.  
*Fiscal 2012 Compared to Fiscal 2011*

*Net Sales.* Net sales increased by \$38.4 million, or 4.3%, to \$940.5 million for fiscal 2012 from \$902.1 million for fiscal 2011. The change in net sales was primarily attributable to the following:

Same store sales increased 2.5% for fiscal 2012 versus fiscal 2011. We believe our higher same store sales largely reflected favorable customer response to changes in our merchandise offering and new marketing initiatives, despite lower sales of winter merchandise as a result of unseasonably warm winter weather in the first quarter of fiscal 2012. Same store sales for a period reflect net sales from stores that operated throughout the period as well as the full corresponding prior year period.

Added sales from new stores reflected the opening of 27 new stores since January 2, 2011, partially offset by a reduction in closed store sales.

Net sales for fiscal 2012 continued to be impacted by the economic recession. While we experienced decreased customer transactions in our retail stores in fiscal 2012 when compared with fiscal 2011, the average sale per transaction increased primarily as a result of changes in our sales mix and merchandise offering.

Store count at the end of fiscal 2012 was 414 versus 406 at the end of fiscal 2011. We opened 14 new stores, three of which were relocations, and closed six stores, two of which were relocations, in fiscal 2012. For fiscal 2013, we expect to open approximately 15 to 20 new stores, including three relocations, and to close approximately three relocated stores.

*Gross Profit.* Gross profit increased by \$11.2 million to \$302.8 million in fiscal 2012 from \$291.6 million in fiscal 2011. Gross profit as a percentage of net sales in fiscal 2012 was 32.2% compared with 32.3% during the prior year. The change in gross profit was primarily attributable to the following:

Net sales increased by \$38.4 million in fiscal 2012 compared to the prior year.



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Merchandise margins, which exclude buying, occupancy and distribution costs, decreased for fiscal 2012 by 24 basis points versus fiscal 2011, primarily reflecting a sales mix shift away from higher margin winter product categories in the first quarter of fiscal 2012, combined with product cost inflation.

Store occupancy costs for fiscal 2012 increased by \$2.6 million year over year due primarily to the increase in store count. Store occupancy costs as a percentage of net sales in fiscal 2012 decreased by seven basis points compared with fiscal 2011.

Distribution costs increased \$1.5 million primarily resulting from lower costs capitalized into inventory and higher distribution center labor and employee benefit-related costs, partially offset by lower trucking expense. Distribution costs as a percentage of net sales in fiscal 2012 decreased by two basis points compared with fiscal 2011.

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*Selling and Administrative Expense.* Selling and administrative expense increased by \$4.4 million, or 1.6%, to \$276.8 million, or 29.4% of net sales, in fiscal 2012 from \$272.4 million, or 30.2% of net sales, in fiscal 2011. The change in selling and administrative expense was primarily attributable to the following:

Store-related expense, excluding occupancy, increased by \$3.0 million due primarily to higher labor and operating costs to support the increase in store count, increased employee benefit-related costs and higher public liability claim-related costs, partially offset by lower debit card fees.

Advertising expense for fiscal 2012 decreased by \$1.7 million, due primarily to lower newspaper advertising, partially offset by increases in digital marketing programs and other advertising to support sales.

Administrative expense for fiscal 2012 included a pre-tax charge of \$1.2 million related to store closing costs, and a pre-tax non-cash impairment charge of \$0.2 million related to certain underperforming stores. Administrative expense for fiscal 2011 included a pre-tax non-cash impairment charge of \$2.1 million related to certain underperforming stores. These charges are further discussed in Notes 4 and 5 to the consolidated financial statements included in Part II, Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

*Interest Expense.* Interest expense decreased by \$0.4 million, or 14.0%, to \$2.2 million in fiscal 2012 from \$2.6 million in fiscal 2011. The decrease in interest expense reflects the combined impact of a decrease in average interest rates of 30 basis points, to 2.2% in fiscal 2012 from 2.5% in fiscal 2011, due mainly to lower applicable margins under our amended credit agreement, as well as a decrease in average debt levels of \$1.3 million to \$66.2 million in fiscal 2012 from \$67.5 million in fiscal 2011.

*Income Taxes.* The provision for income taxes was \$8.9 million for fiscal 2012 compared with \$4.9 million for fiscal 2011. This increase was primarily due to higher pre-tax income and a higher effective tax rate in fiscal 2012. Our effective tax rate was 37.3% for fiscal 2012 compared with 29.7% for fiscal 2011. Our higher effective tax rate for fiscal 2012 compared to the prior year primarily reflects the expiration of previously enacted legislation that resulted in the loss of certain tax credits in fiscal 2012 that were previously available in fiscal 2011, combined with higher pre-tax income in fiscal 2012.

*Fiscal 2011 Compared to Fiscal 2010*

*Net Sales.* Net sales increased by \$5.3 million, or 0.6%, to \$902.1 million for fiscal 2011 from \$896.8 million for fiscal 2010. The change in net sales was primarily attributable to the following:

Added sales from new stores reflected the opening of 28 new stores since January 3, 2010. The revenue from new store sales was partially offset by a reduction in same store and closed store sales.

Same store sales decreased 1.2% for fiscal 2011 versus fiscal 2010. 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.

Net sales for fiscal 2011 continued to be impacted by the economic recession, and we experienced decreased customer transactions in our retail stores when compared with fiscal 2010.

Net sales for fiscal 2010 reflected a net pre-tax charge of \$0.8 million for a legal settlement accrual that was classified as a reduction of net sales.

Store count at the end of fiscal 2011 was 406 versus 398 at the end of fiscal 2010. In fiscal 2011, we opened 13 new stores, including two relocations, and closed three stores as part of relocations that began in fiscal 2010.



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*Gross Profit.* Gross profit decreased by \$6.1 million to \$291.6 million in fiscal 2011 from \$297.7 million in fiscal 2010. Gross profit as a percentage of net sales in fiscal 2011 was 32.3% compared with 33.2% in fiscal 2010. The change in gross profit was primarily attributable to the following:

Merchandise margins, which exclude buying, occupancy and distribution costs, decreased for fiscal 2011 by 74 basis points versus fiscal 2010, primarily reflecting the impact of product cost inflation, increased promotional activities to stimulate sales and a sales mix shift away from higher margin winter product categories during the fourth quarter as a result of unseasonably warm weather.

Store occupancy costs for fiscal 2011 increased by \$1.4 million, or 11 basis points, year over year, due primarily to the increase in store count.

Net sales increased by \$5.3 million in fiscal 2011 compared to fiscal 2010.

*Selling and Administrative Expense.* Selling and administrative expense increased by \$8.9 million, or 3.4%, to \$272.4 million, or 30.2% of net sales, in fiscal 2011 from \$263.5 million, or 29.4% of net sales, in fiscal 2010. The change in selling and administrative expense was primarily attributable to the following:

Store-related expense, excluding occupancy, increased by \$6.8 million, or 65 basis points, due primarily to higher labor and operating costs to support the increase in store count and increased employee benefit costs.

Advertising expense for fiscal 2011 increased by \$2.7 million, due primarily to an increase in newspaper advertising, digital marketing and other advertising to support sales.

Administrative expense for fiscal 2011 included a pre-tax non-cash impairment charge of \$2.1 million related to certain underperforming stores. Administrative expense in fiscal 2010 reflected a net pre-tax charge for a legal settlement accrual of \$1.5 million.

*Interest Expense.* Interest expense increased by \$0.5 million, or 21.4%, to \$2.6 million in fiscal 2011 from \$2.1 million in fiscal 2010. The increase in interest expense primarily reflected an increase in average debt levels of approximately \$7.5 million to \$67.5 million in fiscal 2011 from \$60.0 million in fiscal 2010, combined with an increase in average interest rates of approximately 40 basis points to 2.5% during fiscal 2011 from 2.1% in fiscal 2010. The increase in average interest rates was due mainly to higher applicable margins under our current credit agreement as compared to our prior credit agreement. Interest expense in fiscal 2010 included a \$0.3 million charge for a one-time early termination fee and the write-off of the remaining deferred debt issuance costs associated with the termination of our prior credit agreement.

*Income Taxes.* The provision for income taxes was \$4.9 million for fiscal 2011 compared with \$11.6 million for fiscal 2010. This decrease was primarily due to lower pre-tax income in fiscal 2011 compared to fiscal 2010. Our effective tax rate was 29.7% for fiscal 2011 compared with 36.0% for fiscal 2010. Our lower effective tax rate for fiscal 2011 compared to fiscal 2010 primarily reflected the impact of higher income tax credits for fiscal 2011 relative to lower pre-tax income.

## **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 and cash equivalents on hand, cash flows from operations and borrowings from our revolving credit facility. We believe our cash and cash equivalents 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. There is no assurance, however, that we will be able to generate sufficient cash flows from operations or maintain our ability to borrow under our revolving credit facility.

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We ended fiscal 2012 with \$7.6 million of cash and cash equivalents compared with \$4.9 million in fiscal 2011. After increasing our long-term debt by \$15.2 million, or 31.4%, during fiscal 2011, we decreased our long-

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term debt by \$16.0 million, or 25.2%, during fiscal 2012 to \$47.5 million from \$63.5 million at the end of fiscal 2011. The following table summarizes our cash flows from operating, investing and financing activities for each of the past three fiscal years:

	2012	Fiscal Year 2011 (In thousands)	2010
<b>Total cash provided by (used in):</b>			
Operating activities	\$ 39,604	\$ 2,218	\$ 29,867
Investing activities	(12,650)	(11,988)	(15,624)
Financing activities	(24,219)	9,050	(14,388)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 2,735</b>	<b>\$ (720)</b>	<b>\$ (145)</b>

The seasonality of our business historically provides greater cash flows from operations during the holiday and winter selling season. Typically, 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 at their highest in the months leading up to Christmas. As holiday sales significantly 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 2012, we increased inventory purchases in the months leading up to Christmas, resulting in a higher accounts payable balance at year-end compared to fiscal 2011. Additionally, improved net sales and net income in fiscal 2012 compared with fiscal 2011 contributed to higher operating cash flows which allowed us to significantly pay down debt balances year over year.

For fiscal 2011, we strategically increased merchandise inventory levels to add certain new products to stimulate sales and also purchased inventory earlier in the year to mitigate the impact of product cost inflation and potential delivery delays. Reduced inventory purchases in the fourth quarter of fiscal 2011 resulted in lower accounts payable as a percentage of inventory. Also, weaker than anticipated sales during fiscal 2011, particularly in the fourth quarter, resulted in higher inventory levels and reduced operating cash flows for the year, contributing to higher debt balances year over year.

For fiscal 2010, we purchased larger quantities of inventory primarily in anticipation of improving business conditions and as a result of increased availability of certain products. The higher inventory levels combined with lower than anticipated sales in the fourth quarter of fiscal 2010 resulted in reduced operating cash flows for the year as compared to the prior year.

*Operating Activities.* Net cash provided by operating activities for fiscal 2012, 2011 and 2010 was \$39.6 million, \$2.2 million and \$29.9 million, respectively. The increase in cash provided by operating activities for fiscal 2012 compared to fiscal 2011 primarily reflected higher accounts payable year over year due mainly to the timing of inventory purchases. Inventory purchases were higher in the fourth quarter of fiscal 2012 compared to the fourth quarter of fiscal 2011, which resulted in a higher accounts payable balance at the end of fiscal 2012. Also contributing to the improved operating cash flow in fiscal 2012 over the prior year was a smaller increase in inventory, higher net income and increased accrued expenses related primarily to employee benefit-related accruals and a liability for store closings. The decrease in cash provided by operating activities for fiscal 2011 compared to fiscal 2010 primarily reflected higher funding of merchandise inventory along with the timing of inventory purchases and payments, as well as lower net income and accrued expenses, primarily for legal settlements.

*Investing Activities.* Net cash used in investing activities for fiscal 2012, 2011 and 2010 was \$12.7 million, \$12.0 million and \$15.6 million, respectively. In fiscal 2012 and 2011, we received proceeds of \$0.3 million and

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\$0.5 million, respectively, as part of a local utility rebate program related to the implementation of a green energy system at our distribution center, and in fiscal 2011 we received proceeds of \$0.5 million from the sale of owned real property. Our capital spending is primarily for new store openings, store-related remodeling, distribution center and corporate headquarters costs and computer hardware and software purchases. Capital expenditures by category for each of the last three fiscal years are as follows:

	2012	Fiscal Year 2011 (In thousands)	2010
New stores	\$ 7,076	\$ 7,108	\$ 9,773
Store-related remodels	3,703	3,749	3,888
Distribution center	536	1,127	1,487
Computer hardware, software and other	1,586	1,006	480
<b>Total</b>	<b>\$ 12,901</b>	<b>\$ 12,990</b>	<b>\$ 15,628</b>

Our capital expenditures included 14 new stores in fiscal 2012; 13 new stores in fiscal 2011; and 15 new stores in fiscal 2010. Capital expenditures in fiscal 2012, 2011 and 2010 also included amounts related to our computer system replacement program as well as enhanced security measures to support our infrastructure.

*Financing Activities.* Net cash used in financing activities for fiscal 2012 and 2010 was \$24.2 million and \$14.4 million, respectively, and net cash provided by financing activities for fiscal 2011 was \$9.1 million. For fiscal 2012, we used cash provided from operating activities to pay down borrowings from our revolving credit facility, pay dividends, make capital lease payments and purchase treasury stock. For fiscal 2011, cash provided by financing activities primarily reflected increased borrowings under our revolving credit facility, partially offset by dividend payments and capital lease payments. Borrowings under our revolving credit facility for fiscal 2011 were largely used to fund merchandise inventory purchases. For fiscal 2010, we used cash provided from operating activities to pay down borrowings from our revolving credit facility, pay dividends and make capital lease payments.

As of December 30, 2012, we had revolving credit borrowings of \$47.5 million and letter of credit commitments of \$4.3 million outstanding. These balances compare to borrowings of \$63.5 million and letter of credit commitments of \$3.7 million outstanding as of January 1, 2012.

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.

Quarterly dividend payments of \$0.05 per share of outstanding common stock, for an annual rate of \$0.20 per share, were paid in fiscal 2010. Quarterly cash dividends of \$0.075 per share of outstanding common stock, for an annual rate of \$0.30 per share, were paid in fiscal 2011 and 2012. In the first quarter of fiscal 2013, our Board of Directors declared a quarterly cash dividend of \$0.10 per share of outstanding common stock, for an annual rate of \$0.40 per share, which will be paid on March 22, 2013 to stockholders of record as of March 8, 2013.

Periodically, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. Depending on business conditions, we may repurchase our common stock for a variety of reasons, including the current market price of our stock and to optimize our capital structure.

In May 2006, our Board of Directors authorized a share repurchase program for the purchase of \$15.0 million of our common stock, pursuant to which we completed all authorized repurchases in November

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2007. Near the completion of that program, our Board authorized an additional share repurchase program for the purchase of \$20.0 million of our common stock. Under this second authorization, we 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 Securities and Exchange Commission ( SEC ). However, the timing and amount of such purchases, if any, is at the discretion of management and depends upon market conditions and other considerations. Prior to fiscal 2009, we repurchased an aggregate of 1,369,085 shares of our common stock under the 2006 and 2007 programs for \$20.8 million. In light of the economic climate, we did not repurchase any shares of our common stock under the current program during fiscal 2009 or fiscal 2010. In the fourth quarter of fiscal 2011, we resumed our share repurchase activity under the current program, repurchasing 109,550 shares of our common stock for \$1.0 million in fiscal 2011 and 448,991 shares of our common stock for \$3.6 million in fiscal 2012. Since the inception of our initial share repurchase program in May 2006 through December 30, 2012, we have repurchased a total of 1,927,626 shares under the two programs for \$25.4 million, leaving a total of \$9.6 million available for share repurchases under our current share repurchase program.

*Credit Agreement.* On October 18, 2010, we entered into a credit agreement (the Credit Agreement ) with Wells Fargo Bank, National Association ( Wells Fargo ), as administrative agent, and a syndicate of other lenders. Initial borrowings under the Credit Agreement on October 18, 2010 were used to, among other things, repay all of our outstanding indebtedness under our prior financing agreement, at which time the prior financing agreement was terminated. As further discussed below, the Credit Agreement was amended on October 31, 2011.

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. All amounts outstanding under the Credit Facility were originally to mature and become due on October 18, 2014. On October 31, 2011, the Credit Agreement was amended to extend its maturity date to October 31, 2016 (see discussion below). As of December 30, 2012 and January 1, 2012, our total remaining borrowing availability under the Credit Agreement, after subtracting letters of credit, was \$88.2 million and \$72.8 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 accounts receivable; plus (b)(i) during the period of September 15 through December 15 of each year, the cost of our eligible 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); and (ii) at all other times, the cost of our eligible inventory, net of inventory reserves, multiplied by 85.00% 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 85.00% 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. In each case, prior to the amendment dated October 31, 2011 (see discussion below), the applicable interest rate was a function of the daily average, over the preceding fiscal quarter, of the excess of the Loan Cap over amounts outstanding under the Credit Facility (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



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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. Prior to the amendment discussed below, the applicable margin for all loans was as set forth below as a function of Average Daily Excess Availability for the preceding fiscal quarter.

Level	Average Daily Excess Availability	LIBO Rate Applicable Margin	Base Rate Applicable Margin
I	Greater than 50% of the Loan Cap	2.00%	1.00%
II	Less than or equal to 50% of the Loan Cap	2.25%	1.25%

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.

On October 31, 2011, we entered into a First Amendment to Credit Agreement and amended certain provisions of our Credit Agreement. After the amendment, the applicable interest rate on our borrowings will be a function of the daily average, over the preceding fiscal quarter, of the excess of the Credit Facility over amounts borrowed (such amount being referred to as the Average Daily Excess Availability). Those loans designated as LIBO rate loans shall bear interest at a rate equal to the then applicable LIBO rate plus an applicable margin as shown in the table below. Those loans designated as base rate loans shall bear interest at a rate equal to the applicable margin for base rate loans (as shown below) plus the highest of (a) the Federal funds rate, as in effect from time to time, plus one-half of one percent (0.50%), (b) the LIBO rate, as adjusted to account for statutory reserves, plus one percent (1.00%), or (c) the rate of interest in effect for such day as publicly announced from time to time by Wells Fargo as its prime rate. The applicable margin for all loans will be as set forth below as a function of Average Daily Excess Availability for the preceding fiscal quarter.

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

The amendment reduced the commitment fee assessed on the unused portion of the Credit Facility to 0.375% per annum. The amendment also extended the maturity date of the Credit Agreement from October 18, 2014 to October 31, 2016 and modified the provisions for restricting certain payments and investments.

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

	Fiscal Year	
	2012	2011
	(Dollars in thousands)	
Fiscal year-end balance	\$ 47,461	\$ 63,476
Average interest rate	2.18%	2.53%
Maximum outstanding during the year	\$ 86,619	\$ 106,095
Average outstanding during the year	\$ 66,190	\$ 67,489

*Future Capital Requirements.* We had cash and cash equivalents on hand of \$7.6 million at December 30, 2012. We expect capital expenditures for fiscal 2013, excluding non-cash acquisitions, to range from approximately \$18.0 million to \$22.0 million, primarily to fund the opening of new stores, store-related remodeling, distribution center equipment and computer hardware and software purchases. For fiscal 2013, we expect to open approximately 15 to 20 new stores, including three relocations, and to close approximately three relocated stores.

Quarterly dividend payments of \$0.05 per share of outstanding common stock, for an annual rate of \$0.20 per share, were paid in fiscal 2010. In the first quarter of fiscal 2011, our Board of Directors increased our quarterly cash dividend to \$0.075 per share of outstanding common stock, for an annual rate of \$0.30 per share, which was paid in fiscal 2011 and 2012. In the first quarter of fiscal 2013, our Board of Directors declared a quarterly cash dividend of \$0.10 per share of outstanding common stock, for an annual rate of \$0.40 per share, which will be paid on March 22, 2013 to stockholders of record as of March 8, 2013.

As of December 30, 2012, a total of \$9.6 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, for at least the next twelve months, from cash and cash equivalents on hand, operating cash flows and borrowings from our revolving credit facility. However, our ability to satisfy our cash requirements depends upon our future performance, which in turn is subject to general economic conditions and regional risks, and to 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.

If we are unable to generate sufficient cash flows from operations to meet our obligations and commitments, or if we are unable to maintain our ability to borrow sufficient amounts under our Credit Agreement, we will be required to refinance or restructure our indebtedness or raise additional debt or equity capital. Additionally, we may be required to sell material assets or operations, suspend or reduce dividend payments or delay or forego expansion opportunities. We might not be able to implement successful alternative strategies on satisfactory terms, if at all.

*Off-Balance Sheet Arrangements and Contractual Obligations.* Our material off-balance sheet arrangements are operating lease obligations and letters of credit. We excluded these items from the balance sheet in accordance with accounting principles generally accepted in the United States of America ( GAAP ). A summary of our operating lease obligations and letter of credit commitments by fiscal year is included in the table below. Additional information regarding our operating leases is available in Item 2, *Properties* and Note 8, *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.

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Our future obligations and commitments as of December 30, 2012, include the following:

	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years (In thousands)	3-5 Years	After 5 Years
Capital lease obligations	\$ 4,874	\$ 1,874	\$ 2,367	\$ 582	\$ 51
Lease commitments:					
Operating lease commitments	299,050	67,097	108,690	61,256	62,007
Other occupancy costs	58,111	13,286	21,766	12,181	10,878
Other liabilities	11,839	3,262	3,373	1,908	3,296
Revolving credit facility	47,461			47,461	
Letters of credit	4,330	4,330			
Total	\$ 425,665	\$ 89,849	\$ 136,196	\$ 123,388	\$ 76,232

Capital lease obligations, which include imputed interest, consist principally of leases for some of our distribution center delivery tractors, management information systems hardware and point-of-sale equipment for our stores. 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 costs include estimated property maintenance fees and property taxes for our stores, distribution center and corporate headquarters.

Other liabilities consist principally of actuarially-determined reserve estimates related to self-insurance liabilities, a contractual obligation for the surviving spouse of Robert W. Miller, our co-founder, asset retirement obligations related to the removal and retirement of leasehold improvements for certain stores upon termination of their leases, and an obligation for remaining lease rental payments related to the closure of certain underperforming stores.

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 2012 year-end, our projected annual interest payments would be approximately \$1.1 million.

Issued and outstanding letters of credit were \$4.3 million at December 30, 2012, 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.

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### **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 merchandise damage and defective returns, 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 merchandise returns, slow-moving or obsolescent merchandise and for lower of cost or market provisions totaled \$3.1 million and \$3.1 million as of December 30, 2012 and January 1, 2012, 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 \$2.1 million and \$2.0 million as of December 30, 2012 and January 1, 2012, respectively, representing approximately 1% of our merchandise inventory for both periods.

A 10% change in our inventory reserves estimate in total at December 30, 2012, would result in a change in reserves of approximately \$0.5 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.

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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 investments of approximately \$0.4 million in long-lived assets to be held and used, subject to recoverability testing. The carrying amount of an asset group is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the 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 ) No. 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, operating expense and advertising expense for each store under consideration for impairment. The estimates of future cash flows involve management judgment and are based upon assumptions about expected future operating performance. Assumptions used in these forecasts are consistent with internal planning, and include assumptions about sales growth rates, gross margins, operating expense and advertising 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 and \$2.1 million recognized in fiscal 2012 and 2011, respectively, related to certain underperforming stores. No long-lived asset impairment charges were incurred during fiscal 2010.

A 10% change in the sum of our undiscounted cash flow estimates resulting from different assumptions used at December 30, 2012, would not result in a change in long-lived asset impairment charges for fiscal 2012.

### *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 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 December 30, 2012 and January 1, 2012, our self-insurance liabilities totaled \$10.4 million and \$8.2 million, respectively.

A 10% change in our estimated self-insurance liabilities estimate as of December 30, 2012, would result in a change in our liability of approximately \$1.0 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 shortfall from expected fourth fiscal quarter net sales can negatively impact our annual operating results, as occurred in fiscal 2011.

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In fiscal 2011, and diminishing in fiscal 2012, we experienced increased inflation in the purchase cost, including transportation cost, of certain products. We are evolving our product mix to include more branded merchandise that we believe will give us added flexibility to adjust selling prices for purchase cost increases. If we are unable to adjust our selling prices for purchase cost increases then our merchandise margins will decline, which will adversely impact our operating results. Our lower merchandise margins for fiscal 2012 compared to the prior year partially reflected purchase cost increases.

### **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, plans, anticipates, believes, intends or other such terminology. These forward-looking statements involve unknown risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. These risks and uncertainties include, among other things, continued or worsening weakness in the consumer spending environment and the U.S. financial and credit markets, fluctuations in consumer holiday spending patterns, breach of data security or other unauthorized disclosure of sensitive personal or confidential information, the competitive environment in the sporting goods industry in general and in our specific market areas, inflation, product availability and growth opportunities, changes in the current market for (or regulation of) firearms, ammunition and certain related accessories, seasonal fluctuations, weather conditions, changes in cost of goods, operating expense fluctuations, litigation risks, disruption in product flow, changes in interest rates, credit availability, higher costs 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.

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**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 and cash equivalents 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 at December 30, 2012, 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 at December 30, 2012.

Inflationary factors and changes in foreign currency rates can increase the purchase cost of our products. We are evolving our product mix to include more branded merchandise that we believe will give us added flexibility to adjust selling prices for purchase cost increases. If we are unable to adjust our selling prices for purchase cost increases then our merchandise margins will decline, which will adversely impact our operating results. All of our stores are located in the United States, and all imported merchandise is purchased in U.S. dollars.

**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.

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**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 December 30, 2012. Based on such evaluation, our CEO and CFO have concluded that, as of December 30, 2012, 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 December 30, 2012, based upon the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on this assessment, management has concluded that, as of December 30, 2012, 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 December 30, 2012, based on criteria established in *Internal Control Integrated Framework* 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 December 30, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have 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 December 30, 2012 of the Company and our report dated February 27, 2013 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Los Angeles, California

February 27, 2013

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**ITEM 9B. OTHER INFORMATION**

None.

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**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 December 30, 2012.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended December 30, 2012.

**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 December 30, 2012.

**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 December 30, 2012.

**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 December 30, 2012.

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**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.

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**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: February 27, 2013

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
<i>/s/ Steven G. Miller</i>  Steven G. Miller	Chairman of the Board of Directors,  President, Chief Executive Officer and  Director of the Company (Principal Executive Officer)	February 27, 2013
<i>/s/ Barry D. Emerson</i>  Barry D. Emerson	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 27, 2013
<i>/s/ Sandra N. Bane</i>  Sandra N. Bane	Director of the Company	February 27, 2013
<i>/s/ G. Michael Brown</i>  G. Michael Brown	Director of the Company	February 27, 2013
<i>/s/ Dominic P. DeMarco</i>  Dominic P. DeMarco	Director of the Company	February 27, 2013
<i>/s/ Jennifer Holden Dunbar</i>  Jennifer Holden Dunbar	Director of the Company	February 27, 2013
<i>/s/ David R. Jessick</i>	Director of the Company	February 27, 2013

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David R. Jessick

/s/ Michael D. Miller

Director of the Company

February 27, 2013

Michael D. Miller

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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 accompanying consolidated balance sheets of Big 5 Sporting Goods Corporation and subsidiaries (the Company) as of December 30, 2012 and January 1, 2012, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 30, 2012, January 1, 2012, and January 2, 2011. 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 December 30, 2012 and January 1, 2012, and the results of their operations and their cash flows for the years ended December 30, 2012, January 1, 2012, and January 2, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated 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 December 30, 2012, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Los Angeles, California

February 27, 2013



**Table of Contents****BIG 5 SPORTING GOODS CORPORATION****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share amounts)

	December 30, 2012	January 1, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,635	\$ 4,900
Accounts receivable, net of allowances of \$99 and \$142, respectively	15,297	13,106
Merchandise inventories, net	270,350	264,278
Prepaid expenses	8,784	7,972
Deferred income taxes	9,905	8,410
Total current assets	311,971	298,666
Property and equipment, net	72,089	75,369
Deferred income taxes	14,795	13,236
Other assets, net of accumulated amortization of \$637 and \$383, respectively	3,372	2,360
Goodwill	4,433	4,433
Total assets	\$ 406,660	\$ 394,064
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 92,688	\$ 77,593
Accrued expenses	67,553	62,547
Current portion of capital lease obligations	1,720	1,617
Total current liabilities	161,961	141,757
Deferred rent, less current portion	21,386	22,483
Capital lease obligations, less current portion	2,855	3,145
Long-term debt	47,461	63,476
Other long-term liabilities	8,577	6,613
Total liabilities	242,240	237,474
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value, authorized 50,000,000 shares; issued 23,783,084 and 23,483,815 shares, respectively; outstanding 21,741,248 and 21,890,970 shares, respectively	238	235
Additional paid-in capital	102,658	99,665
Retained earnings	87,464	79,037
Less: Treasury stock, at cost; 2,041,836 and 1,592,845 shares, respectively	(25,940)	(22,347)
Total stockholders' equity	164,420	156,590
Total liabilities and stockholders' equity	\$ 406,660	\$ 394,064

See accompanying notes to consolidated financial statements.



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**BIG 5 SPORTING GOODS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

	December 30, 2012	Year Ended January 1, 2012	January 2, 2011
Net sales	\$ 940,490	\$ 902,134	\$ 896,813
Cost of sales	637,721	610,531	599,101
Gross profit	302,769	291,603	297,712
Selling and administrative expense	276,797	272,436	263,488
Operating income	25,972	19,167	34,224
Interest expense	2,202	2,561	2,108
Income before income taxes	23,770	16,606	32,116
Income taxes	8,855	4,933	11,554
Net income	\$ 14,915	\$ 11,673	\$ 20,562
Earnings per share:			
Basic	\$ 0.70	\$ 0.54	\$ 0.95
Diluted	\$ 0.69	\$ 0.53	\$ 0.94
Dividends per share	\$ 0.30	\$ 0.30	\$ 0.20
Weighted-average shares of common stock outstanding:			
Basic	21,394	21,656	21,552
Diluted	21,616	21,869	21,890

See accompanying notes to consolidated financial statements.

**Table of Contents****BIG 5 SPORTING GOODS CORPORATION****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock, At Cost	Total
	Shares	Amount				
Balance at January 3, 2010	21,566,766	\$ 230	\$ 95,259	\$ 57,738	\$ (21,366)	\$ 131,861
Net income				20,562		20,562
Dividends on common stock (\$0.20 per share)				(4,351)		(4,351)
Issuance of nonvested share awards	172,000	2	(2)			
Exercise of share option awards	104,175	1	756			757
Share-based compensation			1,727			1,727
Tax benefit from share-based awards activity			313			313
Forfeiture of nonvested share awards	(1,300)					
Retirement of common stock for payment of withholding tax	(9,104)		(143)			(143)
Balance at January 2, 2011	21,832,537	233	97,910	73,949	(21,366)	150,726
Net income				11,673		11,673
Dividends on common stock (\$0.30 per share)				(6,585)		(6,585)
Issuance of nonvested share awards	152,100	2	(2)			
Exercise of share option awards	48,262		316			316
Share-based compensation			1,798			1,798
Tax deficiency from share-based awards activity			(74)			(74)
Forfeiture of nonvested share awards	(8,625)					
Retirement of common stock for payment of withholding tax	(23,754)		(283)			(283)
Purchases of treasury stock	(109,550)				(981)	(981)
Balance at January 1, 2012	21,890,970	235	99,665	79,037	(22,347)	156,590
Net income				14,915		14,915
Dividends on common stock (\$0.30 per share)				(6,488)		(6,488)
Issuance of nonvested share awards	145,100	1	(1)			
Exercise of share option awards	200,680	2	1,489			1,491
Share-based compensation			1,736			1,736
Tax benefit from share-based awards activity			51			51
Forfeiture of nonvested share awards	(10,500)					
Retirement of common stock for payment of withholding tax	(36,011)		(282)			(282)
Purchases of treasury stock	(448,991)				(3,593)	(3,593)
Balance at December 30, 2012	21,741,248	\$ 238	\$ 102,658	\$ 87,464	\$ (25,940)	\$ 164,420

See accompanying notes to consolidated financial statements.



**Table of Contents****BIG 5 SPORTING GOODS CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	December 30, 2012	Year Ended January 1, 2012	January 2, 2011
Cash flows from operating activities:			
Net income	\$ 14,915	\$ 11,673	\$ 20,562
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	18,895	18,544	18,627
Impairment of store assets	208	2,116	
Share-based compensation	1,736	1,798	1,727
Excess tax benefit related to share-based awards	(222)	(90)	(327)
Amortization of debt issuance costs	254	314	135
Deferred income taxes	(3,054)	197	(2,793)
(Gain) loss on disposal of property and equipment	(8)	(250)	18
Changes in operating assets and liabilities:			
Accounts receivable, net	(2,441)	2,144	(1,602)
Merchandise inventories, net	(6,072)	(10,061)	(23,306)
Prepaid expenses and other assets	(2,078)	(432)	2,008
Accounts payable	12,853	(19,789)	10,070
Accrued expenses and other long-term liabilities	4,618	(3,946)	4,748
Net cash provided by operating activities	39,604	2,218	29,867
Cash flows from investing activities:			
Purchases of property and equipment	(12,901)	(12,990)	(15,628)
Proceeds from solar energy rebate	250	500	
Proceeds from disposal of property and equipment	1	502	4
Net cash used in investing activities	(12,650)	(11,988)	(15,624)
Cash flows from financing activities:			
Principal borrowings under revolving credit facility	211,824	225,597	109,919
Principal payments under revolving credit facility	(227,839)	(210,434)	(61,606)
Net principal payments under previous revolving credit facility			(54,955)
Changes in book overdraft	2,172	3,681	(991)
Debt issuance costs		(304)	(1,305)
Principal payments under capital lease obligations	(1,815)	(2,102)	(2,065)
Proceeds from exercise of share option awards	1,491	316	757
Excess tax benefit related to share-based awards	222	90	327
Purchases of treasury stock	(3,518)	(981)	
Tax withholding payments for share-based compensation	(282)	(283)	(143)
Dividends paid	(6,474)	(6,530)	(4,326)
Net cash (used in) provided by financing activities	(24,219)	9,050	(14,388)
Net increase (decrease) in cash and cash equivalents	2,735	(720)	(145)
Cash and cash equivalents at beginning of year	4,900	5,620	5,765
Cash and cash equivalents at end of year	\$ 7,635	\$ 4,900	\$ 5,620

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Supplemental disclosures of non-cash investing and financing activities:			
Property and equipment acquired under capital leases	\$	1,632	\$ 3,551 \$ 1,381
Property and equipment purchases accrued	\$	2,094	\$ 776 \$ 1,470
Solar energy rebate receivable	\$		\$ 250 \$
Supplemental disclosures of cash flow information:			
Interest paid	\$	2,001	\$ 2,182 \$ 1,882
Income taxes paid	\$	9,767	\$ 4,658 \$ 15,384

See accompanying notes to consolidated financial statements.

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**BIG 5 SPORTING GOODS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Description of Business**

The accompanying consolidated financial statements as of December 30, 2012 and January 1, 2012 and for the years ended December 30, 2012 ( fiscal 2012 ), January 1, 2012 ( fiscal 2011 ) and January 2, 2011 ( fiscal 2010 ), represent the financial position, results of operations and cash flows of Big 5 Sporting Goods Corporation (the Company ) and its wholly owned subsidiary, Big 5 Corp. and Big 5 Corp. s wholly owned subsidiary, Big 5 Services Corp. The Company operates as one reportable segment, as a sporting goods retailer under the Big 5 Sporting Goods name. The Company carries a full-line product offering, operating 414 stores at December 30, 2012 in California, Washington, Arizona, Oregon, Texas, New Mexico, Nevada, Utah, Idaho, Colorado, Oklahoma and Wyoming.

**(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 2012, 2011 and 2010 each included 52 weeks.

**Recently Issued Accounting Updates**

In September 2011, the Financial Accounting Standards Board issued Accounting Standards Update ( ASU ) No. 2011-08, *Intangibles Goodwill and Other*. ASU No. 2011-08 is intended to simplify goodwill impairment testing by adding a qualitative review step to assess whether the required quantitative impairment analysis that exists today is necessary. ASU No. 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Additionally, an entity has the option to bypass the qualitative assessment in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. ASU No. 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU No. 2011-08 in fiscal 2012 did not have 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 accounting principles generally accepted in the United States of America ( 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.



**Table of Contents****BIG 5 SPORTING GOODS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**Segment Reporting**

The Company operates solely as a sporting goods retailer 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 and offer essentially the same general product mix. The Company's core customer demographic remains similar chainwide, as does the Company's process for the procurement and marketing of its product mix. Furthermore, the Company distributes its product mix chainwide 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:

	2012	Fiscal Year 2011 (In thousands)	2010
Hard goods	\$ 514,942	\$ 491,493	\$ 491,106
Athletic and sport apparel	152,648	145,209	143,994
Athletic and sport footwear	271,596	262,558	259,889
Other sales	1,304	2,874	1,824
Net sales	\$ 940,490	\$ 902,134	\$ 896,813

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

Cash received from the sale of gift cards is recorded as a liability, and revenue is recognized upon the redemption of the gift card or when it is determined that the likelihood of redemption is remote ( gift card breakage ) and no liability to relevant jurisdictions exists. The Company determines the gift card breakage rate based upon historical redemption patterns and recognizes gift card breakage on a straight-line basis over the estimated gift card redemption period (20 quarters as of the end of fiscal 2012). The Company recognized approximately \$0.4 million, \$0.4 million and \$0.4 million in gift card breakage revenue for fiscal 2012, 2011 and 2010, respectively.

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**BIG 5 SPORTING GOODS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

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*.

Included in revenue are sales of returned merchandise to vendors specializing in the resale of defective or used products, which accounted for less than 1% of net sales in each of the periods reported.

**Cost of Sales**

Cost of sales includes the cost of merchandise, net of discounts or allowances earned, freight, inventory reserves, buying, distribution center costs and store occupancy costs. Store occupancy costs include 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 costs, 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 Costs**

Advertising costs are expensed when the advertising first occurs. Advertising expense, net of co-operative advertising allowances, amounted to \$45.9 million, \$47.6 million and \$44.9 million for fiscal 2012, 2011 and 2010, 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 cost eligible for the credit. Co-operative advertising allowances recognized as a reduction to selling and administrative expense amounted to \$6.2 million, \$6.2 million and \$6.9 million for fiscal 2012, 2011 and 2010, 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 15 to the consolidated financial statements for a further discussion on share-based compensation.

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**BIG 5 SPORTING GOODS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**Pre-opening Costs**

Pre-opening costs for new stores, which consist primarily of payroll and recruiting costs, training, marketing, rent, travel and supplies, are expensed as incurred.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand and all highly liquid instruments purchased with a maturity of three months or less at the date of purchase. Book overdrafts are recorded in accounts payable and accrued expenses.

**Accounts Receivable**

Accounts receivable consist primarily of third party purchasing card receivables, amounts due from inventory vendors for returned products 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.

**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 costs and allocated overhead costs associated with the Company's distribution center.

Management regularly reviews inventories and records valuation reserves for merchandise damage and defective returns, 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 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 costs such as insurance, rent, property taxes, software maintenance and supplies, which are expensed when the operating cost is realized. Prepaid expenses also include the purchase of seasonal fish and game licenses from certain state and federal governmental agencies. The Company has a right to return these licenses if they are unsold. The prepaid expenses associated with seasonal fish and game licenses totaled \$0.4 million and \$0.5 million as of December 30, 2012 and January 1, 2012, respectively.

**Table of Contents****BIG 5 SPORTING GOODS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(continued)****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:

Buildings	20 years
Leasehold improvements	Shorter of estimated useful life or term of lease
Furniture and equipment	3 - 10 years

Maintenance and repairs are expensed as incurred.

**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 2012, 2011 and 2010, and determined that goodwill was not impaired.

**Valuation of Long-Lived Assets**

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

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

The Company determines the sum of the undiscounted cash flows expected to result from the asset group by projecting future revenue, gross margin, operating expense and advertising expense for each store under consideration for impairment. The estimates of future cash flows involve management judgment and are based upon assumptions about expected future operating performance. Assumptions used in these forecasts are consistent with internal planning, and include assumptions about sales growth rates, gross margins, operating expense and advertising 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 2012 and 2011, the Company recognized pre-tax non-cash impairment charges of \$0.2 million and \$2.1 million, respectively, related to certain underperforming stores. These impairment charges are included in selling and administrative expense for fiscal 2012 and 2011 in the consolidated statements of operations. No long-lived asset impairment charges were incurred during fiscal 2010.

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**BIG 5 SPORTING GOODS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**Leases and Deferred Rent**

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

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

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

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

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

**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.

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 costs 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 \$0.7 million and \$0.6 million as of December 30, 2012 and January 1, 2012, 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 costs under the self-insured

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**BIG 5 SPORTING GOODS CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

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 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 \$10.4 million and \$8.2 million as of December 30, 2012 and January 1, 2012, respectively, of which \$4.0 million and \$3.5 million were recorded as a component of accrued expenses as of December 30, 2012 and January 1, 2012, respectively, and \$6.4 million and \$4.7 million were recorded as a component of other long-term liabilities as of December 30, 2012 and January 1, 2012, respectively, in the accompanying consolidated balance sheets.

**Income Taxes**

Under the asset and liability method prescribed under ASC 740, *Income Taxes*, the Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The realizability of deferred tax assets is assessed throughout the year and a valuation allowance is recorded if necessary to reduce net deferred tax assets to the amount more likely than not to be realized.

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 December 30, 2012 and January 1, 2012, the Company had no accrued interest or penalties.

**Concentration of Risk**

The Company maintains its cash and cash equivalents accounts in financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Company performs ongoing evaluations of these institutions to limit its concentration risk exposure.

The Company operates traditional sporting goods retail stores located principally 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, earthquakes and other natural disasters specific to the states in which the Company operates.

The Company relies on a single distribution center located in Riverside, California, which services all of its stores. 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.

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A substantial amount of the Company's inventory is manufactured abroad, and shipped through the Port of Los Angeles. From time to time, shipping ports experience capacity constraints, labor strikes, work stoppages or other disruptions that may delay the delivery of imported products. In addition, acts of terrorism could significantly disrupt operations at shipping ports or otherwise impact transportation of the Company's imported merchandise. Disruptions at the Port of Los Angeles, or other shipping ports, may result in delays in the transportation of such products to the Company's distribution center and may ultimately delay the Company's ability to adequately stock its stores.

The Company purchases merchandise from approximately 800 suppliers, and the Company's 20 largest suppliers accounted for 37.9% of total purchases in fiscal 2012. One vendor represented greater than 5% of total purchases, at 9.0%, in fiscal 2012. A significant portion of the Company's inventory is manufactured abroad in countries such as China, Taiwan and South Korea. 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. Currently, there continues to be uncertainty in the financial and capital markets. The uncertainty in the market 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:

	December 30, 2012	January 1, 2012
	(In thousands)	
Furniture and equipment	\$ 129,904	\$ 128,861
Leasehold improvements	120,023	111,959
	249,927	240,820
Accumulated depreciation and amortization	(178,551)	(166,227)
	71,376	74,593
Assets not placed into service	713	776
Property and equipment, net	\$ 72,089	\$ 75,369

Depreciation expense associated with property and equipment, including assets leased under capital leases, was \$10.1 million, \$9.8 million and \$9.8 million for fiscal 2012, 2011 and 2010, respectively. Amortization expense for leasehold improvements was \$8.8 million, \$8.8 million and \$8.8 million for fiscal 2012, 2011 and 2010, respectively. The gross cost of equipment under capital leases, included above, was \$10.1 million and \$10.1 million as of December 30, 2012 and January 1, 2012, respectively. The accumulated amortization related to these capital leases was \$4.5 million and \$3.9 million as of December 30, 2012 and January 1, 2012, respectively.

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**(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 2012 and 2011, the Company recognized pre-tax non-cash impairment charges of \$0.2 million and \$2.1 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 makes assumptions, incorporating local market conditions, about key store variables including sales growth rates, gross margin, operating expense and advertising expense. If economic conditions in the markets in which the Company conducts business remain weak or further deteriorate, 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 2012 and 2011 in the consolidated statements of operations. No impairment charges were recognized in fiscal 2010.

**(5) Store Closing Costs**

The Company closed four underperforming stores in fiscal 2012, which will not be relocated. The store closing costs primarily consist of remaining lease rental payments related to non-cancelable leases that expire in fiscal 2014. The following table summarizes the activity of the Company's store closing reserves:

	Severance Costs	Lease Termination Costs	Other Associated Costs	Total
	(In thousands)			
Balance at January 1, 2012	\$	\$	\$	\$
Store closing costs	19	1,094	137	1,250
Payments	(19)	(276)	(137)	(432)
Balance at December 30, 2012	\$	\$ 818	\$	\$ 818

The Company recorded \$1.2 million of expense related to the closure of these underperforming stores in fiscal 2012. This expense is reflected as part of selling and administrative expense in the accompanying consolidated statement of operations.

The current portion of accrued store closing costs is recorded in accrued expenses and the noncurrent portion is recorded in other long-term liabilities in the accompanying consolidated balance sheet.

**(6) Fair Value Measurements**

The carrying values of cash and cash equivalents, 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. The carrying values of certain assets subject to long-lived asset impairment are measured at fair value subsequent to their initial recognition.

During fiscal 2012, the Company's only significant assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition were certain assets subject to long-lived asset impairment. As discussed in Note 4 to the consolidated financial statements, the



Company estimated the fair

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(continued)

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, 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.

**(7) Accrued Expenses**

The major components of accrued expenses are as follows:

	December 30, 2012	January 1, 2012
	(In thousands)	
Payroll and related expense	\$ 21,383	\$ 19,691
Sales tax	10,214	9,235
Occupancy costs	9,647	8,722
Advertising	6,036	7,685
Other	20,273	17,214
Accrued expenses	\$ 67,553	\$ 62,547

**(8) 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:

	December 30, 2012	Year Ended January 1, 2012	January 2, 2011
	(In thousands)		
Rent expense	\$ 60,181	\$ 57,456	\$ 55,732
Contingent rent	1,074	1,100	1,423
Total rent expense	\$ 61,255	\$ 58,556	\$ 57,155

Rent expense includes sublease rent income of \$0.3 million, \$0.3 million and \$0.3 million for fiscal 2012, 2011 and 2010, respectively.

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Future minimum lease payments under non-cancelable leases, with lease terms in excess of one year, as of December 30, 2012 are as follows:

Year Ending:	Capital Leases	Operating Leases (In thousands)	Total
2013	\$ 1,874	\$ 67,097	\$ 68,971
2014	1,520	60,001	61,521
2015	847	48,689	49,536
2016	406	35,251	35,657
2017	176	26,005	26,181
Thereafter	51	62,007	62,058
<b>Total minimum lease payments</b>	<b>4,874</b>	<b>\$ 299,050</b>	<b>\$ 303,924</b>
Imputed interest		(299)	
<b>Present value of minimum lease payments</b>	<b>\$ 4,575</b>		

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.

**(9) Long-Term Debt**

On October 18, 2010, the Company entered into a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent, and a syndicate of other lenders. Initial borrowings under the Credit Agreement were used to, among other things, repay all of the Company's outstanding indebtedness under its prior financing agreement, at which time the prior financing agreement was terminated. On October 31, 2011, the Company amended certain provisions of its Credit Agreement.

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.

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 Company's 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.



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

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

The amendment reduced the commitment fee assessed on the unused portion of the Credit Facility to 0.375% per annum. The amendment also extended the maturity date of the Credit Agreement from October 18, 2014 to October 31, 2016 and modified the provisions for restricting certain payments and investments.

At December 30, 2012 and January 1, 2012, the one-month LIBO rate was 0.3% and 0.4%, respectively, and the Wells Fargo Bank prime lending rate was 3.25% and 3.25%, respectively. The average interest rate on the Company's revolving credit borrowings during fiscal 2012 and 2011 was 2.18% and 2.53%, respectively. On December 30, 2012 and January 1, 2012, the Company had borrowings outstanding bearing interest at both LIBO and the prime lending rates as follows:

	December 30, 2012	January 1, 2012
	(In thousands)	
LIBO rate	\$ 43,000	\$ 50,000
Prime rate	4,461	13,476
<b>Total borrowings</b>	<b>\$ 47,461</b>	<b>\$ 63,476</b>

Total remaining borrowing availability, after subtracting letters of credit, was \$88.2 million and \$72.8 million as of December 30, 2012 and January 1, 2012, respectively.

Based on terms of the Credit Agreement, the Company has presented its cash flows related to borrowing and repayment activities under the revolving credit facility on a gross basis for fiscal 2012, 2011 and beginning October 18, 2010.

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**(10) Income Taxes**

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

	Current	Deferred (In thousands)	Total
<b>Fiscal 2012:</b>			
Federal	\$ 10,119	\$ (2,736)	\$ 7,383
State	1,790	(318)	1,472
	\$ 11,909	\$ (3,054)	\$ 8,855
<b>Fiscal 2011:</b>			
Federal	\$ 3,250	\$ 821	\$ 4,071
State	1,486	(624)	862
	\$ 4,736	\$ 197	\$ 4,933
<b>Fiscal 2010:</b>			
Federal	\$ 11,747	\$ (2,216)	\$ 9,531
State	2,600	(577)	2,023
	\$ 14,347	\$ (2,793)	\$ 11,554

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

	December 30, 2012	Year Ended January 1, 2012 (In thousands)	January 2, 2011
Tax expense at statutory rate	\$ 8,320	\$ 5,812	\$ 11,240
State taxes, net of federal benefit	1,088	765	1,485
Tax credits and other	(553)	(1,644)	(1,171)
	\$ 8,855	\$ 4,933	\$ 11,554

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

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	December 30, 2012	January 1, 2012
	(In thousands)	
Deferred tax assets:		
Deferred rent	\$ 9,960	\$ 10,297
Share-based compensation	3,696	3,787
Inventory	1,982	1,081
Other	11,512	10,854
Deferred tax assets	27,150	26,019
Deferred tax liabilities basis difference in fixed assets	(2,450)	(4,373)
Net deferred tax assets	\$ 24,700	\$ 21,646

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

The Company files a consolidated federal income tax return and files tax returns in various state and local jurisdictions. The statutes of limitations for its consolidated federal income tax returns are open for fiscal years 2009 and after, and state and local income tax returns are open for fiscal years 2008 and after.

Effective January 2, 2013, The American Taxpayer Relief Act of 2012 was enacted, which contained provisions that retroactively reinstated the work opportunity tax credit ( WOTC ) and the 15 year cost recovery life of qualified leasehold improvements from January 1, 2012 through December 31, 2013. As a result of this legislation, the Company expects to apply WOTC of approximately \$0.3 million for amounts generated in 2012 to its fiscal 2013 first quarter tax provision, resulting in a reduction to its estimated effective tax rate for the 2013 first quarter of approximately 260 basis points, based on current estimates of the Company's 2013 pre-tax income. The Company also expects to increase the 2012 federal depreciation deduction in its fiscal 2013 first quarter tax provision by approximately \$2.8 million, which would result in a balance sheet reclassification reducing deferred tax assets and income taxes payable by approximately \$1.0 million.

At December 30, 2012 and January 1, 2012, the Company had no unrecognized tax benefits that, if recognized, would affect the Company's effective income tax rate over the next 12 months. The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expense. At December 30, 2012 and January 1, 2012, the Company had no accrued interest or penalties.

**(11) 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.



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

	December 30, 2012	Year Ended January 1, 2012	January 2, 2011
	(In thousands, except per share data)		
Net income	\$ 14,915	\$ 11,673	\$ 20,562
Weighted-average shares of common stock outstanding:			
Basic	21,394	21,656	21,552
Dilutive effect of common stock equivalents arising from share option, nonvested share and nonvested share unit awards	222	213	338
Diluted	21,616	21,869	21,890
Basic earnings per share	\$ 0.70	\$ 0.54	\$ 0.95
Diluted earnings per share	\$ 0.69	\$ 0.53	\$ 0.94

The computation of diluted earnings per share for fiscal 2012, 2011 and 2010 does not include share option awards in the amounts of 1,240,966, 1,043,480 and 892,499, respectively, that were outstanding and antidilutive (i.e., including such share option awards would result in higher earnings per share), since the exercise prices of these share option awards exceeded the average market price of the Company's common shares. Additionally, the computation of diluted earnings per share for fiscal 2011 and 2010 does not include nonvested share awards and nonvested share unit awards in the amounts of 118,312 and 183 shares, respectively, that were outstanding and antidilutive, since the grant date fair values of these nonvested share awards exceeded the average market price of the Company's common shares. No nonvested share awards and nonvested share unit awards were antidilutive for fiscal 2012.

In the fourth quarter of fiscal 2011, the Company resumed its share repurchase activity under its share repurchase program, repurchasing 109,550 shares of common stock for \$1.0 million in fiscal 2011 and 448,991 shares of common stock for \$3.6 million in fiscal 2012. The Company did not repurchase shares of common stock during fiscal 2010. Since the inception of the Company's initial share repurchase program in May 2006 through December 30, 2012, the Company has repurchased a total of 1,927,626 shares for \$25.4 million, leaving a total of \$9.6 million available for share repurchases under the current share repurchase program.

**(12) Employee Benefit Plans**

The Company has a 401(k) plan covering eligible employees. Employee contributions are supplemented by Company contributions subject to 401(k) plan terms. The Company recognized employer matching and profit-sharing contributions of \$1.8 million, \$1.7 million and \$1.9 million for fiscal 2012, 2011 and 2010, respectively.

**(13) Related Party Transactions**

G. Michael Brown is a director of the Company and a partner of the law firm of Musick, Peeler & Garrett LLP. From time to time, the Company retains Musick, Peeler & Garrett LLP to handle various litigation matters. The Company received services from Musick, Peeler & Garrett LLP amounting to \$1.0 million, \$0.8 million and \$0.6 million in fiscal 2012, 2011 and 2010, respectively. Amounts due to Musick, Peeler & Garrett LLP totaled \$130,000 and \$59,000 as of December 30, 2012 and January 1, 2012, respectively.



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Prior to his death in fiscal 2008, the Company had an employment agreement with Robert W. Miller ( Mr. Miller ), co-founder of the Company and the father of Steven G. Miller, Chairman of the Board, President, Chief Executive Officer and a director of the Company, and Michael D. Miller, a director of the Company. The employment agreement provided for Mr. Miller to receive an annual base salary of \$350,000. The employment agreement further provided that, following his death, the Company will pay his surviving wife \$350,000 per year and provide her specified benefits for the remainder of her life. During fiscal 2012, 2011 and 2010, the Company made a payment of \$350,000 to Mr. Miller's wife. The Company recognized expense of \$0.3 million, \$0.3 million and \$0.3 million in fiscal 2012, 2011 and 2010, respectively, to provide for a liability for the future obligations under this agreement. Based upon actuarial valuation estimates related to this agreement, the Company recorded a liability of \$1.6 million and \$1.7 million as of December 30, 2012 and January 1, 2012, respectively. The short-term portion of this liability is recorded in accrued expenses and the long-term portion is recorded in other long-term liabilities.

**(14) Commitments and Contingencies**

The Company was served on the following dates with the following nine complaints, each of which was brought as a purported class action on behalf of persons who made purchases at the Company's stores in California using credit cards and were requested or required to provide personal identification information at the time of the transaction: (1) on February 22, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Maria Eugenia Saenz Valiente v. Big 5 Sporting Goods Corporation*, et al., Case No. BC455049; (2) on February 22, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Scott Mossler v. Big 5 Sporting Goods Corporation*, et al., Case No. BC455477; (3) on February 28, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Yelena Matatova v. Big 5 Sporting Goods Corporation*, et al., Case No. BC455459; (4) on March 8, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Neal T. Wiener v. Big 5 Sporting Goods Corporation*, et al., Case No. BC456300; (5) on March 22, 2011, a complaint filed in the California Superior Court in the County of San Francisco, entitled *Donna Motta v. Big 5 Sporting Goods Corporation*, et al., Case No. CGC-11-509228; (6) on March 30, 2011, a complaint filed in the California Superior Court in the County of Alameda, entitled *Steve Holmes v. Big 5 Sporting Goods Corporation*, et al., Case No. RG11563123; (7) on March 30, 2011, a complaint filed in the California Superior Court in the County of San Francisco, entitled *Robin Nelson v. Big 5 Sporting Goods Corporation*, et al., Case No. CGC-11-508829; (8) on April 8, 2011, a complaint filed in the California Superior Court in the County of San Joaquin, entitled *Pamela B. Smith v. Big 5 Sporting Goods Corporation*, et al., Case No. 39-2011-00261014-CU-BT-STK; and (9) on May 31, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Deena Gabriel v. Big 5 Sporting Goods Corporation*, et al., Case No. BC462213. On June 16, 2011, the Judicial Council of California issued an Order Assigning Coordination Trial Judge designating the California Superior Court in the County of Los Angeles as having jurisdiction to coordinate and to hear all nine of the cases as Case No. JCCP4667. On October 21, 2011, the plaintiffs collectively filed a Consolidated Amended Complaint, alleging violations of the California Civil Code, negligence, invasion of privacy and unlawful intrusion. The plaintiffs allege, among other things, that customers making purchases with credit cards at the Company's stores in California were improperly requested to provide their zip code at the time of such purchases. The plaintiffs seek, on behalf of the class members, the following: statutory penalties; attorneys' fees; costs; restitution of property; disgorgement of profits; and injunctive relief. On February 6, 2013 and February 19, 2013, the Company and plaintiffs engaged in Mandatory Settlement Conferences conducted by the court in an effort to negotiate a settlement of this litigation. In connection therewith, the Company received from the plaintiffs an offer to settle this litigation, which the Company is currently considering. Based on the terms of the settlement offer, the Company currently believes that a settlement of this litigation will not have a material negative impact on the Company's results of operations or financial condition. However, if the plaintiffs and the Company are

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unable to negotiate a settlement, the Company intends to defend this litigation vigorously. If this litigation were to be resolved unfavorably to the Company, such litigation and the costs of defending it could have a material negative impact on the Company's results of operations or financial condition.

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

**(15) Share-Based Compensation Plans**

**2002 Stock Incentive Plan**

In June 2002, the Company adopted the 2002 Stock Incentive Plan ( 2002 Plan ). The 2002 Plan provided for the grant of incentive share option awards and non-qualified share option awards to the Company's employees, directors and specified consultants. Share option awards granted under the 2002 Plan generally vested and became exercisable at the rate of 25% per year with a maximum life of ten years. Upon exercise of granted share option awards, shares are expected to be issued from new shares previously registered for the 2002 Plan. The 2002 Plan was terminated in connection with the approval of the 2007 Equity and Performance Incentive Plan, as described below. Consequently, at December 30, 2012, no shares remained available for future grant and 843,650 share option awards remained outstanding under the 2002 Plan, subject to adjustment to reflect any changes in the outstanding common stock of the Company by reason of any reorganization, recapitalization, reclassification, stock combination, stock dividend, stock split, reverse stock split, spin off or other similar transaction.

**2007 Equity and Performance Incentive Plan**

In June 2007, the Company adopted the 2007 Equity and Performance Incentive Plan ( 2007 Plan ) and cancelled the 2002 Plan. The aggregate amount of shares authorized for issuance under the 2007 Plan is 2,399,250 shares of common stock of the Company, plus any shares subject to awards granted under the 2002 Plan which are forfeited, expire or are cancelled after April 24, 2007 (the effective date of the 2007 Plan). This amount represents the amount of shares that remained available for grant under the 2002 Plan as of April 24, 2007. Awards under the 2007 Plan may consist of share option awards (both incentive share option awards and non-qualified share option awards), stock appreciation rights, nonvested share awards, other stock unit awards, performance awards, or dividend equivalents. Any shares that are subject to awards of options or stock appreciation rights shall be counted against this limit as one share for every one share granted, regardless of the number of shares actually delivered pursuant to the awards. Any shares that are subject to awards other than share option awards or stock appreciation rights (including shares delivered on the settlement of dividend equivalents) shall be counted against this limit as 2.5 shares for every one share granted. The aggregate number of shares available under the 2007 Plan and the number of shares subject to outstanding share option awards will be increased or decreased to reflect any changes in the outstanding common stock of the Company by reason of any recapitalization, spin-off, reorganization, reclassification, stock dividend, stock split, reverse stock split, or similar transaction. Share option awards granted under the 2007 Plan generally vest and become exercisable at the rate of 25% per year with a maximum life of ten years. Share option awards, nonvested share awards and nonvested share unit awards provide for accelerated vesting if there is a change in control. The exercise price of the share option awards is equal to the quoted market price of the Company's common stock on the date of grant. Upon the grant of nonvested share awards or the exercise of granted share option awards, shares are expected to be issued from new shares which were registered for the 2007 Plan.

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*Amendment and Restatement of 2007 Plan*

On June 14, 2011, the Company's shareholders approved an amendment and restatement of the Company's 2007 Equity and Performance Incentive Plan (as so amended and restated, the Amended 2007 Plan). The Amended 2007 Plan did not result in any modifications to any of the Company's outstanding share-based payment awards. Generally, the amendment and restatement made the following revisions to the 2007 Plan that had been adopted as of April 24, 2007:

the maximum number of shares of the Company's common stock that may be issued or subject to awards under the Amended 2007 Plan was increased by 1,250,000 from the number authorized by the 2007 Plan;

the term of the Amended 2007 Plan was extended through April 26, 2021 (i.e., by approximately four years from the scheduled expiration of the 2007 Plan);

the continuation of the terms of Article X of the Amended 2007 Plan was approved for purposes of Section 162(m) of the Internal Revenue Code; and

certain technical updates and enhancements were implemented, including an exception to certain vesting requirements for up to 10% of the shares authorized under the Amended 2007 Plan.

These principal features of the Amended 2007 Plan are not intended to be a complete discussion of all of the terms of the Amended 2007 Plan. A copy of the Amended 2007 Plan was filed in a Current Report on Form 8-K in the second quarter of fiscal 2011.

In fiscal 2012, the Company granted 145,100 nonvested share awards, 12,000 nonvested share unit awards and 15,000 share option awards to certain employees, as defined by ASC 718, *Compensation - Stock Compensation*, under the Amended 2007 Plan. At December 30, 2012, 1,407,315 shares remained available for future grant and 656,600 share option awards, 331,625 nonvested share awards and 18,750 nonvested share unit awards remained outstanding under the Amended 2007 Plan.

The Company accounts for its share-based compensation in accordance with ASC 718 and recognizes compensation expense on a straight-line basis over the requisite service period, net of estimated forfeitures, using the fair-value method for share option awards, nonvested share awards and nonvested share unit awards granted with service-only conditions. The estimated forfeiture rate considers historical employee turnover rates stratified into employee pools in comparison with an overall employee turnover rate, as well as expectations about the future. The Company periodically revises the estimated forfeiture rate in subsequent periods if actual forfeitures differ from those estimates. Compensation expense recorded under this method for fiscal 2012, 2011 and 2010 was \$1.7 million, \$1.8 million and \$1.7 million, respectively, which reduced operating income and income before income taxes by the same amount. Compensation expense recognized in cost of sales was \$0.1 million, \$0.1 million and \$0.1 million in fiscal 2012, 2011 and 2010, respectively, and compensation expense recognized in selling and administrative expense was \$1.6 million, \$1.7 million and \$1.6 million in fiscal 2012, 2011 and 2010, respectively. The recognized tax benefit related to compensation expense for fiscal 2012, 2011 and 2010 was \$0.6 million, \$0.5 million and \$0.6 million, respectively. Net income for fiscal 2012, 2011 and 2010 was reduced by \$1.1 million, \$1.3 million and \$1.1 million, respectively, or \$0.05, \$0.06 and \$0.05 per basic and diluted share, respectively.

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**BIG 5 SPORTING GOODS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**Share Option Awards**

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

	Year Ended		
	December 30, 2012	January 1, 2012	January 2, 2011
Risk-free interest rate	1.2%	2.0%	2.4%
Expected term	7.70 years	7.30 years	6.50 years
Expected volatility	53.0%	51.0%	55.2%
Expected dividend yield	4.7%	3.8%	1.5%

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

The weighted-average grant-date fair value of share option awards granted for fiscal 2012, 2011 and 2010 was \$2.12 per share, \$2.84 per share and \$6.26 per share, respectively.

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

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2012	1,746,278	\$ 14.25		
Granted	15,000	6.33		
Exercised	(200,680)	7.42		
Forfeited or Expired	(60,348)	15.23		
Outstanding at December 30, 2012	1,500,250	\$ 15.05	3.98	\$ 3,875,372
Exercisable at December 30, 2012	1,323,887	\$ 16.26	3.58	\$ 2,699,808
Vested and Expected to Vest at December 30, 2012	1,499,184	\$ 15.05	3.97	\$ 3,869,553

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based upon the Company's closing stock price of \$12.57 as of December 30, 2012, which would have been received by the share option award holders had all share option award holders exercised their share option awards as of that date.

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The total intrinsic value of share option awards exercised for fiscal 2012, 2011 and 2010 was approximately \$1.0 million, \$0.2 million and \$0.9 million, respectively. The total cash received from employees as a result of employee share option award exercises for fiscal 2012, 2011 and 2010 was approximately \$1.5 million, \$0.3 million and \$0.8 million, respectively. The actual tax benefit realized for the tax deduction from share option award exercises of share-based compensation awards in fiscal 2012, 2011 and 2010 totaled \$0.4 million, \$0.1 million and \$0.3 million, respectively.

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**Table of Contents****BIG 5 SPORTING GOODS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

As of December 30, 2012, there was \$0.2 million of total unrecognized compensation cost related to nonvested share option awards granted. That cost is expected to be recognized over a weighted-average period of 1.0 year.

**Nonvested Share Awards and Nonvested Share Unit Awards**

Nonvested share awards and nonvested share unit awards granted by the Company vest from the date of grant in four equal annual installments of 25% per year with a maximum life of ten years. Nonvested share awards are delivered to the recipient upon their vesting. With respect to nonvested share unit awards, vested shares will be delivered to the recipient on the tenth business day of January following the year in which the recipient's service to the Company is terminated. The total fair value of nonvested share awards which vested during fiscal 2012, 2011 and 2010 was \$0.8 million, \$0.8 million and \$0.5 million, respectively.

The following table details the Company's nonvested share awards activity for fiscal 2012:

	Shares	Weighted- Average Grant- Date Fair Value
Balance at January 1, 2012	304,700	\$ 13.03
Granted	145,100	7.79
Vested	(107,675)	12.34
Forfeited	(10,500)	11.54
Balance at December 30, 2012	331,625	\$ 11.01

The following table details the Company's nonvested share unit awards activity for fiscal 2012:

	Units	Weighted- Average Grant- Date Fair Value
Balance at January 1, 2012	9,000	\$ 8.26
Granted	12,000	6.33
Vested	(2,250)	8.26
Forfeited		
Balance at December 30, 2012	18,750	\$ 7.02

The weighted-average grant-date fair value of nonvested share awards and nonvested share unit awards is the quoted market price of the Company's common stock on the date of grant, as shown in the tables above. The weighted-average grant-date fair value of nonvested share awards granted in fiscal 2012, 2011 and 2010 was \$7.79, \$11.84 and \$15.52, respectively. The weighted-average grant-date fair value per share of the Company's nonvested share unit awards granted in fiscal 2012 and 2011 was \$6.33 and \$8.26, respectively. No nonvested share unit awards were granted in fiscal 2010.

As of December 30, 2012, there was \$2.5 million and \$0.1 million of total unrecognized compensation cost related to nonvested share awards and nonvested share unit awards, respectively. That cost is expected to be recognized over a weighted-average period of approximately 2.4 years



and 3.1 years for nonvested share awards and nonvested share unit awards, respectively.

**Table of Contents****BIG 5 SPORTING GOODS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

To satisfy employee minimum statutory tax withholding requirements for nonvested share awards that vest, the Company withholds and retires a portion of the vesting common shares, unless an employee elects to pay cash. In fiscal 2012, the Company withheld 36,011 common shares with a total value of \$0.3 million. This amount is presented as a cash outflow from financing activities in the accompanying consolidated statements of cash flows.

**(16) Selected Quarterly Financial Data (unaudited)****Fiscal 2012**

	<b>First Quarter</b>	<b>Second Quarter<sup>(1)(2)</sup></b>	<b>Third Quarter<sup>(2)</sup></b>	<b>Fourth Quarter<sup>(2)</sup></b>
	<b>(In thousands, except per share data)</b>			
Net sales	\$ 218,496	\$ 226,612	\$ 251,774	\$ 243,608
Gross profit	\$ 67,428	\$ 73,076	\$ 83,873	\$ 78,392
Net income	\$ 156	\$ 2,558	\$ 8,169	\$ 4,032
Basic earnings per share	\$ 0.01	\$ 0.12	\$ 0.38	\$ 0.19
Diluted earnings per share	\$ 0.01	\$ 0.12	\$ 0.38	\$ 0.19

**Fiscal 2011**

	<b>First Quarter</b>	<b>Second Quarter<sup>(1)</sup></b>	<b>Third Quarter</b>	<b>Fourth Quarter<sup>(1)</sup></b>
	<b>(In thousands, except per share data)</b>			
Net sales	\$ 221,143	\$ 219,588	\$ 234,680	\$ 226,723
Gross profit	\$ 72,183	\$ 71,742	\$ 76,989	\$ 70,689
Net income (loss)	\$ 2,760	\$ 3,105	\$ 5,817	\$ (9)
Basic earnings per share	\$ 0.13	\$ 0.14	\$ 0.27	\$
Diluted earnings per share	\$ 0.13	\$ 0.14	\$ 0.27	\$

(1) The Company recorded a pre-tax non-cash impairment charge in the second quarter of fiscal 2012 of \$0.2 million related to certain underperforming stores. This impairment charge was included in selling and administrative expense, and reduced net income in the second quarter of fiscal 2012 by \$0.1 million, or \$0.01 per diluted share. The Company also recorded pre-tax non-cash impairment charges in the second quarter and fourth quarter of fiscal 2011 of \$0.6 million and \$1.5 million, respectively, related to certain underperforming stores. These impairment charges were included in selling and administrative expense, and reduced net income in the second quarter of fiscal 2011 by \$0.4 million, or \$0.02 per diluted share, and the fourth quarter of fiscal 2011 by \$1.1 million, or \$0.05 per diluted share.

(2) The Company recorded pre-tax charges related to store closing costs in the second, third and fourth quarters of fiscal 2012 of \$0.7 million, \$0.4 million and \$0.1 million, respectively. These charges were included in selling and administrative expense, and reduced net income in the second, third and fourth quarters of fiscal 2012 by \$0.5 million, \$0.3 million and \$48,000, respectively, or \$0.02, \$0.01 and \$0.00 per diluted share, respectively.

**(17) Subsequent Event**

In the first quarter of fiscal 2013, the Company's Board of Directors declared a quarterly cash dividend of \$0.10 per share of outstanding common stock, which will be paid on March 22, 2013 to stockholders of record as of March 8, 2013.



**Table of Contents****BIG 5 SPORTING GOODS CORPORATION****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

(In thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
<b>December 30, 2012</b>				
Allowance for doubtful receivables	\$ 142	\$ (35) <sup>(1)</sup>	\$ (8)	\$ 99
Allowance for sales returns	1,418	57		1,475
Inventory reserves	5,109	5,983	(5,941)	5,151
<b>January 1, 2012</b>				
Allowance for doubtful receivables	\$ 201	\$ (24) <sup>(2)</sup>	\$ (35)	\$ 142
Allowance for sales returns	1,488	(70)		1,418
Inventory reserves	4,607	6,047	(5,545)	5,109
<b>January 2, 2011</b>				
Allowance for doubtful receivables	\$ 223	\$ 22	\$ (44)	\$ 201
Allowance for sales returns	1,395	93		1,488
Inventory reserves	4,645	5,547	(5,585)	4,607

<sup>(1)</sup> In fiscal 2012, Charged to Costs and Expenses for allowance for doubtful receivables reflects the reversal of a prior provision of \$50,000.

<sup>(2)</sup> In fiscal 2011, Charged to Costs and Expenses for allowance for doubtful receivables reflects the reversal of a prior provision of \$50,000.

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**BIG 5 SPORTING GOODS CORPORATION**

**EXHIBIT INDEX**

**Exhibit**

<b>Number</b>	<b><u>Exhibit Description</u></b>
3.1	Amended and Restated Certificate of Incorporation of Big 5 Sporting Goods Corporation. <sup>(1)</sup>
3.2	Amended and Restated Bylaws. <sup>(1)</sup>
4.1	Specimen of Common Stock Certificate. <sup>(2)</sup>
10.1	2002 Stock Incentive Plan. <sup>(3)</sup>
10.2	Form of Amended and Restated Employment Agreement between Robert W. Miller and Big 5 Sporting Goods Corporation. <sup>(3)</sup>
10.3	Second Amended and Restated Employment Agreement, dated as of December 31, 2008, between Steven G. Miller and Big 5 Sporting Goods Corporation. <sup>(13)</sup>
10.4	Amended and Restated Indemnification Implementation Agreement between Big 5 Corp. (successor to United Merchandising Corp.) and Thrifty PayLess Holdings, Inc. dated as of April 20, 1994. <sup>(1)</sup>
10.5	Agreement and Release among Pacific Enterprises, Thrifty PayLess Holdings, Inc., Thrifty PayLess, Inc., Thrifty and Big 5 Corp. (successor to United Merchandising Corp.) dated as of March 11, 1994. <sup>(1)</sup>
10.6	Form of Indemnification Agreement. <sup>(1)</sup>
10.7	Form of Indemnification Letter Agreement. <sup>(2)</sup>
10.8	Credit Agreement, dated as of October 18, 2010, among Big 5 Corp., Big 5 Services Corp. and Big 5 Sporting Goods Corporation, Wells Fargo Bank, National Association, as Administrative Agent and Collateral Agent and Swingline Lender, the Lenders named therein, and Bank of America, N.A. as Documentation Agent. <sup>(5)</sup>
10.9	Security Agreement, dated as of October 18, 2010, among Big 5 Corp., Big 5 Services Corp. and Big 5 Sporting Goods Corporation and Wells Fargo Bank, National Association, as Collateral Agent. <sup>(5)</sup>
10.10	Guaranty, dated as of October 18, 2010, by Big 5 Sporting Goods Corporation in favor of Wells Fargo Bank, National Association, as Administrative Agent and Collateral Agent for the Lenders described therein. <sup>(5)</sup>
10.11	First Amendment to Credit Agreement, dated October 31, 2011 among Big 5 Corp., Big 5 Services Corp., Big 5 Sporting Goods Corporation, Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent and Swingline Lender, Bank of America, N.A., as Documentation Agent, and the Lenders, party thereto. <sup>(6)</sup>
10.12	Lease dated as of April 14, 2004 by and between Pannatoni Development Company, LLC and Big 5 Corp. <sup>(7)</sup>
10.13	Form of Big 5 Sporting Goods Corporation Stock Option Grant Notice and Stock Option Agreement for use with Steven G. Miller with the 2002 Stock Incentive Plan. <sup>(8)</sup>
10.14	Form of Big 5 Sporting Goods Corporation Stock Option Grant Notice and Stock Option Agreement for use with 2002 Stock Incentive Plan. <sup>(8)</sup>
10.15	Employment Offer Letter dated August 15, 2005 between Barry D. Emerson and Big 5 Corp. <sup>(9)</sup>
10.16	Severance Agreement dated as of August 9, 2006 between Barry D. Emerson and Big 5 Corp. <sup>(10)</sup>
10.17	Big 5 Sporting Goods Corporation 2007 Equity and Performance Incentive Plan (Amended and Restated as of April 26, 2011). <sup>(14)</sup>
10.18	Form of Big 5 Sporting Goods Corporation Stock Option Grant Notice and Stock Option Agreement for use with 2007 Equity and Performance Incentive Plan. <sup>(11)</sup>
10.19	Form of Big 5 Sporting Goods Corporation Restricted Stock Grant Notice and Restricted Stock Agreement for use with 2007 Equity and Performance Incentive Plan. <sup>(12)</sup>
10.20	Form of Big 5 Sporting Goods Corporation Restricted Stock Unit Agreement and Restricted Stock Unit Grant Notice approved for use with Amended and Restated 2007 Equity and Performance Incentive Plan. <sup>(14)</sup>

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**BIG 5 SPORTING GOODS CORPORATION**

**EXHIBIT INDEX**

(continued)

10.21	Independent Contractor Services Agreement, dated July 7, 2011, by and between Thomas J. Schlauch and Big 5 Corp. <sup>(15)</sup>
10.22	General Release of Claims, dated July 7, 2011, by and between Thomas J. Schlauch and Big 5 Corp. <sup>(15)</sup>
14.1	Code of Business Conduct and Ethics. <sup>(4)</sup>
21.1	Subsidiaries of Big 5 Sporting Goods Corporation. <sup>(8)</sup>
23.1	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP. <sup>(16)</sup>
31.1	Rule 13a-14(a) Certification of Chief Executive Officer. <sup>(16)</sup>
31.2	Rule 13a-14(a) Certification of Chief Financial Officer. <sup>(16)</sup>
32.1	Section 1350 Certification of Chief Executive Officer. <sup>(16)</sup>
32.2	Section 1350 Certification of Chief Financial Officer. <sup>(16)</sup>
101.INS	XBRL Instance Document. <sup>(16)</sup>
101.SCH	XBRL Taxonomy Extension Schema Document. <sup>(16)</sup>
101.CAL	XBRL Taxonomy Calculation Linkbase Document. <sup>(16)</sup>
101.DEF	XBRL Taxonomy Definition Linkbase Document. <sup>(16)</sup>
101.LAB	XBRL Taxonomy Label Linkbase Document. <sup>(16)</sup>
101.PRE	XBRL Taxonomy Presentation Linkbase Document. <sup>(16)</sup>

Attached as Exhibits 101 to this report are the following financial statements from the Company's Annual Report on Form 10-K for the year ended December 30, 2012 formatted in XBRL ( eXtensible Business Reporting Language ): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) related notes to these consolidated financial statements.

The XBRL related information in Exhibits 101 to this Annual Report on Form 10-K shall not be deemed filed or a part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.

- (1) Incorporated by reference to the Annual Report on Form 10-K filed by Big 5 Sporting Goods Corporation on March 31, 2003.
- (2) Incorporated by reference to Amendment No. 4 to the Registration Statement on Form S-1 filed by Big 5 Sporting Goods Corporation on June 24, 2002.
- (3) Incorporated by reference to Amendment No. 2 to the Registration Statement on Form S-1 filed by Big 5 Sporting Goods Corporation on June 5, 2002.
- (4) Incorporated by reference to the Annual Report on Form 10-K filed by Big 5 Sporting Goods Corporation on March 12, 2004.
- (5) Incorporated by reference to the Quarterly Report on Form 10-Q filed by Big 5 Sporting Goods Corporation on November 3, 2010.
- (6) Incorporated by reference to the Quarterly Report on Form 10-Q filed by Big 5 Sporting Goods Corporation on November 3, 2011.
- (7) Incorporated by reference to the Quarterly Report on Form 10-Q filed by Big 5 Sporting Goods Corporation on August 6, 2004.
- (8) Incorporated by reference to the Annual Report on Form 10-K filed by Big 5 Sporting Goods Corporation on September 6, 2005.

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**BIG 5 SPORTING GOODS CORPORATION**

**EXHIBIT INDEX**

**(continued)**

- (9) Incorporated by reference to the Annual Report on Form 10-K filed by Big 5 Sporting Goods Corporation on March 16, 2006.
- (10) Incorporated by reference to the Quarterly Report on Form 10-Q filed by Big 5 Sporting Goods Corporation on August 11, 2006.
- (11) Incorporated by reference to the Current Report on Form 8-K filed by Big 5 Sporting Goods Corporation on June 25, 2007.
- (12) Incorporated by reference to the Annual Report on Form 10-K filed by Big 5 Sporting Goods Corporation on March 10, 2008.
- (13) Incorporated by reference to the Current Report on Form 8-K filed by Big 5 Sporting Goods Corporation on January 6, 2009.
- (14) Incorporated by reference to the Current Report on Form 8-K filed by Big 5 Sporting Goods Corporation on June 20, 2011.
- (15) Incorporated by reference to the Current Report on Form 8-K filed by Big 5 Sporting Goods Corporation on July 13, 2011.
- (16) Filed herewith.

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