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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

AMENDMENT NO. 1

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

HIBBETT SPORTING GOODS, INC.

(Exact name of registrant as specified in its charter)

|   |  |   |
|---|--|---|
| Alabama   | 5941   | 63-1074067                              |
| (State or other jurisdiction of<br>incorporation or organization) | (Primary Standard<br>Industrial Code Number) | (I.R.S. Employer<br>Identification No.) |

451 Industrial Lane  
Birmingham, Alabama 35211  
(205) 942-4292

(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)

Susan H. Fitzgibbon  
Chief Financial Officer  
Hibbett Sporting Goods, Inc.  
451 Industrial Lane  
Birmingham, Alabama 35211  
(205) 942-4292

(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

Copies to:

|  |   |   |
|--|---|---|
| Alan Dean<br>Davis Polk & Wardwell<br>450 Lexington Avenue<br>New York, New York 10017<br>(212) 450-4000 | Gregory S. Curran<br>Balch & Bingham<br>1901 Sixth Avenue North,<br>Suite 2600<br>Birmingham, Alabama 35203<br>(205) 251-8100 | Steven Della Rocca<br>Latham & Watkins<br>885 Third Avenue,<br>Suite 1000<br>New York, New York 10022<br>(212) 906-1200 |
|--|---|---|

Approximate date of commencement of proposed sale to public: As soon as  
practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be  
offered on a delayed or continuous basis pursuant to Rule 415 under the  
Securities Act of 1933, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED JULY 16, 1996

PROSPECTUS

Shares

HIBBETT SPORTING GOODS, INC.

Common Stock

All of the shares of Common Stock, par value \$.01 per share (the "Common Stock"), being offered hereby (the "Offering") are being sold by Hibbett Sporting Goods, Inc. ("Hibbett" or the "Company"). Prior to this Offering, there has not been a public market for the Common Stock. It is currently estimated that the initial public offering price will be between \$ and \$ per share. See "Underwriting" for information relating to the factors considered in determining the initial public offering price. Application has been made to trade the Common Stock on The Nasdaq National Market under the symbol "HIBB."

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SEE "RISK FACTORS" BEGINNING ON PAGE 7 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR

ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION  
TO THE CONTRARY IS A CRIMINAL OFFENSE.

|           | Price to Public<br>----- | Underwriting Discounts<br>and Commissions (1)<br>----- | Proceeds to<br>Company (2)<br>----- |
|-----------|--------------------------|--|-------------------------------------|
| Per Share | \$                       | \$   | \$                                  |
| Total (3) | \$                       | \$   | \$                                  |

- 
- (1) For information regarding indemnification of the Underwriters, see "Underwriting."
  - (2) Before deducting expenses of the Offering estimated at \$            payable by the Company.
  - (3) The Company has granted the Underwriters a 30-day option to purchase up to            additional shares of Common Stock, solely to cover over-allotments, if any. See "Underwriting." If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be \$            , \$            and \$            , respectively.

The shares of Common Stock are being offered by the several Underwriters named herein, subject to prior sale, when, as and if accepted by them and subject to certain conditions. It is expected that certificates for the shares of Common Stock offered hereby will be available for delivery on or about            , 1996 at the offices of Smith Barney Inc., 333 West 34th Street, New York, New York 10001.

SMITH BARNEY INC.

MONTGOMERY SECURITIES

THE ROBINSON-HUMPHREY COMPANY, INC.

, 1996

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by and should be read in conjunction with the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus. All references to fiscal years of the Company in this Prospectus refer to the fiscal years ended on the Saturday nearest to January 31 of such year, except that references to the Company's fiscal years 1992 and 1993 refer to the fiscal years ended on January 31 of such year. Unless otherwise indicated, the information in this Prospectus (i) assumes that the Underwriters' over-allotment option is not exercised, (ii) assumes the Company's reincorporation in the state of Delaware, which will be completed prior to the closing of the Offering and (iii) gives effect to a 1 for            reverse stock split to be effected on            , 1996.

The Company

Hibbett Sporting Goods, Inc. ("Hibbett" or the "Company") is a leading rapidly-growing operator of full-line sporting goods stores in small to mid-sized markets in the southeastern United States. Hibbett's stores offer a broad assortment of quality athletic footwear, apparel and equipment at competitive prices with superior customer service. The

Company's merchandise assortment features a core selection of brand name merchandise emphasizing team and individual sports complemented by a selection of localized apparel and accessories designed to appeal to a wide range of customers within each market. The Company's stores are among the primary retail distribution alternatives for brand name vendors that seek to reach Hibbett's target markets. Hibbett has received the Nike Retailer Excellence Award for the Southeast region for eight consecutive years based on its performance in the full-line sporting goods category.

The Company currently operates 60 Hibbett Sports stores as well as eight smaller-format Sports Additions athletic shoe stores and three larger-format Sports & Co. superstores. Hibbett's primary retail format and growth vehicle is Hibbett Sports, a 5,000 square foot store located predominantly in enclosed malls. Hibbett Sports is typically the primary, full-line sporting goods retailer in its markets because of, among other factors, its more extensive selection of traditional team and individual sports merchandise and its superior customer service.

#### Key Business Strategies

**Unique Emphasis on Small Markets.** The Company targets markets ranging in population from 30,000 to 250,000. Management believes that Hibbett is currently targeting markets of this size in the Southeast more aggressively than any of its competitors. By targeting smaller markets, the Company believes that it is able to achieve significant strategic advantages, including numerous expansion opportunities, comparatively low operating costs and a more limited competitive environment than generally faced in larger markets. In addition, the Company establishes greater customer and vendor recognition as the leading full-line sporting goods retailer in the local community.

**Strong Regional Focus.** With over 30 years of experience as a full-line sporting goods retailer in the Southeast, Hibbett benefits from strong name recognition, a loyal customer base and operating and cost efficiencies. Although the core merchandise assortment tends to be similar for each Hibbett Sports store, important local and regional differences frequently exist. Management believes that its ability to merchandise to local sporting or community interests differentiates Hibbett from its national competitors. The Company's regional focus also enables it to achieve significant cost benefits including lower corporate expenses, reduced distribution costs and increased economies of scale from its marketing activities.

**Low Cost Culture.** In addition to the cost benefits of the Company's small market emphasis and regional focus, over its long operating history Hibbett has maintained a low cost corporate culture. Management exercises tight control over store level operating expenses, real estate costs and corporate overhead. The Company's management information systems enable senior management to make timely and informed merchandise decisions, maintain tight inventory control and monitor store-level financial performance in a timely manner.

**Emphasis on Training and Customer Satisfaction.** Management seeks to exceed customer expectations in order to build loyalty and generate repeat business. The Company hires enthusiastic sales personnel with an interest in sports and provides them with extensive training to create a sales staff with strong product knowledge dedicated to outstanding customer service. Hibbett's training programs focus on both selling skills and continuing product/technical training and are conducted through in-store clinics, video presentations and interactive group discussions.

**Investment in Management and Infrastructure.** The Company's experienced management team and its recently upgraded information and distribution systems are expected to facilitate the Company's future growth. The Company's new headquarters and distribution center is currently capable of servicing in excess of 150 Hibbett Sports stores and

has significant expansion potential to support the Company's growth for the foreseeable future. Through its comprehensive information systems, the Company monitors all aspects of store operations on a daily basis and is able to control inventory levels and operating costs.

#### Expansion Strategy

The Company is accelerating its rate of new store openings to take advantage of the growth opportunities in its target markets. As the Company continues to expand, it is anticipated that Hibbett Sports will remain its primary growth vehicle. The Company plans to open 17 Hibbett Sports stores in fiscal 1997 (four have been opened to date) and approximately 27 Hibbett Sports stores in fiscal 1998. The Company also intends to open one Sports & Co. superstore and one Sports Additions store in fiscal 1997. The Company anticipates that it will selectively open additional Sports Additions stores and Sports & Co. superstores as opportunities arise in the future. The Company has identified over 500 potential markets for future Hibbett Sports stores within the states in which it operates and in contiguous states. Hibbett's clustered expansion program, which calls for opening new stores within a two-hour driving radius of another Company location, allows it to take advantage of efficiencies in distribution, marketing and regional management.

The Company believes its business and expansion strategies have contributed to its increasing net sales and operating profits. Over the past five fiscal years, net sales have increased at a 20.3% compound annual growth rate to \$67.1 million in fiscal 1996, and operating income has increased at a 29.3% compound annual growth rate to \$5.6 million in fiscal 1996.

The Company's principal executive offices are located at 451 Industrial Lane, Birmingham, Alabama 35211, and its telephone number is 205-942-4292.

#### The Offering

|   |   |
|---|---|
| Common Stock offered.....                                 | shares of Common Stock  |
| Common Stock to be outstanding after<br>the Offering..... | shares of Common Stock(1)   |
| Use of Proceeds.....                                      | To redeem \$16.0 million in<br>aggregate principal amount<br>of Subordinated Notes and<br>accrued interest thereon<br>and to repay a \$1.0<br>million Term Loan and<br>accrued interest thereon,<br>with the balance to be<br>used to reduce outstanding<br>balances under its<br>Revolving Loan Agreement.<br>See "Use of Proceeds." |
| Proposed Nasdaq National Market symbol..                  | "HIBB"  |

(1) Excludes options to acquire 681,749 shares of Common Stock that are issuable under outstanding, currently exercisable options.

#### SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

(In thousands, except per share and selected operating data)

| Fiscal Year Ended |             |             |             |             | Thirteen Week<br>Period Ended |        |
|-------------------|-------------|-------------|-------------|-------------|-------------------------------|--------|
| January 31,       | January 31, | January 29, | January 28, | February 3, | April 29,                     | May 4, |



thirteen week period ended May 4, 1996 was \$            and \$            , respectively. Supplemental net income per share after extraordinary item (to reflect the write-off of unamortized debt discount and debt issuance costs) for the fiscal year ended February 3, 1996 and the thirteen week period ended May 4, 1996 was \$            and \$            , respectively.

- (6) Comparable store net sales data for a period reflect stores open throughout that period and the corresponding period of the prior fiscal year. For the periods indicated, comparable store net sales do not include sales by Sports & Co. superstores or Team Sales (as defined herein).
- (7) Adjusted to give effect to the Offering and the application of the estimated net proceeds thereof as described in "Use of Proceeds."

#### RISK FACTORS

Before purchasing the shares of Common Stock offered hereby, a prospective investor should consider the specific factors set forth below as well as the other information set forth elsewhere in this Prospectus. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" for a description of other factors affecting the business of the Company generally.

##### Expansion Plans

During the last three fiscal years, Hibbett opened approximately 10 new stores a year, growing from 39 stores at the beginning of fiscal 1994 to 67 stores at the end of fiscal 1996. The Company plans to open 17 Hibbett Sports stores in fiscal 1997 (four have been opened to date) and approximately 27 Hibbett Sports stores in fiscal 1998. The Company also intends to open one Sports & Co. superstore and one Sports Additions store in fiscal 1997. The proposed expansion is substantially more rapid than the Company's historical growth, and the continued growth of the Company will depend, in large part, upon the Company's ability to open new stores in a timely manner and to operate them profitably. However, successful expansion is subject to various contingencies, many of which are beyond the Company's control. These contingencies include, among others, (i) the Company's ability to identify and secure suitable store sites on a timely basis and on satisfactory terms and to complete any necessary construction or refurbishment of these sites, (ii) the Company's ability to hire, train and retain qualified managers and other personnel and (iii) the successful integration of new stores into existing operations. No assurance can be given that the Company will be able to complete its expansion plans successfully; that the Company will be able to achieve results similar to those achieved with prior locations; or that the Company will be able to continue to manage its growth effectively. The Company's failure to achieve its expansion plans could materially adversely affect its business, financial condition and results of operations. In addition, operating margins may be impacted in periods in which incremental expenses have been incurred in advance of new store openings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview; - Quarterly Fluctuations."

##### Merchandise Trends

The Company's success depends in part on its ability to anticipate and respond to changing merchandise trends and consumer demand in a timely manner. Accordingly, any failure by the Company to identify and respond to emerging trends could adversely affect consumer acceptance of the merchandise in the Company's stores, which in turn could materially adversely affect the Company's business, financial condition and results of operations. In addition, if the Company miscalculates either the market for the merchandise in its stores or its customers' purchasing habits, it

may be faced with a significant amount of unsold inventory, which could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, a major shift in consumer demand away from athletic footwear and apparel could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Merchandising."

#### Vendor Relationships

The Company's business is dependent to a significant degree upon close relationships with vendors and the Company's ability to purchase brand name merchandise at competitive prices. During fiscal 1996, the Company's largest vendor, Nike, represented approximately 35% of its purchases. The loss of key vendor support could have a material adverse effect on the Company's business, financial condition and results of operations. The Company believes that it has long-standing and strong relationships with its vendors and that it has adequate sources of brand name merchandise on competitive terms; however, there can be no assurance that the Company will be able to acquire such merchandise at competitive prices or on competitive terms in the future. In this regard, certain merchandise that is high profile and in high demand may be allocated by vendors based upon the vendors' internal criteria which are beyond the Company's control. See "Business--Vendor Relationships."

#### Competition

The business in which the Company is engaged is highly competitive and many of the items sold by the Company are sold by local sporting goods stores, department and discount stores, national and regional full-line sporting goods stores, footwear and other specialty sports supply stores and traditional shoe stores. Many of the stores with which the Company competes are units of national chains that have substantially greater financial and other resources than the Company. Although several of those competitors, such as Foot Locker or Foot Action, are already present in most of Hibbett Sports' mall locations, the Company believes that its Hibbett Sports format is able to compete effectively by distinguishing itself as a full-line sporting goods store emphasizing a selection of individual and team sports merchandise complemented by a localized mix of apparel and accessories. The Company's Sports & Co. superstores compete with sporting goods superstores, athletic footwear superstores, small-format sporting goods stores and mass merchandisers. Expansion by the Company into the markets served by its competitors, entry of new competitors or expansion of existing competitors into the Company's markets, could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Competition."

#### Retail Industry; Seasonality and Quarterly Fluctuations

The Company's sales are subject to general economic conditions and could be adversely affected by a weak retail environment. No assurances can be given that purchases of sporting goods will not decline during recessionary periods or that a prolonged recession will not have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the Company has historically experienced and expects to continue to experience seasonal fluctuations in its net sales, operating income and net income. The Company's net sales, operating income and net income are typically higher in the fourth quarter due to sales increases during the Christmas season. An economic downturn during this period could adversely affect the Company to a greater extent than if such downturn occurred at other times of the year.

The Company's quarterly results of operations may also fluctuate



significantly as a result of a variety of factors, including, among other factors, the timing of new store openings, the amount and timing of net sales contributed by new stores, the level of pre-opening expenses associated with new stores, the relative proportion of new stores to mature stores, merchandise mix, the relative proportion of stores represented by each of the Company's three store concepts and demand for apparel and accessories driven by local interest in sporting events such as the NCAA basketball championship. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Quarterly Fluctuations."

#### Regional Market Concentration

Most of the Company's stores are located in the southeastern United States. In addition, the Company's current expansion plans anticipate that all new stores will be located in the states where the Company currently has operations or in contiguous new states. Consequently, the Company's results of operations are more subject to regional economic conditions, regional weather conditions, regional demographic and population changes and other regional factors than the operations of more geographically diversified competitors. See "Business--Store Locations."

#### Dependence on Key Personnel

The Company's future success depends to a significant extent upon the leadership and performance of Michael J. Newsome, its President, and other executive officers. The loss of the services of certain of these individuals could have a material adverse effect on the Company's business, financial condition and results of operations. As the Company continues to grow, it will continue to hire, appoint or otherwise change senior managers and other key executives. There can be no assurance that the Company will be able to retain its executive officers and key personnel or attract additional qualified members to its management team in the future. The Company does not have employment or non-competition agreements with its executive officers other than Mr. Newsome. None of the Company's senior management has any experience in managing a public company. See "Management."

#### Control of the Company by Certain Stockholders

Upon completion of the Offering, The SK Equity Fund, L.P. and SK Investment Fund, L.P. (collectively, the "Funds") will own approximately % of the outstanding Common Stock, and the Anderson Shareholders (as defined herein) will own approximately % of the outstanding Common Stock. Pursuant to the Stockholders Agreement (as defined herein) the Funds and the Anderson Shareholders agreed to vote for a Board of Directors composed of the nominees of the Funds and the Anderson Shareholders. Directors are elected by a plurality of the votes cast by the holders of shares entitled to vote and cumulative voting is not permitted. Subject to the Stockholders Agreement, the Funds will have power to elect the directors of the Company and to determine the outcome of any matter submitted to a vote of the Company's stockholders for approval which requires a majority stockholder vote, and, acting together with the Anderson Shareholders, to determine the outcome of any matter that requires two-thirds stockholder vote including mergers, consolidations or the sale of all or substantially all of the Company's assets and to prevent or cause a change in control of the Company. See "Certain Transactions--Stockholders Agreement" and "Principal Stockholders."

#### Anti-Takeover Effect of Certain Provisions of the Company's Certificate of Incorporation and Bylaws

Certain provisions of the Company's Certificate of Incorporation and Bylaws which will be adopted in connection with the Company's reincorporation in Delaware prior to the completion of the Offering may be deemed to have anti-takeover effects and may discourage, delay or prevent a takeover attempt that a stockholder might consider in its best interest. These provisions, among other things, (i) classify the Company's Board of

Directors into three classes, each of which will serve for different three year periods, (ii) provide that a director may be removed by stockholders only for cause by a vote of the holders of more than two-thirds of the shares entitled to vote, (iii) provide that all vacancies on the Company's Board of Directors, including any vacancies resulting from an increase in the number of directors, may be filled by a majority of the remaining directors, even if the number is less than quorum, (iv) provide that special meetings of the stockholders may only be called by the Chairman of the Board of Directors, a majority of the Board of Directors or upon the demand of the holders of a majority of the shares entitled to vote at any such special meeting, and (v) require a vote of the holders of more than two-thirds of the shares entitled to vote in order to amend the foregoing and certain other provisions of the Certificate of Incorporation and Bylaws. See "Description of Capital Stock--Charter and Bylaw Provisions." In addition, the Board of Directors, without further action of the stockholders, is permitted to issue and fix the terms of preferred stock which may have rights senior to those of the Common Stock. See "Description of Capital Stock--Preferred Stock." The Company will also be subject to the Delaware business combination statute, which may render more difficult a change in control of the Company. See "Description of Capital Stock--Delaware Law."

#### Potential Adverse Market Price Effects of Shares Eligible for Future Sale

No prediction can be made as to the effect, if any, that future sales of Common Stock, or the availability of shares for future sales, will have on the market price of the Common Stock prevailing from time to time. Sales of substantial amounts of Common Stock, or the perception that such sales could occur, could adversely affect prevailing market prices for the Common Stock. Upon completion of the Offering, the Company will have ( ) if the Underwriters' overallotment option is exercised in full) shares of Common Stock outstanding. Of these shares, all of the ( ) if the Underwriters' overallotment option is exercised in full) shares sold in the Offering will generally be freely transferable by persons other than affiliates of the Company, without restriction or further registration under the Securities Act of 1933, as amended (the "Securities Act"). The remaining outstanding shares of Common Stock ("Restricted Shares") will be "restricted securities" within the meaning of Rule 144 under the Securities Act and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including exemptions contained in Rule 144. Without considering the contractual restrictions described below, approximately Restricted Shares will become eligible for public sale in accordance with the provisions of Rule 144 during the 12 months following the consummation of the Offering. The Company, its officers and directors, the Funds and the Anderson Shareholders have agreed that, for a period of 180 days following the date of this Prospectus, they will not, without the prior written consent of Smith Barney Inc., offer, sell, grant any option to purchase or otherwise dispose of Common Stock or any securities convertible into or exchangeable for Common Stock. See "Shares Eligible for Future Sale" and "Underwriting."

#### Lack of Prior Public Market and Volatility of Stock Price

Prior to the Offering, there has not been a public market for the Common Stock and there can be no assurance that an active trading market in the Common Stock will develop subsequent to the Offering or, if developed, that it will be sustained. The initial public offering price will be determined by negotiations between the Company and the Representatives of the Underwriters. See "Underwriting." Upon commencement of the Offering, the Common Stock will be quoted on The Nasdaq National Market, which has experienced and is likely to experience in the future significant price and volume fluctuations which could adversely affect the market price of the Common Stock without regard to the operating performance of the Company. In addition, the Company believes that factors such as seasonal and quarterly fluctuations in the financial results of the Company, the overall

economy and condition of the financial markets could cause the price of the Common Stock to fluctuate substantially.

#### Dilution

Purchasers of Common Stock in the Offering will incur immediate and substantial dilution in net tangible book value per share. See "Dilution."

#### USE OF PROCEEDS

The net proceeds to be received by the Company from the sale of Common Stock offered hereby (after deducting underwriting discounts and commissions and estimated offering expenses) are expected to be approximately \$ million (\$ million if the Underwriters' over-allotment option is exercised in full). The Company intends to use the net proceeds to redeem \$16.0 million in aggregate principal amount of the Subordinated Notes (as defined herein) and accrued interest thereon, and to repay a \$1.0 million Term Loan (as defined herein) and accrued interest thereon, with the balance to be used to reduce the outstanding balance on the Revolving Loan Agreement (as defined herein). Amounts repaid under the Revolving Loan Agreement may be reborrowed subject to satisfaction of borrowing base requirements. As of June 15, 1996 the Anderson Shareholders owned \$11,426,000 principal amount of the Subordinated Notes and the Funds owned the remaining \$4,574,000. The Subordinated Notes bear interest at the rate of 12% per annum and mature on November 1, 2002. The Term Loan bears interest at a floating rate (7.77% at June 15, 1996), and matures in November 1997. The borrowings under the Revolving Loan Agreement bear interest at a floating rate (7.79% at June 15, 1996), and the Revolving Loan Agreement expires in November 2000.

#### DIVIDEND POLICY

The Company currently anticipates that it will retain all available funds for use in the operation and expansion of its business and does not anticipate paying any cash dividends in the foreseeable future. In addition, the Revolving Loan Agreement prohibits the Company from declaring, paying or making any dividend or distribution on its Common Stock other than dividends or distributions payable in stock.

#### DILUTION

The Company's net tangible book value at May 4, 1996 was a deficit of \$(7,158,000) or \$(.31) per share of Common Stock. Without taking into account any changes in net tangible book value after May 4, 1996, other than to give effect to the sale by the Company of \_\_\_\_\_ shares of Common Stock offered hereby (at an assumed public offering price of \$ \_\_\_\_\_ per share, before deduction of underwriting discounts and commissions and estimated offering expenses), the Company's pro forma net tangible book value at May 4, 1996 would have been \$ \_\_\_\_\_, or \$ \_\_\_\_\_ per share of Common Stock. This represents an immediate increase in net tangible book value of \$ \_\_\_\_\_ per share to existing shareholders and an immediate dilution in net tangible book value of \$ \_\_\_\_\_ per share to new investors purchasing shares in the Offering. The following table illustrates the per share dilution:

|                                     |           |          |
|-------------------------------------|-----------|----------|
| Public offering price.....          |           | \$ _____ |
| Net tangible book value (deficit)   |           |          |
| before the Offering(1).....         | \$ (0.31) |          |
|                                     | -----     |          |
| Increase in net tangible book value |           |          |
| attributable to new investors.....  |           |          |
| Dilution to new investors(2).....   |           | \$ _____ |

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- (1) Net tangible book value (deficit) per share is determined by dividing the net tangible book value (deficit) of the Company (tangible assets less liabilities) by the number of shares of Common Stock outstanding as of May 4, 1996.
- (2) Dilution is determined by subtracting pro forma net tangible book value per share after the Offering from the amount of cash paid by a new investor for a share of Common Stock.

The following table sets forth as of May 4, 1996 the number of shares of Common Stock purchased from the Company, the total consideration paid and the average price per share paid by the existing stockholders and by new investors:

|                            | Shares Purchased |         | Total Consideration |         | Average Price Per Share |
|----------------------------|------------------|---------|---------------------|---------|-------------------------|
|                            | Number           | Percent | Amount              | Percent |                         |
| Existing stockholders..... |                  | %       | \$                  | %       | \$                      |
| New investors.....         |                  |         |                     |         |                         |
| Total.....                 |                  | 100.0%  | \$                  | 100.0%  | \$                      |

The foregoing tables assume no exercise of outstanding stock options after May 4, 1996. At May 4, 1996, 681,749 shares of Common Stock were subject to outstanding options, at a weighted average exercise price of \$.84 per share. To the extent these options are exercised there will be further dilution to new investors. See "Management--Stock Option Plans" and Note 8 of Notes to Consolidated Financial Statements.

#### CAPITALIZATION

The following table sets forth the Company's capitalization as of May 4, 1996 and as adjusted to give effect to the sale by the Company of shares of Common Stock offered hereby at an assumed initial public offering price of \$ per share (before deduction of underwriting discounts and commissions and estimated expenses of the Offering) and application of the proceeds therefrom as described in "Use of Proceeds."

|   | May 4, 1996<br>(in thousands) |             |
|---|-------------------------------|-------------|
|   | Actual                        | As Adjusted |
| Long-term debt:   |                               |             |
| Revolving Loan Agreement.....   | \$14,773                      | \$          |
| Term Loan.....  | 1,000                         |             |
| Subordinated Notes.....   | 16,000                        |             |
| Unamortized debt discount related to Subordinated Notes .....   | (1,448)                       |             |
| Total long-term debt.....   | 30,325                        |             |
| Stockholders' investment (deficit):   |                               |             |
| Common Stock, par value \$.01 per share, 50,000,000 shares authorized,<br>23,389,000 shares issued and outstanding..... | 234                           |             |
| Paid-in capital.....  | 14,933                        |             |
| Retained earnings (deficit).....  | (22,325)                      |             |
| Total stockholders' investment (deficit).....   | (7,158)                       |             |
| Total capitalization.....   | \$23,167                      | \$          |

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The statement of operations data and balance sheet data for each of the five fiscal years ended January 31, 1992, January 31, 1993, January 29, 1994, January 28, 1995, and February 3, 1996 set forth below have been derived from audited financial statements of the Company, except for the provision for income taxes, net income and net income per share in fiscal 1992 and 1993, which are pro forma amounts as explained in footnote 4. The data for the thirteen week periods ended April 29, 1995 and May 4, 1996 have been derived from unaudited financial statements of the Company. The unaudited financial statements include all adjustments, consisting of normal recurring adjustments, which the Company considers necessary for a fair presentation of its financial position and results of operations for these periods. Operating results for the thirteen week period ended May 4, 1996 are not necessarily indicative of the results that may be expected for any future period. The following data should be read in conjunction with the consolidated financial statements of the Company and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Prospectus.

|   | Fiscal Year Ended                     |                  |                      |                  |                  | Thirteen Week Period Ended |             |
|---|---------------------------------------|------------------|----------------------|------------------|------------------|----------------------------|-------------|
|   | January 31, 1992                      | January 31, 1993 | January 29, 1994 (1) | January 28, 1995 | February 3, 1996 | April 29, 1995             | May 4, 1996 |
|   |                                       |                  | (52 Weeks)           | (52 Weeks)       | (53 Weeks)       | (Unaudited)                |             |
|   | (In thousands, except per share data) |                  |                      |                  |                  |                            |             |
| Statement of Operations Data:   |                                       |                  |                      |                  |                  |                            |             |
| Net sales.....  | \$32,033                              | \$36,366         | \$40,119             | \$52,266         | \$67,077         | \$15,001                   | \$20,251    |
| Cost of goods sold, including warehouse, distribution, and store occupancy costs..... | 22,132                                | 24,998           | 27,731               | 36,225           | 46,642           | 10,431                     | 14,035      |
| Gross profit.....   | 9,901                                 | 11,368           | 12,388               | 16,041           | 20,435           | 4,570                      | 6,216       |
| Store operating, selling, and administrative expenses .....                           | 6,859                                 | 7,446            | 8,352                | 10,197           | 13,326           | 2,681                      | 3,344 (2)   |
| Depreciation and amortization..   | 657                                   | 814              | 932                  | 1,066            | 1,322            | 383                        | 393         |
| Management fees(3).....   | 365                                   | 415              | 227                  | 256              | 145              | 30                         | 50          |
| Operating income.....   | 2,020                                 | 2,693            | 2,877                | 4,522            | 5,642            | 1,476                      | 2,429       |
| Interest expense.....   | 453                                   | 325              | 488                  | 654              | 1,685 (7)        | 182                        | 910 (7)     |
| Income before provision for income taxes.....   | 1,567                                 | 2,368            | 2,389                | 3,868            | 3,957            | 1,294                      | 1,519       |
| Provision for income taxes.....   | 588 (4)                               | 906 (4)          | 920                  | 1,479            | 1,514            | 495                        | 584         |
| Net income.....   | \$979 (4)                             | \$1,462 (4)      | \$1,469              | \$2,389          | \$2,443          | \$799                      | \$935       |
| Net income per share.....   | \$ .03 (4)                            | \$ .04 (4)       | \$ .04               | \$ .06           | \$ .07 (5)       | \$ .02                     | \$ .04 (5)  |
| Weighted average shares outstanding.....  |                                       |                  |                      |                  |                  |                            |             |
|   | 38,687                                | 38,722           | 39,678               | 39,678           | 35,613 (7)       | 9,678                      | 23,768 (7)  |
| Selected Operating Data:  |                                       |                  |                      |                  |                  |                            |             |
| Number of stores open at end of period:   |                                       |                  |                      |                  |                  |                            |             |
| Hibbett Sports.....   | 34                                    | 33               | 41                   | 52               | 56               | 52                         | 58          |
| Sports & Co.....  | 0                                     | 0                | 0                    | 0                | 3                | 1                          | 3           |
| Sports Additions.....   | 4                                     | 6                | 8                    | 8                | 8                | 7                          | 8           |
| Total.....  | 38                                    | 39               | 49                   | 60               | 67               | 60                         | 69          |
| Net sales growth.....   | 13.7%                                 | 13.5%            | 10.3%                | 30.3%            | 28.3%            | 28.6%                      | 35.0%       |
| Comparable store net sales increase (decrease) (6).....                               | 2.4%                                  | 10.6%            | (0.3%)               | 15.6%            | 6.2%             | 7.9%                       | 15.7%       |

|                                    | As Of            |                  |                      |                  |                  |             |
|------------------------------------|------------------|------------------|----------------------|------------------|------------------|-------------|
|                                    | January 31, 1992 | January 31, 1993 | January 29, 1994 (1) | January 28, 1995 | February 3, 1996 | May 4, 1996 |
|                                    |                  |                  | (52 Weeks)           | (52 Weeks)       | (53 Weeks)       | (Unaudited) |
|                                    | (In thousands)   |                  |                      |                  |                  |             |
| Balance Sheet Data:                |                  |                  |                      |                  |                  |             |
| Working capital                    | \$2,825          | \$2,097          | \$4,030              | \$7,459          | \$10,907         | \$14,598    |
| Total assets                       | 12,638           | 14,569           | 17,507               | 22,787           | 36,702           | 37,703      |
| Total debt                         | 4,661            | 4,810            | 6,179                | 5,328            | 31,912 (7)       | 30,325 (7)  |
| Stockholders' investment (deficit) | 4,666            | 4,402            | 5,871                | 8,259            | (8,093) (7)      | (7,158) (7) |

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- (1) During fiscal year 1994, the Company changed its fiscal year from a twelve-month period ending January 31 to a 52-53 week period ending on the Saturday nearest to January 31.
  - (2) Includes a \$513,000 pre-tax gain on the sale of the Company's former headquarters and distribution facility.
  - (3) See "Certain Transactions--Management Services" and "--Advisory Agreement" and Note 6 of Notes to Consolidated Financial Statements.
  - (4) Prior to July 1, 1992, the Company was a Subchapter S corporation. Under these provisions, the taxable income of the Company was included in the individual income tax returns of the stockholders. Effective July 1, 1992, the Company and its stockholders terminated the S corporation election and the Company became a taxable corporation. Thus, the provisions for income taxes for the fiscal years ended January 31, 1992 and 1993 give effect to the application of pro forma income taxes that would have been reported had the Company been a taxable corporation for federal and state income tax purposes for such fiscal years.
  - (5) The net proceeds from the Offering will be used to retire a substantial portion of the Company's debt. Accordingly, a presentation of supplemental net income per share before extraordinary item is calculated by dividing net income (after adjustment for applicable interest expense) by the number of weighted average shares outstanding after giving effect to the estimated number of shares that would be required to be sold (at the initial public offering price of \$            per share) to repay \$            and \$            of debt at February 3, 1996 and May 4, 1996, respectively. Supplemental net income per share before extraordinary item for the fiscal year ended February 3, 1996 and the thirteen week period ended May 4, 1996 was \$            and \$            , respectively. Supplemental net income per share after extraordinary item (to reflect the write off of unamortized debt discount and debt issuance costs) for the fiscal year ended February 3, 1996 and the thirteen week period ended May 4, 1996 was \$            and \$            , respectively.
  - (6) Comparable store net sales data for a period reflect stores open throughout that period and the corresponding period of the prior fiscal year. For the periods indicated, comparable store net sales do not include sales by Sports & Co. superstores or Team Sales.
  - (7) In November 1995, the Company completed the Recapitalization. The Recapitalization included the repurchase and retirement of 34,220,000 shares of common stock for cash and debt and the issuance of 17,609,000 new shares of common stock and debt in exchange for cash. The Recapitalization resulted in a substantial increase in total debt outstanding and a deficit in stockholders' investment.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Hibbett is a leading rapidly-growing operator of full-line sporting goods stores in small to mid-sized markets in the southeastern United States. The Company currently operates 71 stores in nine states. Hibbett began operations in 1945 in Florence, Alabama as Dixie Supply Company, a retailer of athletic, marine and aviation equipment. In 1952, the Company changed its operating strategy to focus on team sports oriented merchandise and its name to Hibbett & Sons. In the mid 1960s, the Company refocused

its operating strategy on retailing and changed its name to Hibbett Sporting Goods, Inc. In 1980, the Anderson family of Florence, Alabama (the "Anderson Shareholders") purchased Hibbett and continued to expand the Company's store base at a moderate pace, while investing in professional management and systems. Beginning in fiscal 1994, Hibbett accelerated its store opening rate to approximately 10 stores per year.

On November 1, 1995, The SK Equity Fund, L.P. and SK Investment Fund, L.P. (collectively, the "Funds") acquired the majority of the outstanding shares of Common Stock as part of a recapitalization of the Company (the "Recapitalization"). In connection with the Recapitalization, the Company (i) sold to the Funds approximately 75% of the Company's Common Stock, (ii) repurchased a portion of the Common Stock held by the Anderson Shareholders (leaving them with approximately 22% of the Company's outstanding Common Stock), (iii) issued \$16,000,000 in aggregate principal amount of its subordinated notes ("Subordinated Notes") and (iv) issued \$4,125,000 in aggregate principal amount of its senior subordinated notes ("Senior Subordinated Notes"). See "Certain Transactions--Transactions Related to the Recapitalization." In connection with the Recapitalization, the Company also refinanced its bank facilities with a \$26,000,000 credit facility provided by Heller Financial, Inc. ("Heller"), consisting of a \$25,000,000 revolving loan agreement (the "Revolving Loan Agreement") and a \$1,000,000 term loan (the "Term Loan"). The Senior Subordinated Notes which financed the construction of the Company's new headquarters and distribution center were subsequently redeemed in February 1996 from proceeds of the sale and leaseback of this facility.

In fiscal 1997, the Company has further accelerated its rate of new store openings to take advantage of the growth opportunities in its target markets. The Company plans to open 17 Hibbett Sports stores in fiscal 1997 (four have been opened to date) and approximately 27 Hibbett Sports stores in fiscal 1998. The Company also intends to open one Sports & Co. superstore and one Sports Additions store in fiscal 1997. To support its expansion plans, the Company has increased its staffing levels in finance, merchandising, real estate, distribution and field management. In January 1996, the Company moved into its new headquarters and distribution center which currently has the capacity to service in excess of 150 Hibbett Sports stores and has significant expansion potential to support the Company's growth for the foreseeable future. While operating margins may be impacted in periods in which incremental expenses have been incurred to support acceleration of the Company's expansion plans, over the long term, the Company expects to benefit from leveraging its expenses over a larger store base as it continues to implement its expansion plans.

The Company operates on a 52 or 53 week fiscal year ending on the Saturday nearest to January 31 of such year. The consolidated statements of operations for the fiscal years ended January 28, 1995 and January 29, 1994 include 52 weeks of operations while the fiscal year ended February 3, 1996 includes 53 weeks of operations.

Hibbett was incorporated under the laws of the state of Alabama and anticipates that it will reincorporate in Delaware prior to the completion of the Offering.

#### Results of Operations

The following table sets forth selected statement of operations items expressed as a percentage of net sales for the periods indicated:

| Fiscal Year Ended   |                     |                     | Thirteen Week Period Ended |                |
|---------------------|---------------------|---------------------|----------------------------|----------------|
| January 29,<br>1994 | January 28,<br>1995 | February 3,<br>1996 | April 29,<br>1995          | May 4,<br>1996 |

|  |        |        |        |        |         |
|--|--------|--------|--------|--------|---------|
| Net sales.....   | 100.0% | 100.0% | 100.0% | 100.0% | 100.0%  |
| Cost of goods sold, including<br>warehouse, distribution and store<br>occupancy costs..... | 69.1   | 69.3   | 69.5   | 69.5   | 69.3    |
| Gross profit.....  | 30.9   | 30.7   | 30.5   | 30.5   | 30.7    |
| Store operating, selling, and<br>administrative expenses (1).....                          | 21.4   | 20.0   | 20.1   | 18.1   | 16.8(2) |
| Depreciation and amortization.....   | 2.3    | 2.0    | 2.0    | 2.6    | 1.9     |
| Operating income.....  | 7.2    | 8.7    | 8.4    | 9.8    | 12.0(2) |
| Interest expense.....  | 1.2    | 1.3    | 2.5    | 1.2    | 4.5     |
| Income before provision for income<br>taxes.....   | 6.0    | 7.4    | 5.9    | 8.6    | 7.5     |
| Provision for income taxes.....  | 2.3    | 2.8    | 2.3    | 3.3    | 2.9     |
| Net income.....  | 3.7%   | 4.6%   | 3.6%   | 5.3%   | 4.6%    |

[FN]

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- (1) Includes management fees. See "Certain Transactions--Management Services" and "--Advisory Agreement" and Note 6 of Notes to Consolidated Financial Statements.
  - (2) Includes a \$513,000 pre-tax gain on sale of the Company's former headquarters and distribution facility. Excluding this gain, store operating, selling and administrative expenses represented 19.3% of net sales and operating income would have been 9.6% of net sales for the thirteen weeks ended May 4, 1996.

Thirteen Weeks Ended May 4, 1996 Compared to Thirteen Weeks  
Ended April 29, 1995

Net sales. Net sales increased \$5.3 million, or 35.0%, to \$20.3 million for the thirteen weeks ended May 4, 1996, from \$15.0 million for the comparable period in the prior year. This increase is attributable to the opening of six Hibbett Sports stores, two Sports & Co. superstores and one Sports Additions store and a 15.7% increase in comparable store net sales. During the thirteen weeks ended May 4, 1996, the Company opened two Hibbett Sports stores. The increase in comparable store net sales was due primarily to increased footwear sales and demand for licensed apparel and accessories related to the University of Kentucky's NCAA basketball championship as well as improved inventory processing at the distribution center. New stores and stores not in the comparable store net sales calculation accounted for \$3.0 million of the increase in net sales and increases in comparable store net sales contributed \$2.2 million. Comparable store net sales data for a period reflect stores open throughout that period and the corresponding period of the prior fiscal year. For the periods indicated, comparable store net sales do not include sales by Sports & Co. superstores or Team Sales.

Gross profit. Cost of goods sold includes the cost of inventory, occupancy costs for stores and occupancy and operating costs for the distribution center. Gross profit was \$6.2 million, or 30.7% of net sales, in the thirteen weeks ended May 4, 1996, as compared to \$4.6 million, or 30.5% of net sales, in the same period of the prior fiscal year. The increase in gross profit as a percentage of net sales resulted primarily from improved leveraging of store occupancy costs over higher sales, offset in part by slightly higher markdowns in the current year period and the addition of distribution center personnel.

Store operating, selling and administrative expenses. Store operating, selling and administrative expenses for the thirteen weeks ended May 4, 1996 include a net gain on the disposal of assets which primarily relates to the gain on the sale of the former headquarters and distribution facility which was replaced by the Company's new headquarters and distribution center. Excluding the net gain on the disposal of assets,



store operating, selling and administrative expenses were \$3.9 million, or 19.3% of net sales, for the thirteen weeks ended May 4, 1996, as compared to \$2.7 million, or 18.1% of net sales, for the comparable period a year ago. This increase as a percentage of net sales is primarily attributable to the costs associated with increasing the Company's corporate staff to support future growth, including the addition of a chief financial officer, two real estate professionals, two loss prevention professionals, one merchandise buyer one visual merchandise manager and one training manager.

Depreciation and amortization. Depreciation and amortization as a percentage of net sales declined to 1.9% in the thirteen weeks ended May 4, 1996 from 2.6% in the prior year period. This decrease as a percentage of net sales is primarily due to a write-off of the unamortized portion of leasehold improvements for one of the Company's stores in the prior year period due to the change in the terms of that lease.

Interest expense. The \$728,000 increase in interest expense for the thirteen weeks ended May 4, 1996 compared to the prior year period is due primarily to the interest expense associated with the Subordinated Notes which were issued in connection with the Recapitalization in November 1995 and also to an increase in borrowings under the Revolving Loan Agreement to fund new store openings.

Net income. Net income increased \$136,000, or 17.0%, to \$935,000 in the thirteen weeks ended May 4, 1996 from \$799,000 in the comparable period in the prior year. This increase as a percentage of net sales was attributable to factors described above.

#### Fiscal 1996 Compared to Fiscal 1995

Net sales. Net sales increased \$14.8 million, or 28.3%, to \$67.1 million in fiscal 1996 from \$52.3 million in fiscal 1995. This increase is attributable to the opening of five Hibbett Sports stores, three Sports & Co. superstores and one Sports Additions store, an increase in comparable store net sales of 6.2% and an additional week of sales as fiscal 1996 included 53 weeks of operations, offset in part by the closing of one Sports Additions store. The increase in comparable store net sales was due primarily to increased sales of footwear and apparel. New stores and stores not in the comparable store net sales calculation accounted for \$11.8 million of the increase in net sales and increases in comparable store net sales contributed \$3.0 million.

Gross profit. Gross profit was \$20.4 million, or 30.5% of net sales, in fiscal 1996 as compared to \$16.0 million, or 30.7% of net sales, in fiscal 1995. The decline in gross profit as a percentage of net sales primarily resulted from higher distribution costs. In anticipation of its accelerated expansion plan, the Company increased staff positions at its distribution center, adding two senior distribution center managers. Additionally, distribution costs were higher as a result of the higher occupancy costs associated with the Company's new headquarters and distribution center.

Store operating, selling and administrative expenses. Store operating, selling and administrative expenses were \$13.5 million, or 20.1% of net sales, in fiscal 1996 as compared to \$10.5 million, or 20.0% of net sales, in fiscal 1995. This increase as a percentage of net sales is primarily attributable to the costs associated with increasing the Company's corporate staff to support future growth, including the addition of one real estate professional, one loss prevention professional, one merchandise buyer and one visual merchandise manager.

Depreciation and amortization. Depreciation and amortization as a percentage of net sales remained constant at 2.0% in fiscal 1996 and fiscal

1995.

Interest expense. The \$1.0 million increase in interest expense for fiscal 1996 is primarily due to the interest expense associated with the Subordinated Notes which were issued in connection with the Recapitalization and the increase in borrowings under the Revolving Loan Agreement and the previous loan agreement to fund new store openings.

Net income. Net income increased \$54,000, or 2.3%, to \$2.4 million in fiscal 1996 compared to fiscal 1995 due to the factors discussed above.

#### Fiscal 1995 Compared to Fiscal 1994

Net sales. Net sales increased \$12.1 million, or 30.3%, to \$52.3 million in fiscal 1995 from \$40.1 million in fiscal 1994. This increase is attributable to the opening of 11 Hibbett Sports stores and an increase in comparable store net sales of 15.6%. The increase in comparable store net sales was due primarily to a significant increase in branded apparel sales as well as a moderate increase in footwear sales. New stores and stores not in the comparable store net sales calculation accounted for \$7.3 million of the increase in net sales and increases in comparable store net sales contributed \$4.8 million.

Gross profit. Gross profit was \$16.0 million, or 30.7% of net sales, in fiscal 1995 as compared to \$12.4 million, or 30.9% of net sales, in fiscal 1994. The decline in gross profit as a percentage of net sales primarily resulted from higher store occupancy costs.

Store operating, selling and administrative expenses. Store operating, selling and administrative expenses were \$10.5 million, or 20.0% of net sales, in fiscal 1995 as compared to \$8.6 million, or 21.4% of net sales, in fiscal 1994. This decrease as a percentage of net sales was the result of spreading fixed costs over the Company's larger sales base.

Depreciation and amortization. Depreciation and amortization as a percentage of net sales decreased to 2.0% in fiscal 1995 from 2.3% in fiscal 1994 as a result of the Company's operating leverage as these costs were allocated over a larger sales base.

Interest expense. The \$166,000 increase in interest expense for fiscal 1995 was due primarily to an increase in borrowings under the previous loan agreement to fund new store openings.

Net income. Net income increased \$920,000, or 62.6%, to \$2.4 million in fiscal 1995 from \$1.5 million in fiscal 1994. This increase as a percentage of net sales was attributable to factors described above.

#### Quarterly Fluctuations

The Company has historically experienced and expects to continue to experience seasonal fluctuations in its net sales and operating income. The Company's net sales and operating income are typically higher in the fourth quarter due to sales increases during the Christmas season. However, the seasonal fluctuations are mitigated by the strong product demand in the spring, summer and back-to-school sales periods. The Company's quarterly results of operations may also fluctuate significantly as a result of a variety of factors, including the timing of new store openings, the amount and timing of net sales contributed by new stores, the level of pre-opening expenses associated with new stores, the relative proportion of new stores to mature stores, merchandise mix, the relative proportion of stores represented by each of the Company's three store concepts and demand for apparel and accessories driven by local interest in sporting events such as the NCAA basketball championship.

The following tables set forth certain unaudited financial data for the quarters indicated:

|   | Quarter Ended          |                  |                  |                |
|---|------------------------|------------------|------------------|----------------|
|   | July 30, 1994          | October 29, 1994 | January 28, 1995 | April 29, 1995 |
|   | (Dollars in thousands) |                  |                  |                |
| Net sales.....                                | \$11,260               | \$12,967         | \$16,372         | \$15,001       |
| Operating income.....                         | 758                    | 1,105            | 1,375            | 1,476          |
| Operating income as percentage of net sales.. | 6.7%                   | 8.5%             | 8.4%             | 9.8%           |

|   | Quarter Ended          |                  |                  |             |
|---|------------------------|------------------|------------------|-------------|
|   | July 29, 1995          | October 28, 1995 | February 3, 1996 | May 4, 1996 |
|   | (Dollars in thousands) |                  | (14 weeks)       |             |
| Net sales.....                                | \$14,355               | \$15,737         | \$21,984         | \$20,251    |
| Operating income.....                         | 1,055                  | 1,323            | 1,788 (1)        | 2,429 (2)   |
| Operating income as percentage of net sales.. | 7.3%                   | 8.4%             | 8.1% (1)         | 12.0% (2)   |

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- (1) Includes pre-opening expenses for two Sports & Co. superstores opened in the fourth quarter of fiscal 1996.
  - (2) Includes a \$513,000 pre-tax gain on sale of the Company's former headquarters and distribution facility. Excluding this gain, operating income would have been 9.6% of net sales.

In the opinion of the Company's management, this unaudited information has been prepared on the same basis as the audited information presented elsewhere herein and includes all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the information set forth therein. The operating results from any quarter are not necessarily indicative of the results to be expected for any future period.

#### Liquidity and Capital Resources

The Company's capital requirements relate primarily to new store openings and working capital requirements. The Company's working capital needs are somewhat seasonal in nature and typically reach their peak near the end of the third and the beginning of the fourth quarter of its fiscal year. Historically, the Company has funded its cash requirements primarily through cash flow from operations and borrowings under its revolving credit facilities.

Net cash provided by (used in) operating activities has historically been driven by net income levels combined with fluctuations in inventory and accounts payable balances. Net income levels have increased in each of the last three fiscal years and in the thirteen weeks ended May 4, 1996. In addition, the Company has continued to increase inventory levels throughout these periods as the number of stores has increased and the larger Sports & Co. superstores have opened. These inventory increases were primarily financed through increased accounts payable balances in fiscal 1995 but were primarily financed with cash from operations in both fiscal 1996 and the thirteen weeks ended May 4, 1996. These activities resulted in cash flows provided by (used in) operating activities in each of the last three fiscal years and in the thirteen week period ending May 4, 1996 of \$269,000, \$3.2 million, (\$158,000), and (\$2.8 million), respectively.

With respect to cash flows from investing activities, during the first quarter of fiscal 1997, the Company completed the sale-leaseback of its new headquarters and distribution center and the sale of the former

headquarters and warehouse facilities for combined proceeds of \$5.6 million and used the proceeds to repay \$4.3 million then outstanding under the Senior Subordinated Notes issued to finance the new headquarters and distribution center on a temporary basis and to fund its working capital requirements. Capital expenditures for fiscal 1996 were \$8.2 million compared with \$2.2 million in fiscal 1995 and \$1.6 million in fiscal 1994. The increase in these expenditures for fiscal 1996 was primarily the result of the construction of the new headquarters and distribution center for \$4.7 million.

Cash flows from financing activities have historically represented the Company's financing of its long-term growth. As previously discussed, in fiscal 1996 the Company completed the Recapitalization. This resulted in the refinancing of all existing debt the repurchase and retirement of previously existing shares of Common Stock for cash and debt and the issuance of debt and new shares of Common Stock in exchange for cash. The net impact of these financing activities provided \$7.6 million in cash in fiscal 1996 and resulted in a substantial increase in total debt outstanding and a deficit in stockholders' investment. See "Certain Transactions--Transactions Related to the Recapitalization."

The Company estimates capital expenditures in fiscal 1997 to be approximately \$3.2 million, (i) approximately 70% of which will be used to fund the opening of 17 Hibbett Sports stores, one Sports & Co. superstore and one Sports Additions store and to remodel selected existing stores and (ii) approximately 30% of which will be used to fund capital expenditures related to the headquarters and distribution center. The Company estimates capital expenditures in fiscal 1998 to be approximately \$3.6 million which includes resources budgeted to (i) fund the opening of approximately 27 Hibbett Sports stores, (ii) remodel selected existing stores and (iii) fund headquarters and distribution center-related capital expenditures.

The Company's principal source of liquidity is its \$25.0 million Revolving Loan Agreement provided by Heller. Borrowings under the Revolving Loan Agreement bear interest at the Company's option either at 2 1/4% plus LIBOR or 1/4% plus the higher of the prime rate and the federal funds rate. The Revolving Loan Agreement is secured by a lien on inventory, accounts receivable, equipment and certain other assets. Availability of funds under the Revolving Loan Agreement is restricted to a borrowing base consisting of designated percentages of eligible inventory and accounts receivable. In addition, the Revolving Loan Agreement requires the maintenance of certain specified financial ratios, restricts levels of capital expenditures and restricts the incurrence of debt and payments in respect of capital stock and junior indebtedness. As of May 4, 1996, the Company had \$14.8 million of borrowings outstanding under the Revolving Loan Agreement and availability to borrow up to an additional \$1.1 million. The Revolving Loan Agreement expires on November 1, 2000. The Company also has an outstanding \$1.0 million Term Loan from Heller that matures on November 1, 1997.

The Company plans to use the proceeds of the Offering (i) to repay \$16.0 million aggregate principal amount of the Subordinated Notes issued in connection with the Recapitalization and the accrued interest thereon, (ii) to repay \$1.0 million principal amount of the Term Loan borrowed in connection with the Recapitalization and accrued interest thereon and (iii) to reduce the outstanding level of its borrowings under the Revolving Loan Agreement. Based on its current operating and store opening plans, the Company believes that it can fund its cash needs through borrowings under the Revolving Loan Agreement and cash generated from operations. See "Use of Proceeds."

## General

Hibbett is a leading rapidly-growing operator of full-line sporting goods stores in small to mid-sized markets in the southeastern United States. Hibbett's stores offer a broad assortment of quality athletic footwear, apparel and equipment at competitive prices with superior customer service. The Company's merchandise assortment features a core selection of brand name merchandise emphasizing team and individual sports complemented by a selection of localized apparel and accessories designed to appeal to a wide range of customers within each market. The Company's stores are among the primary retail distribution alternatives for brand name vendors that seek to reach Hibbett's target markets. Hibbett has received the Nike Retailer Excellence Award for the Southeast region for eight consecutive years based on its performance in the full-line sporting goods category.

The Company currently operates 60 Hibbett Sports stores as well as eight smaller-format Sports Additions athletic shoe stores and three larger-format Sports & Co. superstores. Hibbett's primary retail format and growth vehicle is Hibbett Sports, a 5,000 square foot store located predominantly in enclosed malls. Hibbett Sports is typically the primary, full-line sporting goods retailer in its markets because of, among other factors, its more extensive selection of traditional team and individual sports merchandise and its superior customer service.

## Industry Overview

According to the National Sporting Goods Association ("NSGA"), United States retail sales of sporting goods (including athletic footwear, apparel and equipment) totaled approximately \$36 billion in 1995. The marketplace for sporting goods remains highly fragmented, as many different retailers compete for market share by utilizing a variety of store formats and merchandising strategies. In recent years, the growth of large format retailers such as Sports Authority has resulted in significant consolidation in large metropolitan markets. However, the competitive environment for sporting goods remains different in small to mid-sized markets where retail demand does not currently support larger-format stores. In these markets, customers generally shop for sporting goods at either (i) a discount store or department store, (ii) a sporting goods retailer that focuses on a specialty category, such as athletic footwear, or an activity, such as golf or tennis, and that is either an independent local operator or part of a national chain or (iii) a full-line sporting goods retailer that is typically a single-store operation or part of a small chain.

With over 30 years of operating experience in small to mid-sized markets (population range from 30,000 to 250,000), the Company believes that it is well-positioned to continue to compete effectively against such other sporting goods retailers. The Company's merchandise assortment features a core selection of brand name merchandise emphasizing team and individual sports complemented by a selection of localized apparel and accessories designed to appeal to a wide range of customers within each market. Compared to Hibbett, (i) discounters and department stores typically offer more limited sporting goods assortments, fewer high-quality name brands and more limited customer service; (ii) specialty sporting goods retailers typically focus on a specific category, such as athletic footwear, or an activity, such as golf or tennis, and therefore lack the wide range of products offered by Hibbett; and (iii) full-line sporting goods retailers, although offering a broad assortment of merchandise, are typically single store operations that lack the systems, vendor relationships and economies of scale of Hibbett.

## Business Strategy

Unique Emphasis on Small Markets. The Company targets markets ranging in population from 30,000 to 250,000. Management believes that Hibbett is currently targeting markets of this size in the Southeast more aggressively than any of its competitors. By targeting smaller markets, the Company believes that it is able to achieve significant strategic advantages, including numerous expansion opportunities, comparatively low operating costs and a more limited competitive environment than generally faced in larger markets. In addition, the Company establishes greater customer and vendor recognition as the leading full-line sporting goods retailer in the local community.

Strong Regional Focus. With over 30 years of experience as a full-line sporting goods retailer in the Southeast, Hibbett benefits from strong name recognition, a loyal customer base and operating and cost efficiencies. Although the core merchandise assortment tends to be similar for each Hibbett Sports store, important local and regional differences frequently exist. Management believes that its ability to merchandise to local sporting or community interests differentiates Hibbett from its national competitors. The Company's regional focus also enables it to achieve significant cost benefits including lower corporate expenses, reduced distribution costs and increased economies of scale from its marketing activities.

Low Cost Culture. In addition to the cost benefits of the Company's small market emphasis and regional focus, over its long operating history Hibbett has maintained a low cost corporate culture. Management exercises tight control over store level operating expenses, real estate costs and corporate overhead. The Company's management information systems enable senior management to make timely and informed merchandise decisions, maintain tight inventory control and monitor store-level financial performance in a timely manner.

Emphasis on Training and Customer Satisfaction. Management seeks to exceed customer expectations in order to build loyalty and generate repeat business. The Company hires enthusiastic sales personnel with an interest in sports and provides them with extensive training to create a sales staff with strong product knowledge dedicated to outstanding customer service. Hibbett's training programs focus on both selling skills and continuing product/technical training and are conducted through in-store clinics, video presentations and interactive group discussions.

Investment in Management and Infrastructure. The Company's experienced management team and information and distribution systems are expected to facilitate the Company's future growth for the foreseeable future. The Company's new headquarters and distribution center is currently capable of servicing in excess of 150 Hibbett Sports stores and has significant expansion potential to support the Company's growth. Through its comprehensive information systems, the Company monitors all aspects of store operations on a daily basis and is able to control inventory levels and operating costs.

#### Store Locations

As of June 15, 1996, the Company operated 71 stores in nine states, including 60 Hibbett Sports stores, eight Sports Additions stores and three Sports & Co. superstores. Sixty-one of the stores are located in malls, and ten, including the three Sports & Co. superstores, are in strip center locations. Over 80% of the Company's stores are in markets with a population of less than 250,000.

A map showing the states in which the Company operated stores as of June 15, 1996 is set forth below:

[MAP to come]

## Expansion Strategy

The Company believes its business and expansion strategies have contributed to its increasing net sales and operating profits. Over the past five fiscal years, net sales have increased at a 20.3% compound annual growth rate to \$67.1 million in fiscal 1996 and operating income has increased at a 29.3% compound annual growth rate to \$5.6 million in fiscal 1996. Over this period, the Company's net sales growth has been driven by new store openings and increases in comparable store net sales. The Company increased its store base from 38 stores at the end of fiscal 1992 to 67 stores at the end of fiscal 1996.

The Company is accelerating its rate of new store openings to take advantage of the growth opportunities in its target markets. The Company has identified over 500 potential markets for future Hibbett Sports stores within the states in which it operates and in contiguous states. Hibbett's clustered expansion program, which calls for opening new stores within a two-hour driving radius of another Company location, allows it to take advantage of efficiencies in distribution, marketing and regional management. In evaluating potential markets, the Company considers population, economic conditions, local competitive dynamics and availability of suitable real estate. Although approximately 90% of Hibbett Sports stores are located in enclosed malls, the stores also operate profitably in strip center locations. As the Company continues to expand, it will open new stores in mall and strip center locations.

Management anticipates that Hibbett Sports will remain the Company's primary growth vehicle as it continues to expand. The Company plans to open 17 Hibbett Sports stores in fiscal 1997 and approximately 27 Hibbett Sports stores in fiscal 1998. Of the 17 Hibbett Sports stores scheduled to open this fiscal year, the Company has opened four to date, has signed leases for eight additional ones and is currently negotiating leases for the remaining five. In fiscal 1997, the Company plans to open one Sports & Co. superstore in Monroe, Louisiana (a lease with respect to which has been signed) and one Sports Additions store (the lease for which is currently being negotiated). In the future, the Company anticipates that it will selectively open Sports Additions stores and Sports & Co. superstores as opportunities arise. See "Risk Factors--Expansion Plans."

## Store Concepts

### Hibbett Sports

The Company's primary retail format is Hibbett Sports, a 5,000 square foot store located predominantly in enclosed malls. The Company tailors its Hibbett Sports concept to the size, demographics and competitive conditions of the small to mid-sized markets. Fifty-three Hibbett Sports stores are located in enclosed malls, the majority of which are the only enclosed malls in the county, and the remaining seven are located in strip centers. The Company uses exciting design and in-store atmosphere, eye-catching in-store signage and gift-with-purchase promotional programs to channel mall traffic into the stores.

Hibbett Sports stores offer a core selection of quality, brand name merchandise with an emphasis on team and individual sports. This merchandise mix is complemented by a selection of localized apparel and accessories designed to appeal to a wide range of customers within each market. For example, the Company believes that apparel with logos of sports teams of local interest represents a larger percentage of the merchandise mix in Hibbett Sports stores than it does in the stores of national chain competitors. In addition, the Company strives to quickly respond to major sports events of local interest such as the recent University of Kentucky national championship in men's basketball. For example, Hibbett Sports stores in the state of Kentucky had a selection of

national championship apparel and accessories prominently displayed in the front of each store the morning following the game and promoted this merchandise with local radio advertising.

#### Sports & Co.

The Company opened the first Sports & Co. superstore in the spring of 1995 in Huntsville, Alabama. Sports & Co. superstores average 25,000 square feet and offer a larger assortment of athletic footwear, apparel and equipment than Hibbett Sports stores. Athletic equipment and apparel represent a higher percentage of the overall merchandise mix at Sports & Co. superstores than they do at Hibbett Sports stores. Sports & Co. superstores are designed to project the same exciting and entertaining in-store atmosphere as Hibbett Sports stores but on a larger scale. For example, Sports & Co. superstores offer customer participation areas, such as putting greens and basketball hoop shoots, and feature periodic special events including appearances by well-known athletes.

#### Sports Additions

Sports Additions stores are small, mall-based stores, averaging 1,500 square feet with approximately 90% of merchandise consisting of athletic footwear and the remainder consisting of caps and a limited assortment of apparel. Sports Additions stores offer a broader assortment of athletic footwear, with a greater emphasis on fashion than the athletic footwear assortment offered by Hibbett Sports stores. All Sports Additions stores are currently located in the malls in which Hibbett Sports stores are also present.

#### Merchandising

Merchandising Strategy. The Company's merchandising strategy is to provide a broad assortment of quality athletic footwear, apparel and equipment at competitive prices. The Company's stores offer a core selection of brand name merchandise with an emphasis on team and individual sports. This merchandise mix is complemented by a selection of localized apparel and accessories designed to appeal to a wide range of customers within each market. The Company's leading product category is athletic footwear, followed by apparel and sporting equipment, ranked according to sales. No single product category accounts for more than 50% of sales. The Company's pricing strategy is to offer competitive prices to its customers. The Company's management information systems track different retail prices for the same item at different stores, enabling more competitive pricing by location. In addition, information from the Company's point-of-sale computer system is regularly reviewed and analyzed by the purchasing staff to assist it in making merchandise allocation and markdown decisions.

Brand Name Merchandise. The Company emphasizes quality brand name merchandise. Many of the national brands offered at the Company's stores are not carried by local competitors. Many of these branded products are highly technical and require considerable sales assistance. The Company works with its vendors to educate the sales staff at the store level on new products and trends.

The following list represents the top 25 brand names (based on sales) offered by the Company:

Adidas  
Asics

K-Swiss  
Louisville Slugger

Rollerblade  
Russell



|          |             |          |
|----------|-------------|----------|
| Champion | Mizuno      | Spalding |
| Columbia | New Balance | Starter  |
| Converse | New Era     | The Game |
| Dodger   | Nike        | Umbro    |
| Easton   | Pro Line    | Wilson   |
| Everlast | Rawlings    |          |
| Fila     | Reebok      |          |

Regional Merchandise. Although the core merchandise assortment tends to be similar for each Hibbett Sports store, important local or regional differences frequently exist. Accordingly, the Company's stores regularly offer products that reflect preferences for particular sporting activities in each community and local interest in college and professional sports teams. The Company's knowledge of these interests, combined with its access to leading vendors, enables Hibbett Sports stores to react quickly to emerging trends or special events, such as college or professional championships.

Purchasing. The Company's merchandise staff, consisting of the Vice President of Merchandising and nine merchandise buyers, analyze current sporting goods trends by maintaining close relationships with the Company's vendors, monitoring sales at competing stores, communicating with customers, store managers and personnel and reviewing industry trade publications. The merchandise staff works closely with store personnel to meet the requirements of individual stores for appropriate merchandise in sufficient quantities.

#### Vendor Relationships

The sporting goods retail business is very brand name driven. Accordingly, the Company maintains relationships with a number of well-known sporting goods vendors to satisfy customer demand. The Company's stores are among the primary retail distribution alternatives for brand name vendors that seek to reach Hibbett's target markets. As a result, the Company is able to attract considerable vendor interest and establish long-term partnerships with vendors. As its vendors expand their product lines and grow in popularity, the Company expands its sales and promotions of these products within its stores. In addition, as the Company continues to increase its store base and enter new markets, the vendors have increased their brand presence within these regions. The Company also places significant emphasis on and works with its vendors to establish the most favorable pricing and to receive cooperative marketing funds.

Management believes the Company maintains excellent working relationships with vendors. During fiscal 1996, the Company's largest vendor, Nike, represented approximately 35% of its total purchases. Hibbett has received the Nike Retailer Excellence Award for the Southeast region for eight consecutive years based on its performance in the full-line sporting goods category.

#### Advertising and Promotion

The Company targets special advertising opportunities in its markets to increase the effectiveness of its advertising spending. In particular, the Company prefers advertising in local media as a way to further differentiate itself from national chain competitors. Substantially all of the Company's advertising and promotional spending is centrally directed, with some funds allocated to district managers on an as-requested basis. Advertising in the sports pages of local newspapers serves as the foundation of the Company's promotional program, and in fiscal 1996 it accounted for the majority of total advertising spending. Other media such as local radio, television and outdoor billboards are used by the Company

to reinforce Hibbett name recognition and brand awareness in the community. In addition, direct mail to customers on an in-house mailing list has been used by the Company to reinforce already established buying patterns and to increase customer loyalty.

The cooperative promotional program with its vendors plays an integral part in the Company's advertising strategy by funding a significant portion of its advertising budget and increasing Hibbett's name recognition. The Company holds an annual marketing meeting at which it presents to its major vendors a number of advertising alternatives. At that meeting, vendors select their preferred advertising and promotional programs which often cover a number of different media and are based on multiple themes, and during the ensuing twelve-month period the Company develops and implements the selected programs in close cooperation with those vendors. For example, the Company has recently developed a joint television commercial with Nike and has begun placing vendor sponsored advertising signage on its delivery trucks.

#### Customer Satisfaction

Customer Service. Commitment to customer satisfaction and service is an integral part of Hibbett's operating strategy. Management seeks to exceed customer expectations in order to build loyalty and generate repeat business. The Company hires enthusiastic sales personnel with an interest in sports and provides them with extensive training to create a sales staff with strong product knowledge, dedicated to customer service. The Company also offers services such as special order programs, monogramming, sewing and screening services and large order processing for local groups in an effort to further maximize customer satisfaction.

Training. The Company provides continuing sales and technical/product training for its sales personnel. A key part of the training process is its testing program. All store personnel are required to take a written test and perform role playing exercises before moving on to a higher sales position and ultimately advancing within the organization. The Company utilizes a number of training tools to develop competent salespeople and future managers, including: (i) a two-part salesperson training program designed to teach new hires and seasoned employees how to be effective salespeople; (ii) a continuing product/ technical training program taught through in-store clinics, instructional manuals or video presentations designed to educate the sales personnel on technical facets and the use of a particular product; and (iii) store training meetings designed to educate all salespeople at the store level as a group on a particular topic.

#### Store Operations

Effective interaction between the corporate office and the stores is a key element of Hibbett's operating strategy. Close communications are maintained among senior management, district managers, store managers and sales personnel. Senior management is easily accessible to store managers and staff. In addition, the close proximity of the stores encourages regular visits by the district managers to address store issues and concerns, to provide encouragement and to discuss national, regional and local trends in the sporting goods sector. Senior management conducts monthly meetings at the Company's corporate headquarters with all of the district managers. The outcome of these meetings is communicated to the store base by the district managers on a regular basis as well as in similar all-day sessions with the store managers. These meetings facilitate constant two-way communication between headquarters and the store base.

The Company's management structure consists of one district manager for approximately every ten stores and at the store level, on average, one store manager, two assistant store managers and five or six

sales personnel including trainees. Additional trainees and part-time personnel are typically hired to assist the store personnel with increased traffic and sales volume in the fourth quarter. Store managers are responsible for the operations of individual stores including recruiting and hiring store personnel. The Company strongly favors internal development of its store managers and constantly looks for motivated and talented people to promote from within.

#### Distribution

The Company maintains a single 130,000 square foot distribution center in Birmingham, Alabama for all 71 of its existing stores and manages the distribution process centrally from its corporate headquarters which are located in the same building as the distribution center. In January 1996 the Company moved its operations to this newly constructed distribution center which is capable of servicing in excess of 150 Hibbett Sports stores and has significant expansion potential to support the Company's growth for the foreseeable future. The Company believes strong distribution support for its stores is a critical element of its expansion strategy and is central to its ability to maintain a low cost operating structure. As the Company continues its expansion, it intends to open new stores in locations that can be supplied from the Company's distribution center.

The Company receives substantially all of its merchandise at its distribution center. Upon receipt, the merchandise is inspected, entered into the Company's computer system, allocated to stores, ticketed (to the extent that it was not pre-ticketed by the vendor) and boxed for distribution to the Company's stores. For more efficient processing, the Company also operates a "cross-dock" system for merchandise that has been pre-split by store and pre-ticketed by the vendor before arriving at the distribution center. The Company continually strives to improve its allocation methods to manage its inventory more efficiently. For key products, the Company maintains backstock at the distribution center that is allocated and distributed to stores through an automatic replenishment program based on items sold during the prior week. Merchandise is typically delivered to stores weekly via Company-operated vehicles.

#### Management Information Systems

The Company utilizes integrated information systems centralized at the corporate level. The Company's systems are designed to track product movement throughout the store base. Detailed sales transaction records are accumulated on each store's POS system and polled nightly by the Company's main system which runs on an IBM AS/400 system. This information is communicated to the merchandise buyers, who use the Company's inventory control system to order merchandise as needed. The Company recently upgraded its systems to manage a store base in excess of 150 stores.

Inventory. The Company's inventory control systems, written by Island Pacific Software, report purchasing, receiving, shipping, sales and individual SKU level inventory stocking information. Information from the Company's point-of-sale computer system is regularly reviewed and analyzed by the purchasing staff to assist in making merchandise allocation and markdown decisions. The Company uses an automatic reorder system to maintain in-stock positions on key items. This system provides management with the information needed to determine the proper timing and quantity of reorders. Through the Island Pacific Software package, the Company is able to accommodate different retail prices for the same item at different stores and as a result to price merchandise competitively by market.

EDI and Quick-Ship. Current electronic data interchange capabilities include the transmission of purchase orders directly to some of the Company's vendors. The Company has recently implemented EDI on its IBM

AS/400 system. This allows for the scheduling of EDI transmissions and receiving as well as the required processes before and after communications. Management believes the Company's EDI effort with vendors will continue to grow in the future as retailers and suppliers focus on further increasing operating efficiencies.

Financial Reporting. The financial reporting systems provide the Company with detailed financial reporting to support management's operational decisions and cost control efforts. All accounting, accounts payable, accounts receivable, payroll and human resources software is written and maintained by Lawson Software, Inc. and resides on the Company's IBM AS/400 system. This system provides functions such as scheduling of payments, receiving of payments, general ledger interface, vendor tracking, and flexible reporting options.

#### Team Sales

Hibbett Team Sales, Inc. ("Team Sales"), a wholly-owned subsidiary of the Company, is a leading supplier of customized athletic apparel, equipment and footwear to school, athletic and youth programs in Alabama. Team Sales sells its merchandise directly to educational institutions and youth associations. The operations of Team Sales are independent of the operations of the Company's stores, and its warehousing and distribution are managed separately out of its own warehouse. The Company believes that Team Sales' operations generate goodwill in the community and introduce young sports enthusiasts to Hibbett as a supplier of sporting goods. Although Team Sales represents a small percentage of the Company's sales and profits, management believes that through the operation of Team Sales the Company is able to enhance many of its vendor relationships.

#### Properties

The Company currently leases all of its existing 71 store locations and expects that its policy of leasing rather than owning will continue as it expands. The Company's leases typically provide for a short initial lease term with options on the part of the Company to extend. Management believes that this lease strategy enhances the Company's flexibility to pursue various expansion opportunities resulting from changing market conditions and to periodically re-evaluate store locations. The Company's ability to open new stores is contingent upon locating satisfactory sites, negotiating favorable leases and recruiting and training additional qualified management personnel.

As current leases expire, the Company believes that it will be able either to obtain lease renewals if desired for present store locations or to obtain leases for equivalent or better locations in the same general area. To date, the Company has not experienced difficulty in either renewing leases for existing locations or securing leases for suitable locations for new stores. A majority of the Company's store leases contain provisions that would permit the landlord to terminate the lease or to increase rent upon a change in control of the Company. The Recapitalization constituted a change in control that triggered these rights for a majority of the Company's landlords as of November 1, 1995, the date of the consummation of the Recapitalization. Many of such leases also require the Company to give notice of any change in control. No notice was given to landlords prior to the Recapitalization. As of June 15, 1996, the Company has not received any notice regarding any landlord's intention to either terminate a lease or to increase rent as a result of the Recapitalization. In addition, many of the Company's leases contain certain provisions with which the Company may not be in compliance. Based primarily on the Company's belief that it maintains good relations with its landlords, that most of its leases are at market rents and that it has historically been able to secure leases for suitable locations, management believes that these provisions will not have a material adverse effect on the business or financial condition of the Company.

The Company moved its operations to the newly-built corporate offices and distribution center in Birmingham, Alabama in January 1996. The offices and the distribution center are leased by the Company under a long term operating lease. Team Sales owns its warehousing and distribution center located in Birmingham, Alabama.

#### Competition

The business in which the Company is engaged is highly competitive and many of the items sold by the Company are sold by local sporting goods stores, department and discount stores, athletic footwear and other specialty athletic stores, traditional shoe stores and national and regional full-line sporting goods stores. Many of the stores with which the Company competes are units of national chains that have substantially greater financial and other resources than the Company. Although several of those competitors, such as Foot Locker or Foot Action, are already present in most of Hibbett Sports' mall locations, the Company believes that its Hibbett Sports format is able to compete effectively by distinguishing itself as a full-line sporting goods store with an emphasis on team and individual sports merchandise complemented by a selection of localized apparel and accessories. The Company's Sports & Co. superstores compete with sporting goods superstores, athletic footwear superstores and mass merchandisers. Expansion by the Company into markets served by its competitors, entry of new competitors or expansion of existing competitors into the Company's markets, could have a material adverse effect on the Company's business, financial condition and results of operations.

#### Employees

The Company employed approximately 460 full-time and approximately 500 part-time employees at May 4, 1996, none of whom are represented by a labor union. The number of part-time employees fluctuates depending on seasonal needs. There can be no assurance that the Company's employees will not, in the future, elect to be represented by a union. The Company considers its relationship with its employees to be good and has not experienced significant interruptions of operations due to labor disagreements.

#### Legal Proceedings

The Company is a party to various legal proceedings incidental to its business. In the opinion of management, after consultation with legal counsel, the ultimate liability, if any, with respect to those proceedings is not presently expected to materially affect the business, financial position or results of operations of the Company.

### MANAGEMENT

#### Executive Officers and Directors

The executive officers and directors of the Company and their ages as of May 4, 1996 are as follows:

| Name                | Age | Position  |
|---------------------|-----|---|
| Michael J. Newsome  | 57  | President; Chief Operating Officer;<br>Director |
| Susan H. Fitzgibbon | 32  | Chief Financial Officer                         |
| Joy A. McCord       | 41  | Vice President of Merchandising                 |
| Cathy E. Pryor      | 33  | Vice President of Store Operations              |
| John F. Megrue      | 37  | Chairman of the Board; Director                 |
| Clyde B. Anderson   | 35  | Director  |
| Barry H. Feinberg   | 51  | Director  |

|                         |    |          |
|-------------------------|----|----------|
| F. Barron Fletcher, III | 29 | Director |
| Thomas A. Saunders, III | 59 | Director |

Michael J. Newsome has been the President and the Chief Operating Officer of the Company since 1981. Since joining the Company as an outside salesman over 30 years ago, Mr. Newsome has held numerous positions at Hibbett, including as retail clerk, outside salesman to schools, store manager, district manager, division manager and president. Prior to joining the Company, Mr. Newsome worked in the sporting goods retail business for six years.

Susan H. Fitzgibbon has been the Chief Financial Officer of the Company since April 1996. Prior to joining the Company, she held various financial positions at Bruno's Inc., a supermarket store operator, from December 1992 through April 1996, serving most recently as Controller. Prior to Bruno's Inc., Ms. Fitzgibbon spent six years at Arthur Andersen LLP during which she worked extensively with retailing clients.

Joy A. McCord has been the Vice President of Merchandising at the Company since 1995. Ms. McCord is responsible for buying, advertising and inventory control. Ms. McCord has been with the Company for nine years. During that time, she has held positions as sporting goods buyer for four years and general merchandise manager for five years. Prior to joining the Company, she worked as a department manager at Loveman's department stores for two years and merchandise buyer at Parisian department stores for eight years. Ms. McCord has over 19 years of experience in the retailing industry.

Cathy E. Pryor has been the Vice President of Store Operations at the Company since 1995. Her responsibilities include overseeing all of the stores, directing district managers, organizing training and overseeing management information systems. Ms. Pryor has been with the Company for eight years. During that time, she has held positions as a district manager and Director of Store Operations. Prior to joining the Company, she worked at Champs as a district manager. Ms. Pryor has over eleven years of experience in the sporting goods retail business.

John F. Megrue has been a Director and Chairman of the Board of the Company since 1995. Mr. Megrue has been a partner of SK Partners, L.P., which serves as the general partner of Saunders Karp & Co., a private equity investment firm, and each of the Funds, since 1992. From 1989 to 1992, Mr. Megrue served as a Vice President and Principal at Patricof & Co., a private equity investment firm, and prior thereto he served as a Vice President at C.M. Diker Associates, a private equity investment firm. Mr. Megrue is also a Vice Chairman and director of Dollar Tree Stores, Inc.

Clyde B. Anderson has been a Director of the Company since 1987. Mr. Anderson has served as the Chief Executive Officer of Books-A-Million, Inc., a book retailer, since July 1992 and as director and President of Books-A-Million, Inc. since November 1987. From November 1987 to March 1994, Mr. Anderson also served as the Chief Operating Officer of Books-A-Million, Inc.

Barry H. Feinberg has been a Director of the Company since 1996. Mr. Feinberg has been an advisor to Saunders Karp & Co. since 1994. He is a founding partner of Kaiser, Feinberg & Associates, a marketing consulting firm, specializing in multi-market retail organizations. From 1974 until 1991, he was with Silo, Inc., a national consumer electronics retailer, where he served as President and CEO from 1978 to 1991. Mr. Feinberg currently teaches courses in retailing and retail marketing at the Wharton School at the University of Pennsylvania. He also serves as a director of Deb Shops, Inc.

F. Barron Fletcher, III has been a Director of the Company since 1995. Mr. Fletcher joined Saunders Karp & Co. as an associate in 1992 and is currently a principal with Saunders Karp & Co. Prior to joining Saunders Karp & Co., from 1991 through 1992, Mr. Fletcher was a financial analyst with Wasserstein Perella & Co. where he served in the merchant banking department and also in mergers and acquisitions. Prior to that, Mr. Fletcher was a financial analyst with Trammell Crow Ventures which specialized in leveraged acquisitions and divestitures in the real estate industry.

Thomas A. Saunders, III, has been a Director of the Company since 1995. Mr. Saunders has been a partner of SK Partners, L.P., which serves as the general partner of Saunders Karp & Co. and each of the Funds, since 1990. Before founding Saunders Karp & Co., Mr. Saunders served as a Managing Director of Morgan Stanley & Co. Incorporated from 1974 to 1989 and as Chairman of The Morgan Stanley Leveraged Equity Fund II, L.P., from 1987 to 1989. Mr. Saunders is a member of the Board of Visitors of the Virginia Military Institute and is the Chairman of the Board of Trustees of the University of Virginia's Darden Graduate School of Business Administration. Mr. Saunders is also a Trustee of the Cold Spring Harbor Laboratory and a director of Dollar Tree Stores, Inc.

Prior to the closing of the Offering, the Company's Certificate of Incorporation will provide that the number of directors constituting the Board of Directors shall be such number, not more than nine or less than three, as is established from time to time by resolution of the Board of Directors pursuant to the Bylaws. The Board of Directors currently consists of six directors who, prior to the closing of the Offering, will be divided into three classes of two directors, designated Class I, Class II and Class III. The initial Class I directors will serve until the annual shareholder meeting in 1997, the initial Class II directors will serve until the annual shareholder meeting in 1998 and the initial Class III directors will serve until the annual shareholder meeting in 1999.

All of the current members of the Board of Directors were elected pursuant to the Stockholders Agreement. See "Certain Transactions--Stockholders Agreement."

It will be necessary for the Company to have two independent directors within 90 days after the date of this Prospectus in order to maintain its Nasdaq National Market listing. Failure to have such directors within such period could result in a delisting of the Common Stock from The Nasdaq National Market.

The Company's Board of Directors intends to establish an audit committee (the "Audit Committee") and a compensation committee (the "Compensation Committee"). The Audit Committee will recommend the annual engagement of the Company's auditors, with whom the Audit Committee will review the scope of audit and non-audit assignments, related fees, the accounting principles used by the Company in financial reporting and the adequacy of the Company's internal control procedures. The Compensation Committee will determine officers' salaries and bonuses, and will administer the Company's stock plans. The two new independent directors will be appointed to the Audit and Compensation Committees at the time they are elected to the Board of Directors of the Company. Further, the approval of disinterested directors will be required for any material agreements or arrangements between the Company and directors, officers, existing principal shareholders and their affiliates.

#### Director Compensation

Pursuant to the Stockholders Agreement, each member of the Company's Board of Directors who is not an employee of the Company has been entitled

to an annual fee of \$20,000, which fee may be waived by that director. Each of John F. Megrue, Barry H. Feinberg, F. Barron Fletcher, III and Thomas A. Saunders, III has waived his director fees. Following the completion of the Offering, pursuant to the Bylaws, each director who is not an employee will be entitled to an annual fee of \$ , which fee may be waived by that director. Messrs. Megrue, Feinberg, Fletcher and Saunders intend to waive their fees.

Executive Compensation

The following table sets forth the compensation earned by the President and each other executive officer whose compensation for services rendered in fiscal 1996 exceeded \$100,000.

Summary Compensation Table

| Name and Principal Position  | Year(1) | Annual Compensation |          |                    |
|--|---------|---------------------|----------|--------------------|
|  |         | Salary              | Bonus    | Other Compensation |
| Michael J. Newsome<br>President, Chief<br>Operating Officer and<br>Director..... | 1996    | \$112,692           | \$96,705 | --                 |
| Cathy E. Pryor<br>Vice President of<br>Store Operations.....                     | 1996    | \$ 75,654           | \$31,894 | --                 |

Long-Term Compensation

| Name and Principal Position  | Year(1) | Long-Term Compensation  |   |                            |
|--|---------|-------------------------|---|----------------------------|
|  |         | Awards                  | Payouts                                 | All Other Compensation (3) |
|  |         | Restricted Stock Awards | Securities Underlying Options /SARs (2) | LTIP Payouts               |
| Michael J. Newsome<br>President, Chief<br>Operating Officer and<br>Director..... | --      | 250,000                 | --                                      | \$6,750                    |
| Cathy E. Pryor<br>Vice President of<br>Store Operations.....                     | --      | 77,374                  | --                                      | \$4,291                    |

<FN>

- (1) Hibbett's fiscal year ends on the Saturday nearest to January 31 of each year.
- (2) Consists of stock options granted pursuant to the Hibbett Sporting Goods, Inc. Stock Option Plan.
- (3) Consists of contributions by the Company under the Hibbett Sporting Goods, Inc. 401(k) Profit Sharing Plan.

Stock Option Plans



The Company's shareholders approved and adopted the Hibbett Sporting Goods, Inc. Stock Option Plan (the "Original Plan") as of August 25, 1995, in order to provide selected officers and employees of the Company who are responsible for the conduct and management of its business with equity-based incentives in connection with the performance of their duties and responsibilities with the Company. Under the Original Plan, 404,749 shares of Common Stock were reserved for issuance. Options on all of these shares have been granted and the Company's Board of Directors has discontinued future grants of stock options under the Original Plan. As of April 1, 1996, the Company's shareholders approved and adopted the Hibbett Sporting Goods, Inc. 1996 Stock Option Plan (as amended from time to time, the "1996 Plan") under which future grants of stock options under the Company's stock option program will be made. Under the 1996 Plan, 995,251 shares of Common Stock have been reserved for issuance.

The Original Plan and the 1996 Plan (collectively, the "Plans") provide for the grant of stock options, which may be non-qualified stock options or incentive stock options for tax purposes. The Plans are administered by the Company's Board of Directors or a committee appointed by the Board. It is anticipated that following the completion of the Company's initial public offering, the Plans will be administered by a Compensation Committee consisting of members of the Company's Board of Directors who are "disinterested persons" within the meaning set forth in Rule 16b-3(d)(3) promulgated under the Securities Exchange Act of 1934, as amended. Under the Plans, all full-time employees selected by the Compensation Committee will be eligible to receive options.

The Board of Directors or a committee thereof, as the case may be, is authorized to determine the terms and conditions of all option grants, subject to the limitations that the option price per share under the Plans may not be less than the fair market value of a share of Common Stock on the date of grant and the term of an option may not be longer than ten years. Payment of the option price may be made in the discretion of the Compensation Committee in cash or common stock or a combination thereof. Options granted under the Plans are not transferable except by will or the laws of descent and distribution, and are exercisable during the optionee's life only by the optionee. In addition, under the 1996 Plan, an optionee's outstanding vested options and shares acquired pursuant to the exercise of such optionee's options may be repurchased by the Company in the event of the termination of such optionee's employment with the Company. Following completion of the Company's initial public offering, unless otherwise determined by the Compensation Committee, such purchase price shall be, in the case of the shares, the closing price of the Common Stock as reported in the Wall Street Journal, and in the case of the vested options, such closing price less the exercise price. In the case of the 1996 Plan, the transfer of shares acquired pursuant to the exercise of an option shall be subject to the right of first refusal by the Company, and the Compensation Committee may impose other restrictions on shares acquired pursuant to the exercise of an option. Under the Original Plan, in the event of the termination of an optionee's employment with the Company, the Company shall repurchase all outstanding options held by such optionee, and under the 1996 Plan, in the event of the termination of an optionee's employment with the Company, the Company may repurchase all, but not less than all, outstanding options and stock acquired pursuant to options granted under the 1996 Plan.

In the event of a merger of the Company (or similar corporate transaction) or the sale of all or substantially all of the assets of the Company, if the options granted under the Plans are not assumed or substituted by the acquiror, such options may, in the discretion of the Compensation Committee, be canceled in exchange for delivery by the Company of shares of Common Stock having a value with respect to each option equal to the product of (1) the excess of the fair market value of a share of Common Stock over the exercise price of the option and (2) the number of shares with respect to which the option is then exercisable. Any options

the exercise price of which exceeds the fair market value of a share of Common Stock shall be canceled without payment of any consideration. In the event of a change in control (defined as the acquisition of (i) the power to direct the management of the Company or (ii) 50% of the voting shares of Common Stock) or a tender offer for shares of Common Stock (other than a self-tender), the Compensation Committee may take any action it deems appropriate with respect to outstanding options.

The Plans may be amended or terminated by the Compensation Committee from time to time to the extent deemed appropriate; provided however that no amendment shall be made (i) which would impair the rights of an optionee without such optionee's consent or (ii) which would increase the number of shares reserved for issuance under the Plans or change the class of employee eligible to participate in the Plans.

Options to purchase a total of 404,749 shares of Common Stock have been granted under the Original Plan to six employees of the Company, including a grant to Mr. Newsome of an option to purchase 250,000 shares of Common Stock and a grant to Ms. Pryor of an option to purchase 77,374 shares of Common Stock. Ms. Pryor's options granted under the Original Plan vest over a three year period in equal installments beginning on the first anniversary of the grant date. Mr. Newsome's options vest over five years in equal installments beginning on the first anniversary of the grant date. On April 1, 1996 options to purchase a total of 277,000 shares of Common Stock were granted under the 1996 Plan to 36 employees, including a grant to Ms. Pryor of an option to purchase 65,000 shares of Common Stock. Options granted under the 1996 Plan vest over a five year period, in equal installments, beginning on the first anniversary of the grant date.

#### Stock Plan for Outside Directors

It is anticipated that, prior to the consummation of the Offering, the Company's Board of Directors will adopt, and the Company's shareholders will approve, effective on the consummation of the Offering, the Outside Director Stock Plan. The Outside Director Stock Plan provides for awards of nonqualified options to directors of the Company who are not employees of the Company, Saunders Karp & Co. or any affiliate of either of them ("Eligible Directors"). The purpose of the Outside Director Stock Plan is to promote the interests of the Company and its shareholders by increasing the proprietary interest of Eligible Directors in the growth and performance of the Company.

Pursuant to the Outside Director Stock Plan, on the effective date (the "Effective Date") of the Offering each Eligible Director will be granted an option to purchase \_\_\_\_\_ shares of Common Stock and each Eligible Director elected following the Effective Date will be granted an option to purchase \_\_\_\_\_ shares of Common Stock upon his initial election to the Board. At each annual meeting of shareholders, each Eligible Director shall be granted an additional option for \_\_\_\_\_ shares of Common Stock; provided that any person elected as an Eligible Director between annual meetings will be granted an option for a prorated portion of \_\_\_\_\_ shares at the first annual meeting of shareholders following such election. Each option will: (i) vest in annual 25% increments commencing on the first anniversary of the grant date; and (ii) expire on the earlier of the tenth anniversary of the grant date and one year from the date on which an optionee ceases to be an Eligible Director. The exercise price per share of Common Stock will be 100% of the fair market value per share on the grant date. In addition, the Outside Director Stock Plan will provide that each Eligible Director may receive a portion of such Eligible Director's annual retainer in unrestricted shares of Common Stock.

The maximum number of shares of Common Stock in respect of which options may be granted and shares awarded in lieu of a portion of the annual retainer under the Outside Director Stock Plan is \_\_\_\_\_. Shares of Common Stock subject to options that are forfeited, terminated or canceled will again be available for awards. The shares of Common Stock to be delivered under the Outside Director Stock Plan will be made available

from the authorized but unissued shares of Common Stock or from treasury shares. The number and class of shares available under the Outside Director Plan and/or subject to outstanding options may be adjusted by the Board of Directors to prevent dilution or enlargement of rights in the event of various changes in the capitalization of the Company.

The Outside Director Stock Plan will be administered by the Board of Directors. Subject to the provisions of the Outside Director Stock Plan, the Board shall be authorized to interpret the Outside Director Stock Plan, to establish, amend, and rescind any rules and regulations relating to it and to make all other determinations necessary or advisable for its administration; provided, however, that the Board will have no discretion with respect to the selection of directors to receive options, the number of shares of Common Stock subject to any such options, the purchase price thereunder or the timing or term of grants of options. The determinations of the Board in the administration of the Outside Director Stock Plan, as described herein, will be final and conclusive. The validity, construction and effect of the Outside Director Stock Plan and any rules and regulations relating to it will be determined in accordance with the laws of the State of Delaware.

The options granted under the Outside Director Stock Plan may not be assigned or transferred, except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order. Shares issued under the Outside Director Stock Plan in respect of the annual retainer may be assigned or transferred.

No option may be granted under the Outside Director Stock Plan after the tenth annual meeting of the Company's shareholders following the consummation of the Offering.

The Outside Director Stock Plan may be amended by the Company's Board of Directors, as it shall deem advisable or to conform to any change in any law or regulation applicable thereto; provided that the Company's Board of Directors may not, except in the limited circumstances described above, without the authorization and approval of shareholders: (i) increase the number of shares of Common Stock which may be purchased pursuant to options, either individually or in the aggregate; (ii) change the requirement that option grants be priced at fair market value; or (iii) modify in any respect the class of individuals who constitute Eligible Directors. The provisions governing eligibility, the grant, terms and conditions of the options and the award of shares of Common Stock in respect of the annual retainer and, for purposes of the Outside Director Stock Plan, the amount of the annual retainer, may not be amended more often than once every six months, other than to comport with changes in the Code, the Employment Retirement Income Security Act of 1974, as amended ("ERISA") or the rules under either such statute.

#### Employee Stock Purchase Plan

It is anticipated that, effective on the consummation of the Offering, the Company will have in place the Hibbett Sporting Goods, Inc. Employee Stock Purchase Plan (the "Employee Stock Purchase Plan"). Under the Employee Stock Purchase Plan, a maximum of \_\_\_\_\_ shares of Common Stock may be purchased from the Company by the employees through payroll withholding pursuant to a series of offerings. The Employee Stock Purchase Plan is established pursuant to the provisions of Section 423 of the Code. All full-time employees who have completed one year of service, except for employees who own Common Stock of the Company or options on such stock which represent more than 5% of the Common Stock of the Company are eligible to participate. The Employee Stock Purchase Plan will be administered by a committee of the Board of Directors (the "Committee"). The Committee shall have discretion to administer, interpret and construe any and all provisions of the Employee Stock Purchase Plan. The Committee's determinations will be conclusive. In the event of certain corporate transactions or events affecting the Common Stock or structure of the Company, the Committee may make certain adjustments set forth in the Employee Stock Purchase Plan. The Board may amend, alter or terminate the

Plan at any time; provided that shareholder approval must generally be obtained for any change that would require shareholder approval under Rule 16b-3 of the Exchange Act or any other regulatory or tax requirement that the Board deems desirable to comply with or obtain relief under and subject to the requirement that no rights under an outstanding option may be impaired by such action without the consent of the holder thereof. The purchase price of the Common Stock will be \_\_\_\_\_ % of the fair market value of the Common Stock on the date of the offering commencement or termination, whichever is lower. The Shares of Common Stock which may be purchased pursuant to the Employee Stock Purchase Plan will be made available from authorized but unissued shares of Common Stock or from treasury shares. No employee will be granted any right to purchase Common Stock with a value in excess of \$25,000 per year.

Option/SAR Grants in Last Fiscal Year

The following table sets forth certain information concerning grants of stock options made to the executive officers named in the Summary Compensation Table during the fiscal year ended February 3, 1996.

| Name                  | Individual Grants                                    |   |                                |                 | Potential Realizable Value at Rates of Stock Price Appreciation for Option Term |           |
|-----------------------|--|---|--------------------------------|-----------------|---|-----------|
|                       | Number of Securities Underlying Options/SARs Granted | % of Total Options/SARs Granted to Employees in Fiscal Year | Exercise or Base Price (\$/Sh) | Expiration Date | 5% (3)  | 10% (3)   |
| Michael J. Newsome... | 250,000 (1)  | 61.77%  | 1.00                           | 11/01/05        | \$157,224   | \$398,436 |
| Cathy E. Pryor.....   | 77,374 (2)   | 19.12%  | 0.31                           | 8/25/01         | \$ 8,156  | \$ 18,507 |

- (1) These options have a term of ten years and vest over a five year period, in equal installments beginning on the first anniversary of the grant date. These options were granted as of November 1, 1995 under the Original Plan pursuant to the terms of the Employment Agreement. See "--Employment Agreement."
- (2) These options have a term of six years and vest over a three year period, in equal installments beginning on the first anniversary of the grant date.
- (3) The dollar amounts shown are based on certain assumed rates of appreciation and the assumption that the options will not be exercised until the end of the expiration periods applicable to the options. Actual realizable values, if any, on stock option exercises and common stock holdings are dependent on the future performance of the Common Stock and overall stock market conditions. There can be no assurance that the amounts reflected will be achieved.

Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

No options were exercised by the executive officers named in the Summary Compensation Table during fiscal 1996. No stock appreciation rights were exercised by such executive officers or were outstanding at the end of the year. The following table sets forth certain information concerning unexercised options and fiscal year-end option values for the named executive officers.

| Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#) | Value of Unexercised in-the-Money Options/SARs at Fiscal Year-End (\$) |
|---|--|
|---|--|

| Name<br>-----           | Exercisable/<br>Unexercisable<br>----- | Exercisable/<br>Unexercisable (1)<br>----- |
|-------------------------|--|--|
| Michael J. Newsome..... | 0/250,000                              | 0/[ ]                                      |
| Cathy E. Pryor.....     | 0/77,374                               | 0/[ ]                                      |

(1) Based on the fair market value of the Company's Common Stock at the end of fiscal 1996 (\$ per share), as determined by the Company's Board of Directors less the exercise price payable for such shares.

#### Employment Agreement

Michael J. Newsome, President and Chief Operating Officer of the Company, has entered into an employment agreement with the Company and a letter agreement with the Board of Directors of the Company (collectively, the "Employment Agreement") which took effect on November 1, 1995. The Employment Agreement has an initial term that expires on November 1, 1998 and provides for annual base salary and annual incentive bonuses and the grant of the options set forth above. If the Company terminates Mr. Newsome's employment without cause, as defined in the Employment Agreement (other than by reason of death or disability), or Mr. Newsome terminates his employment for good reason, as defined in the Employment Agreement the Employment Agreement provides that Mr. Newsome will continue to receive his base salary and certain benefits for what would have been the remainder of the employment term determined without regard to such termination. Notwithstanding the foregoing, such payments will cease if Mr. Newsome breaches the noncompetition clause, described below. If the Company terminates Mr. Newsome's employment without cause or Mr. Newsome terminates his employment with good reason, the Company will have the right to purchase and Mr. Newsome will have the right to sell the shares of Common Stock held by him on October 31, 1995 at a price equal to the fair market value, as determined by the Compensation Committee of the Board of Directors. If the Company terminates Mr. Newsome's employment for cause or Mr. Newsome terminates his employment for any reason other than good reason, the Employment Agreement provides that the Company will have a right to repurchase such shares at book value, as defined in the Employment Agreement. The Employment Agreement includes a noncompetition clause requiring Mr. Newsome not to compete with the Company following a termination of his employment for a period which may be as long as the longer of (i) two years after ceasing to be employed and (ii) what would have been the remaining term of employment without regard to such termination of employment.

#### Compensation Committee Interlocks and Insider Participation

The Board of Directors does not currently have a compensation committee, but anticipates establishing one within 90 days of the closing of the Offering. The functions of the compensation committee other than administration of the Plans, as discussed above, are currently performed by the Board of Directors of the Company. Mr. Newsome, the President of the Company, serves on the Board of Directors and on the committee established to administer the Plans prior to establishment of the compensation committee.

#### PRINCIPAL SHAREHOLDERS

The following table sets forth certain information concerning the beneficial ownership of the Common Stock as of May 4, 1996 and as adjusted to reflect the sale of shares of Common Stock offered hereby by (i) each person (or group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934) known by the Company to own beneficially more than five percent of the Company's Common Stock, (ii) each of the executive officers named in the Summary Compensation Table, (iii) each director and (iv) all directors and executive officers as a group:

| Name and address of Beneficial Owner(1)                                   | Prior to Offering                  |         | After Offering                     |         |
|---|------------------------------------|---------|------------------------------------|---------|
|   | Common Stock<br>beneficially owned | Percent | Common Stock<br>beneficially owned | Percent |
| The SK Equity Fund, L.P.(2)   |                                    |         |                                    |         |
| SK Investment Fund, L.P.(2)   |                                    |         |                                    |         |
| Allan Karp(2)   |                                    |         |                                    |         |
| John F. Megrue(2)   |                                    |         |                                    |         |
| Thomas A. Saunders, III(2)  |                                    |         |                                    |         |
| Two Greenwich Plaza<br>Suite 100<br>Greenwich, CT 06830.....              | 17,609,000                         | 75%     |                                    |         |
| Clyde B. Anderson<br>402 Industrial Lane<br>Birmingham, AL 35211.....     | 1,576,049                          | 7%      |                                    |         |
| Michael J. Newsome(3)<br>451 Industrial Lane<br>Birmingham, AL 35211..... | 750,000                            | 3%      |                                    |         |
| All Directors and Executive Officers<br>as a group(4).....                | 19,935,049                         | 85%     |                                    |         |
| <FN>  |                                    |         |                                    |         |

(1) As used in this table "beneficial ownership" means the sole or shared power to vote or direct the voting or to dispose or direct the disposition of any security. A person is deemed as of any date to have "beneficial ownership" of any security that such person has a right to acquire within 60 days and such security is deemed to be outstanding for purposes of calculating the ownership percentage of such person, but is not deemed to be outstanding for purposes of calculating the ownership percentage of any other person.

(2) Includes 17,418,455 shares owned by The SK Equity Fund, L.P. and 190,545 shares owned by SK Investment Fund, L.P. SK Partners, L.P. is the general partner of each of The SK Equity Fund, L.P. and SK Investment Fund, L.P. Messrs. Karp, Megrue and Saunders are general partners of SK Partners, L.P., and, therefore, may be deemed to have beneficial ownership of the shares shown as being owned by the Funds above. Messrs. Karp, Megrue and Saunders disclaim beneficial ownership of such shares, except to the extent that any of them has a limited partnership interest in SK Investment Fund, L.P.

(3) All of the shares owned by Mr. Newsome are subject to call by the Company at "book value" or "fair market value" if Mr. Newsome's employment is terminated under certain circumstances set forth in the Employment Agreement. See "Management--Employment Agreement."

(4) Includes shares held by the Funds as a result of affiliations described in note (2) above.

Prior to the consummation of the Offering, the Anderson Shareholders collectively own approximately 22% of the Company's Common Stock, including the Common Stock shown as being owned by Clyde B. Anderson in the table above. After the consummation of the Offering, the Anderson Shareholders will collectively own approximately % of the Company's Common Stock. The Anderson Shareholders have agreed that, for a period of 180 days from the date of this Prospectus, they will not, without the prior written consent of Smith Barney Inc. offer, sell, grant any option to purchase or otherwise dispose of the Company's Common Stock or any securities convertible into or exchangeable for such Common Stock.

#### CERTAIN TRANSACTIONS

##### Transactions Related to the Recapitalization

Prior to November 1, 1995, all of the issued and outstanding common stock of the Company was owned by Charles C. Anderson, Sr., Joel R. Anderson, Charles C. Anderson, Jr., Terry C. Anderson, Clyde B. Anderson, Harold M. Anderson, certain Anderson family trusts and certain other persons (the "Anderson Shareholders") and by Michael J. Newsome. Pursuant to the terms of a stock purchase and redemption agreement dated November 1, 1995 (the "Stock Purchase Agreement"), The SK Equity Fund, L.P. (the "Equity Fund") and SK Investment Fund, L.P. (the "Investment Fund" and, together with the "Equity Fund", the "Funds") agreed to acquire from the Company for \$24,250,000 in cash, and the Company agreed to issue and sell (i) to the Funds: (x) 17,609,000 shares of Common Stock and (y) \$4,574,000 aggregate principal amount of its 12% Subordinated Notes due November 1, 2002 (the "Subordinated Notes"), and (ii) to the Equity Fund \$2,500,000 in the aggregate principal amount of its 12% Senior Subordinated

Note due November 2, 2000 (the "Senior Subordinated Notes") (collectively, the "Acquisition"). In addition, pursuant to the terms of the Stock Purchase Agreement, the Company agreed, upon the consummation of the Acquisition, to redeem from the Anderson Shareholders 34,220,000 shares of Common Stock (the "Redemption") in exchange for: (i) \$22,500,000 in cash, (ii) \$1,625,000 aggregate principal amount of the Senior Subordinated Notes and (iii) \$11,426,000 aggregate principal amount of the Subordinated Notes. Thus, upon the consummation of the Acquisition and the Redemption, the Funds and the Anderson Shareholders owned 17,609,000 and 5,030,000 shares of Common Stock, respectively, or approximately 75.3% and 21.5% of the outstanding Common Stock, respectively. The remaining 750,000 shares of Common Stock were held by Mr. Newsome. In February, 1996 the Company repaid in full all the amounts outstanding under the Senior Subordinated Notes.

The Subordinated Notes were issued by the Company at a discount, with a yield to maturity compounded annually of 14.92%. Pursuant to the terms of the Subordinated Notes, payment of interest accrued thereon during the first year of the term thereof is deferred until November 1, 1996. The Company is permitted to redeem the Subordinated Notes at their face value plus the interest accrued thereon until the day of redemption out of the proceeds from a public offering of its stock. The Subordinated Notes bear interest at the rate of 12% per annum and mature on November 1, 2002. The Company intends to redeem the Subordinated Notes out of the proceeds of the Offering.

Prior to November 1, 1995, in consideration for his assistance in arranging the Recapitalization, the Company issued to Clyde B. Anderson 322,419 shares of Common Stock.

#### Stockholders Agreement

In connection with the Acquisition and the Redemption, the Company, the Anderson Shareholders, Mr. Newsome and the Funds entered into a stockholders agreement dated as of November 1, 1995 (the "Stockholders Agreement"). Except for provisions relating to indemnification and contribution, the Stockholders Agreement will terminate when the number of shares of Common Stock held by the Anderson Shareholders falls below 1,974,500. In addition, the Funds, the Anderson Shareholders and Mr. Newsome agreed to amend certain provisions of the Stockholders Agreement.

The Stockholders Agreement currently specifies the number of members of the Board of Directors of the Company as well as the right of the Funds to nominate the majority of such members and the right of the Anderson Shareholders to nominate one such member. Such directors can currently only be removed for cause or if persons entitled to designate such directors consents to removal in writing.

Actions of the Board currently require either (i) the affirmative vote of a majority of the directors at a duly convened meeting of the Board at which a quorum consisting of three directors, of whom at least two must be designees of the Funds, is present or (ii) the unanimous written consent of the Board. Certain actions including an amendment to the Company's Articles of Incorporation or Bylaws, a sudden and material change in the Company's line of business, certain related party transactions and a change in the Company's auditors prior to the completion of the fiscal 1997 audit, currently require the affirmative vote of the Board, with the director designated by the Anderson Shareholders voting in the affirmative.

Subject to certain exceptions, including the public offering of Common Stock, the Stockholders Agreement currently provides preemptive rights to each of the Funds, the Anderson Shareholders and Mr. Newsome to purchase their respective pro rata portions of any newly issued stock of the Company or any newly issued securities convertible, exchangeable or exercisable into the Company's stock.

The Stockholders Agreement grants the Anderson Shareholders and Mr. Newsome "tag along" rights to participate in a private sale of shares of Common Stock by the Funds to a third party. In addition, the Stockholders Agreement grants the Funds certain "drag along rights" to compel the Anderson Shareholders and Mr. Newsome to participate in a private sale of all the shares of Common Stock owned by the Funds to a third party.

The Stockholders Agreement also grants to the Funds unlimited demand registration rights and to the Anderson Shareholders, holding the majority of the total number of shares of Common Stock held by the Anderson Shareholders, one demand registration right that becomes exercisable 270 days after the closing of the Offering. The Company, notwithstanding these demand registration rights, shall not be obligated to effect more than one demand registration in any six-month period. The Stockholders Agreement also grants the Funds, the Anderson Shareholders and Mr. Newsome "piggy back" registration rights, subject to certain limitations, if the Company proposes to register its Common Stock.

The Company is obligated to pay all reasonable fees, costs and expenses in connection with any demand or "piggy back" registration other than underwriting discounts or commissions. The Stockholders Agreement contains customary indemnity provisions between the Company and the selling shareholders for losses arising out of any demand or "piggy back" registration.

#### Advisory Agreements

Prior to June 1, 1995, the Company contracted with ANCO Management Services, Inc. ("ANCO"), an affiliated entity of the Anderson Shareholders, to obtain certain financial advisory services. From June to November 1, 1995, following the liquidation of ANCO, the Company contracted for substantially similar services with Anderson & Anderson, LLC, another affiliated entity of the Anderson Shareholders. Fees for those services amounted to \$227,000, \$256,000 and \$95,000 in fiscal 1994, 1995 and 1996, respectively. On November 1, 1995, the Company entered into an advisory agreement with Saunders Karp & Co., L.P. (the "Saunders Karp"), a limited partnership the general partner of which is SK Partners L.P., which is also the general partner of each of the Funds. Pursuant to the advisory agreement, Saunders Karp has agreed to provide certain financial services to the Company. In consideration for these services, Saunders Karp is entitled to receive an annual fee of \$200,000, payable quarterly in advance. The Company expensed Saunders Karp \$50,000 in fiscal 1996 and \$50,000 during the thirteen week period ending on May 4, 1996 pursuant to that agreement. The Company also has agreed to indemnify Saunders Karp for certain losses arising out of the provision of advisory services and to reimburse certain of Saunders Karp's out-of-pocket expenses. In addition, on November 1, 1995, the Company paid Saunders Karp a one-time fee of \$500,000 primarily for its assistance in the arrangement, placement and negotiation of the Term Loan and the Revolving Loan Agreement.

#### Non-Competition Agreement

Messrs. Charles C. Anderson, Joel R. Anderson and Clyde B. Anderson, as former controlling shareholders of the Company, have entered into a non-competition agreement with the Company and the Funds in connection with the Acquisition and Redemption. Under the agreement, Messrs. Andersons agreed not to be engaged in the retail sales of athletic equipment, apparel, footwear or other sporting goods in any and all states of Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Illinois, Tennessee and any other state immediately adjacent to any of the foregoing states at any time prior to November 1, 2000.

#### Certain Transactions with Anderson Entities



In November 1994, Hibbett paid \$118,788 to reimburse Books-A-Million, Inc. ("Books-A-Million"), a book retailer in the southeastern United States controlled by the Anderson Shareholders, for payments made under a tax sharing arrangement.

In fiscal 1994, the Company paid \$66,227 in respect of certain vehicle purchases to Anderson Ford, a car dealership affiliated with the Anderson Shareholders.

During fiscal 1995, the Company borrowed funds from ANCO, an affiliated entity of the Anderson Shareholders, to fund certain working capital needs. The average amount outstanding under these loans during fiscal 1995 was \$120,000, the maximum amount outstanding was \$810,000 and the weighted average interest rate was 7.45%. The loans were repaid in full during fiscal 1995.

In February 1996 the Company sold its leasehold interest in its former headquarters and distribution facility to Anderson & Anderson, LLC, an entity affiliated with certain Anderson Shareholders, for \$850,000.

Hibbett has recently entered into a sublease agreement ("Sublease Agreement") with Books-A-Million, an entity affiliated with Clyde B. Anderson, a director and one of the principal stockholders of the Company, pursuant to which Hibbett will sublease certain real estate from Books-A-Million in Florence, Alabama for one of its stores. The term of the Sublease Agreement expires in June 2008. Under the Sublease Agreement, Hibbett will make annual lease payments to Books-A-Million of approximately \$190,000.

#### SHARES ELIGIBLE FOR FUTURE SALE

Prior to the Offering, there has been no market for the Common Stock of the Company. Future sales of substantial amounts of Common Stock in the public market could adversely affect prevailing market prices.

Upon completion of the Offering, the Company will have approximately \_\_\_\_\_ shares of Common Stock outstanding (assuming no exercise of the Underwriters' over-allotment option and no exercise of outstanding options after May 4, 1996). Of these shares, the \_\_\_\_\_ shares sold in the Offering will be freely tradeable without registration under the Securities Act of 1933, as amended (the "Act"), except to the extent the shares are held by affiliates of the Company. On the date of this Prospectus, approximately "restricted shares" as defined in Rule 144 will be outstanding. Of such shares, and without consideration of the contractual restrictions described below, approximately \_\_\_\_\_ shares would be available for immediate sale in the public market without restriction pursuant to Rule 144(k). Beginning 90 days after the date of this Prospectus, and without consideration of the contractual restrictions described below, approximately \_\_\_\_\_ shares would be eligible for sale in reliance upon Rule 144 promulgated under the Act and approximately \_\_\_\_\_ shares would be eligible for sale in reliance upon Rule 701 promulgated under the Act. The holders of the remaining approximately \_\_\_\_\_ restricted shares will not be able to sell such shares pursuant to Rule 144 until a two year period has elapsed since the shares were acquired from the Company or an affiliate of the Company, which two year periods will end between \_\_\_\_\_ and \_\_\_\_\_. Furthermore, holders of an aggregate of 23,389,000 shares are entitled to piggyback registration rights, of which 22,639,000 shares are also entitled to demand registration rights. To date, none of these holders has indicated an intention to exercise such demand registration rights. See "Certain Transactions--Stockholders Agreement."

The Funds, the Anderson Shareholders, officers and directors who own shares of the Company's stock have agreed not to offer, sell, contract to sell or grant any option to purchase or otherwise dispose of Common Stock of the Company or any securities convertible into, or exchangeable for, shares

of Common Stock, subject to certain exceptions, owned by them without the prior written consent of Smith Barney Inc. for a period of 180 days after the date of this Prospectus. As a result of these contractual restrictions and the provisions of Rules 144(k), 144 and 701, additional shares will be available for sale in the public market as follows: (i) approximately shares will be eligible for immediate sale on the date of this Prospectus, (ii) approximately shares will be eligible for sale beginning 90 days after the date of this Prospectus, (iii) approximately shares will be eligible for sale beginning 180 days after the date of this Prospectus. Additional shares may be available if options are exercised between May 4, 1996 and 180 days after the date of this Prospectus, or upon the vesting of shares pursuant to stock repurchase agreements between the Company and certain of its employees.

In general, under Rule 144 as currently in effect, beginning 90 days after the Offering, a person (or persons whose shares are aggregated) may sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of the Company's Common Stock (approximately shares immediately after the Offering) or the average weekly trading volume of the Company's Common Stock during the four-calendar weeks preceding the date on which notice of the sale is filed with the Securities and Exchange Commission; provided that at least two years have elapsed since the shares to be sold were last acquired from the Company or an affiliate of the Company. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. Any person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of the Company at any time during the 90 days preceding a sale, may sell shares under Rule 144(k) without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements; provided that at least three years have elapsed since the shares to be sold were last acquired from the Company or an affiliate of the Company.

Subject to certain limitations on the aggregate offering price of a transaction and other conditions, Rule 701 may be relied upon with respect to the resale of securities originally purchased from the Company by its employees, directors, officers, consultants or advisers between May 20, 1988, the effective date of Rule 701, and the date the issuer becomes subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), pursuant to written compensatory benefit plans or written contracts relating to the compensation of such persons. In addition, the Securities and Exchange Commission has indicated that Rule 701 will apply to typical incentive stock options granted by an issuer before it becomes subject to the reporting requirements of the Exchange Act (including options granted before May 20, 1988, if made in accordance with the Rule had it been in effect), along with the shares acquired upon exercise of such options after May 20, 1988 (including exercises after the date of this Prospectus). Securities issued in reliance on Rule 701 are restricted securities and, beginning 90 days after the date of this Prospectus, may be sold by persons other than affiliates subject only to the manner of sale provisions of Rule 144 and by affiliates under Rule 144 without compliance with its two-year holding period requirements.

The Company has also agreed not to offer, sell, contract to sell or otherwise dispose of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or any rights to acquire Common Stock for a period of 180 days after the date of this Prospectus, without the prior written consent of Smith Barney Inc., subject to certain limited exceptions.

Following the Offering, the Company intends to file registration statements under the Act covering approximately 1,000,000 shares of Common Stock issued or reserved for issuance under the Plans. Accordingly, shares registered under such registration statements will, subject to Rule 144 volume limitations applicable to affiliates and the lapsing of the

Company's repurchase options, be available for sale in the open market, unless such shares are subject to vesting restrictions with the Company or the contractual restrictions described above.

#### DESCRIPTION OF CAPITAL STOCK

The Company is authorized to issue 50,000,000 shares of Common Stock, and shares of Preferred Stock, par value \$.01 per share ("Preferred Stock"), after giving effect to the reincorporation of the Company in Delaware prior to the completion of the Offering. The following summaries of certain provisions of the Common Stock and Preferred Stock do not purport to be complete and are subject to, and qualified in their entirety by, the provisions of the Company's Certificate of Incorporation, which is included as an exhibit to the Registration Statement of which this Prospectus forms a part, and by applicable law.

##### Common Stock

As of May 4, 1996 there were 23,389,000 shares of Common Stock outstanding which were held of record by 23 stockholders. There will be shares of Common Stock outstanding (assuming no exercise of the Underwriters' over-allotment option and no exercise of outstanding options) after giving effect to the sale of the shares of Common Stock offered hereby.

The holders of Common Stock are entitled to one vote per share on all matters to be voted upon by the stockholders and do not have cumulative voting rights. Subject to preferences as may be applicable to any outstanding Preferred Stock, the holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available therefor. See "Dividend Policy." In the event of liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of Preferred Stock, if any, then outstanding. Except as provided in the Stockholders Agreement, the holders of Common Stock will have no preemptive or conversion rights or other subscription rights. See "Certain Transactions--Stockholders Agreement." There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and non-assessable, and the shares of Common Stock to be issued upon completion of this offering will be fully paid and non-assessable.

##### Preferred Stock

The Board of Directors is empowered by the Company's Certificate of Incorporation to designate and issue from time to time one or more classes or series of Preferred Stock without stockholder approval. The Board of Directors may affix and determine the relative rights, preferences and privileges of each class or series of Preferred Stock so issued. Because the Board of Directors has the power to establish the preferences and rights of each class or series of Preferred Stock, it may afford the holders of any series or class of Preferred Stock preferences, powers and rights, with respect to voting, liquidation or otherwise, senior to the rights of the holders of Common Stock. The issuance of Preferred Stock could have the effect of, among other things, restricting dividends on the Common Stock, diluting the voting power of the Common Stock, impairing the liquidation rights of the Common Stock and delaying or preventing a change in control of the Company. There are no shares of Preferred Stock currently outstanding, and the Board of Directors has no present plans to issue any shares of Preferred Stock.

##### Charter and Bylaw Provisions

Stockholders' rights and related matters are governed by the Delaware General Corporation Law, the Company's Certificate of Incorporation and its Bylaws. Certain provisions of the Certificate of Incorporation and Bylaws of the Company, which are summarized below, tend to limit stockholders' ability to influence matters of corporate governance. This may make it more difficult to change the composition of the Company's Board of Directors and may discourage or make more difficult any attempt by a persons or group to obtain control of the Company.

Size of Board, Classified Board, Removal of Directors and Filling Vacancies. The Company's Certificate of Incorporation provides that subject to the right to elect additional directors that may be granted to holders of any class or series of Preferred Stock, the number of directors shall be fixed from time to time as provided in the Bylaws, but may not consist of more than nine or less than three persons. The Certificate of Incorporation further provides that the directors other than those who may be elected by the holders of any class or series of Preferred Stock shall be classified, with respect to the time for which they severally hold office, into three classes, designated Class I, Class II and Class III, as nearly equal in number as possible, and that one class shall be elected each year and serve for a three-year term. The Bylaws provide that the majority of the votes cast in the election of directors shall elect those directors. Accordingly, the holders of a majority of the then outstanding shares of voting stock can elect all the directors of the class then being elected. The Certificate of Incorporation also provides that a director may be removed by stockholders only for cause by a vote of the holders of more than two-thirds of the shares entitled to vote generally in the election of directors. The Certificate of Incorporation also provides that all vacancies on the Company's Board of Directors, including any vacancies resulting from an increase in the number of directors, may be filled by a majority of the remaining directors, even if the number is less than a quorum.

The foregoing provisions may have the effect of making it more difficult for stockholders to change the composition of the Board. As a result, at least two annual meetings of stockholders may be required for the stockholders to change a majority of the directors, whether or not the majority of the Company's stockholders believes that such a change would be desirable.

Super Majority Voting Requirements. The affirmative vote of the holders of more than two-thirds of the shares entitled to vote generally in the election of directors is required to amend, alter, change or repeal any of the foregoing provisions. In addition, under the Company's Certificate of Incorporation, the Company's Bylaws may not be amended by the stockholders without the affirmative vote of holders of more than two-thirds of the shares entitled to vote generally in the election of directors. This restriction makes it more difficult for the stockholders of the Company to amend the Bylaws and thus enhances the power of the Company's Board of Directors vis-a-vis stockholders with regard to the matters of corporate governance addressed by the Bylaws.

Limitations on Calling Special Shareholder Meetings. Under the Company's Bylaws, special meetings of the stockholders may only be called by the Chairman of the Board, a majority of the Board of Directors or upon the demand of the holders of a majority of the shares entitled to vote at any such special meeting. This provision makes it more difficult for stockholders to require the Company to call a special meeting of stockholders to consider any proposed corporate action, including any sale of the Company, which may be favored by the stockholders.

Delaware Law

The Company will be a Delaware corporation and will be subject to Section 203 of the Delaware General Corporation Laws, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a

period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the "business combination" or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years prior to the determination of interested stockholder status, did own) 15% or more of a corporation's voting stock, other than "interested stockholders" prior to the time the Common Stock of the Company is quoted on the NASDAQ National Market. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by the Board of Directors, including discouraging takeover attempts that might result in a premium over the market price for the shares of Common Stock held by stockholders.

Limitation of Directors' Liability

Section 145 of the Delaware General Corporation Act permits the Company to indemnify officers, directors or employees against expenses (including attorney's fees), judgments, fines and amounts paid in settlement in connection with legal proceedings "if [as to any officer, director or employee] he acted in good faith and in a manner he reasonably believed to be in, or not opposed to the best interests of the corporation, and, with respect to any criminal act or proceeding, had no reasonable cause to believe his conduct was unlawful", provided that with respect to actions by, or in the right of the corporation against, such individuals, indemnification is not permitted as to any matter as to which such person "shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation, unless, and only to the extent that, the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as the court shall deem proper." Individuals who are successful in the defense of such action are entitled to indemnification against expenses reasonably incurred in connection therewith.

The By-Laws of the Company will require the Company to indemnify directors and officers against liabilities which they may incur under the circumstances set forth in the preceding paragraph.

The Company is in the process of obtaining standard policies of insurance under which coverage will be provided (a) to its directors and officers against loss arising from claims made by reason of breach of duty or other wrongful act, and (b) to the Company with respect to payments which may be made by the Company to such officers and directors pursuant to the above indemnification provision or otherwise as a matter of law.

Transfer Agent and Registrar

The Transfer Agent and Registrar for the Common Stock is .

UNDERWRITING

Upon the terms and subject to the conditions stated in the Underwriting Agreement dated the date hereof, each of the Underwriters named below has severally agreed to purchase, and the Company has agreed to sell to such Underwriters, the respective number of shares of Common Stock set forth opposite the name of such Underwriter.

| Name                  | Number of<br>Shares |
|-----------------------|---------------------|
| ----                  | -----               |
| Smith Barney Inc..... |                     |

|   |       |
|---|-------|
| Montgomery Securities.....              |       |
| The Robinson-Humphrey Company, Inc..... | ----- |
| <br>                                    |       |
| Total.....                              | ===== |

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the shares offered hereby are subject to approval of certain legal matters by their counsel and to certain other conditions. The Underwriters are obligated to take and pay for all shares of Common Stock offered hereby (other than those covered by the over-allotment option described below) if any such shares are taken.

The Underwriters, for whom Smith Barney Inc., Montgomery Securities and The Robinson-Humphrey Company, Inc. are acting as the Representatives, propose to offer part of the shares of Common Stock directly to the public at the public offering price set forth on the cover page of this Prospectus and part of the shares of Common Stock to certain dealers at a price which represents a concession not in excess of \$        per share under the public offering price. The Underwriters may allow, and such dealers may realow, a concession not in excess of \$        per share to certain other dealers. The Representatives of the Underwriters have advised the Company that the Underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

The Company has granted to the Underwriters an option, exercisable for thirty days from the date of this Prospectus, to purchase up to        additional shares of Common Stock at the price to public set forth on the cover page of this Prospectus minus the underwriting discounts and commissions. The Underwriters may exercise such option solely for the purpose of covering over-allotments, if any, in connection with the offering of the shares offered hereby. To the extent such option is exercised, each Underwriter will be obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number of shares set forth opposite each Underwriter's name in the preceding table bears to the total number of shares listed in such table.

The Company, its officers and directors and certain of its shareholders have agreed that, for a period of 180 days from the date of this Prospectus, they will not, without the prior written consent of Smith Barney Inc., offer, sell, pledge, contract to sell, or otherwise dispose of any Common Stock (or any security convertible into or exchangeable or exercisable for Common Stock) or other securities of the Company that are substantially similar to Common Stock or grant any options or warrants to purchase Common Stock or similar securities, subject to certain limited exceptions.

Prior to the Offering, there has not been any public market for Common Stock of the Company. Consequently, the initial public offering price for the shares of Common Stock included in the Offering has been determined by negotiations between the Company and the Representatives. Among the factors considered in determining such price were the history of and prospects for the Company's business and the industry in which it competes, an assessment of the Company's management and the present state of the Company's development, the past and present revenues and earnings of the Company, the prospects for growth of the Company's revenues and earnings, the current state of the economy in the United States and the current level of economic activity in the industry in which the Company competes and in related or comparable industries, and currently prevailing conditions in the securities markets, including current market valuations of publicly traded companies which are comparable to the Company.

The Company and the Underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

## LEGAL MATTERS

The validity of the shares of Common Stock offered hereby will be passed upon for the Company by Davis Polk & Wardwell, New York, New York. Certain legal matters relating to the Offering will be passed upon for the Underwriters by Latham & Watkins, New York, New York. From time to time Davis Polk & Wardwell and Latham & Watkins render certain legal services to the Funds, and Latham & Watkins also renders certain legal services to certain of the Anderson Shareholders.

## EXPERTS

The audited consolidated financial statements of the Company and its subsidiaries as of January 28, 1995 and February 3, 1996, and for each of the three fiscal years in the period ended February 3, 1996, included in this Prospectus and the Registration Statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

## ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement (of which this Prospectus is a part and which term shall encompass any amendments thereto) on Form S-1 pursuant to the Securities Act with respect to the Common Stock being offered in the Offering. This Prospectus does not contain all the information set forth in the Registration Statement and the exhibits and schedules thereto, certain portions of which have been omitted as permitted by the rules and regulations of the Commission. Statements made in this Prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete; with respect to any such contract, agreement or other document filed as an exhibit to the Registration Statement, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference. For further information about the Company and the securities offered hereby, reference is made to the Registration Statement and to the financial statements, schedules and exhibits filed as a part thereof.

Upon completion of the Offering, the Company will be subject to the information requirements of the Securities Exchange Act of 1934 (the "Exchange Act"), and, in accordance therewith will file reports and other information with the Commission. The Registration Statement, the exhibits and schedules forming a part thereof and other information filed by the Company with the Commission in accordance with the Exchange Act can be inspected and copies obtained at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the following regional offices of the Commission: 7 World Trade Center, 13th Floor, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such material or any part thereof may also be obtained by mail from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The Commission also maintains a web site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

The Company intends to furnish its stockholders with annual reports containing audited financial statements and quarterly reports containing unaudited summary financial information for the first three fiscal quarters of each fiscal year.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Hibbett Sporting Goods, Inc.:

We have audited the accompanying consolidated balance sheets of HIBBETT SPORTING GOODS, INC. (an Alabama corporation) AND SUBSIDIARIES as of January 28, 1995 and February 3, 1996, and the related consolidated statements of operations, stockholders' investment (deficit), and cash flows for each of the three fiscal years in the period ended February 3, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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



In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hibbett Sporting Goods, Inc. and subsidiaries as of January 28, 1995 and February 3, 1996, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 3, 1996, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Birmingham, Alabama  
April 2, 1996

HIBBETT SPORTING GOODS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars In Thousands)

ASSETS

|  | January 28,<br>1995 | February 3,<br>1996 | May 4,<br>1996 |
|--|---------------------|---------------------|----------------|
|  | -----               | -----               | -----          |
| CURRENT ASSETS:                                    |                     |                     | (Unaudited)    |
| Cash and cash equivalents                          | \$ 727              | \$ 31               | \$ 32          |
| Accounts receivable, net                           | 1,094               | 1,341               | 1,418          |
| Inventories  | 14,736              | 20,705              | 26,065         |
| Prepaid expenses and other                         | 112                 | 756                 | 1,035          |
| Refundable income taxes                            | 0                   | 419                 | 0              |
| Deferred income taxes                              | 410                 | 538                 | 584            |
|  | -----               | -----               | -----          |
|  | 17,079              | 23,790              | 29,134         |
|  | -----               | -----               | -----          |
| PROPERTY AND EQUIPMENT:                            |                     |                     |                |
| Land   | 94                  | 748                 | 24             |
| Buildings  | 1,084               | 4,869               | 83             |
| Equipment  | 3,145               | 4,581               | 4,865          |
| Furniture and fixtures                             | 2,557               | 3,470               | 3,576          |
| Leasehold improvements                             | 4,092               | 5,901               | 6,038          |
| Construction in progress                           | 673                 | 170                 | 434            |
|  | -----               | -----               | -----          |
|  | 11,645              | 19,739              | 15,020         |
| Less accumulated depreciation and amortization     | 6,281               | 7,605               | 7,226          |
|  | -----               | -----               | -----          |
|  | 5,364               | 12,134              | 7,794          |
|  | -----               | -----               | -----          |
| NONCURRENT ASSETS:                                 |                     |                     |                |
| Deferred income taxes                              | 296                 | 308                 | 320            |
| Unamortized debt issuance costs, net               | 0                   | 434                 | 423            |
| Other, net   | 48                  | 36                  | 32             |
|  | -----               | -----               | -----          |
|  | 344                 | 778                 | 775            |
|  | -----               | -----               | -----          |
|  | \$22,787            | \$36,702            | \$37,703       |
|  | =====               | =====               | =====          |
|  |                     |                     |                |
| LIABILITIES AND STOCKHOLDERS' INVESTMENT (DEFICIT) |                     |                     |                |
| CURRENT LIABILITIES:                               |                     |                     |                |
| Current maturities of long-term debt               | \$ 420              | \$ 0                | \$ 0           |
| Accounts payable                                   | 7,543               | 10,371              | 11,378         |
| Accrued income taxes                               | 71                  | 0                   | 221            |
| Accrued expenses:                                  |                     |                     |                |
| Payroll-related                                    | 809                 | 1,079               | 878            |
| Other  | 650                 | 887                 | 976            |
| Related-party                                      | 127                 | 546                 | 1,083          |
|  | -----               | -----               | -----          |
|  | 9,620               | 12,883              | 14,536         |
|  | -----               | -----               | -----          |
| LONG-TERM DEBT                                     | 4,908               | 31,912              | 30,325         |
|  | -----               | -----               | -----          |
| COMMITMENTS AND CONTINGENCIES                      |                     |                     |                |

STOCKHOLDERS' INVESTMENT (DEFICIT):

Common stock, \$.01 par value, 50,000,000 shares authorized,  
 23,389,000 shares issued and outstanding at February 3, 1996 and  
 May 4, 1996 (unaudited); and \$.01 par value, 3,000,000 shares  
 authorized, 1,025,600 shares issued and outstanding at January 28,  
 1995

|                             |          |          |          |
|-----------------------------|----------|----------|----------|
|                             | 10       | 234      | 234      |
| Paid-in capital             | 117      | 14,933   | 14,933   |
| Retained earnings (deficit) | 8,132    | (23,260) | (22,325) |
|                             | -----    | -----    | -----    |
|                             | 8,259    | (8,093)  | (7,158)  |
|                             | -----    | -----    | -----    |
|                             | \$22,787 | \$36,702 | \$37,703 |
|                             | =====    | =====    | =====    |

The accompanying notes are an integral part of these consolidated balance sheets.

HIBBETT SPORTING GOODS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars In Thousands, Except Per Share Amounts)

|   | Fiscal Year Ended                 |                                   |                                   | Period Ended                     |                               |
|---|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|-------------------------------|
|   | January 29,<br>1994<br>(52 Weeks) | January 28,<br>1995<br>(52 Weeks) | February 3,<br>1996<br>(53 Weeks) | April 29,<br>1995<br>(Unaudited) | May 4,<br>1996<br>(Unaudited) |
| NET SALES   | \$40,119                          | \$52,266                          | \$67,077                          | \$15,001                         | \$20,251                      |
| COST OF GOODS SOLD, INCLUDING WAREHOUSE,<br>DISTRIBUTION, AND STORE OCCUPANCY COSTS | 27,731                            | 36,225                            | 46,642                            | 10,431                           | 14,035                        |
| Gross profit  | 12,388                            | 16,041                            | 20,435                            | 4,570                            | 6,216                         |
| STORE OPERATING, SELLING, AND ADMINISTRATIVE<br>EXPENSES                            | 8,352                             | 10,197                            | 13,326                            | 2,681                            | 3,344                         |
| DEPRECIATION AND AMORTIZATION   | 932                               | 1,066                             | 1,322                             | 383                              | 393                           |
| MANAGEMENT FEES   | 227                               | 256                               | 145                               | 30                               | 50                            |
| Operating income  | 2,877                             | 4,522                             | 5,642                             | 1,476                            | 2,429                         |
| INTEREST EXPENSE  | 488                               | 654                               | 1,685                             | 182                              | 910                           |
| Income before provision for income<br>taxes   | 2,389                             | 3,868                             | 3,957                             | 1,294                            | 1,519                         |
| PROVISION FOR INCOME TAXES  | 920                               | 1,479                             | 1,514                             | 495                              | 584                           |
| Net income  | \$ 1,469                          | \$ 2,389                          | \$ 2,443                          | \$ 799                           | \$ 935                        |
| NET INCOME PER SHARE  | \$.04                             | \$.06                             | \$.07                             | \$.02                            | \$.04                         |
| WEIGHTED AVERAGE SHARES OUTSTANDING   | 39,677,581                        | 39,677,581                        | 35,613,428                        | 39,677,581                       | 23,768,133                    |

The accompanying notes are an integral part of these consolidated statements.

HIBBETT SPORTING GOODS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT (DEFICIT)

(Dollars In Thousands)

|                           | Common Stock        |        | Paid-In<br>Capital | Retained<br>Earnings<br>(Deficit) |
|---------------------------|---------------------|--------|--------------------|-----------------------------------|
|                           | Number<br>of Shares | Amount |                    |                                   |
| BALANCE, January 31, 1993 | 10,256              | \$ 1   | \$ 126             | \$ 4,274                          |

|   |              |       |          |            |
|---|--------------|-------|----------|------------|
| Net income  | 0            | 0     | 0        | 1,469      |
| BALANCE, January 29, 1994   | 10,256       | 1     | 126      | 5,743      |
| Net income  | 0            | 0     | 0        | 2,389      |
| Change in par value   | 0            | (1)   | 1        | 0          |
| Issuance of shares in connection with a 100-for-1 stock split       | 1,015,344    | 10    | (10)     | 0          |
| BALANCE, January 28, 1995   | 1,025,600    | 10    | 117      | 8,132      |
| Net income  | 0            | 0     | 0        | 2,443      |
| Issuance of shares in connection with a 38.687189-for-1 stock split | 38,651,981   | 387   | (387)    | 0          |
| Purchase and retirement of shares                                   | (34,220,000) | (342) | (43)     | (33,835)   |
| Issuance of shares  | 17,609,000   | 176   | 17,433   | 0          |
| Expenses related to capital transactions                            | 322,419      | 3     | (2,187)  | 0          |
| BALANCE, February 3, 1996   | 23,389,000   | 234   | 14,933   | (23,260)   |
| Net income (unaudited)  | 0            | 0     | 0        | 935        |
| BALANCE, May 4, 1996 (Unaudited)                                    | 23,389,000   | \$234 | \$14,933 | \$(22,325) |

The accompanying notes are an integral part of these consolidated statements.

## HIBBETT SPORTING GOODS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars In Thousands)

|   | Fiscal Year Ended   |                     |                     |
|---|---------------------|---------------------|---------------------|
|   | January 29,<br>1994 | January 28,<br>1995 | February 3,<br>1996 |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                     |                     |                     |
| Net income  | \$1,469             | \$2,389             | \$2,443             |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                     |                     |                     |
| Depreciation and amortization   | 989                 | 1,124               | 1,475               |
| Deferred income taxes   | 21                  | (266)               | (140)               |
| (Gain) loss on disposal of assets   | 20                  | 4                   | 6                   |
| Interest expense funded through additional debt   | 0                   | 0                   | 128                 |
| (Increase) decrease in assets:  |                     |                     |                     |
| Accounts receivable, net  | (85)                | (9)                 | (247)               |
| Inventories   | (1,966)             | (3,930)             | (5,969)             |
| Prepaid expenses and other  | (159)               | 71                  | (644)               |
| Refundable income taxes   | (61)                | 61                  | (419)               |
| Other noncurrent assets   | (58)                | 11                  | (474)               |
| Increase (decrease) in liabilities:   |                     |                     |                     |
| Accounts payable  | 138                 | 2,978               | 2,828               |
| Accrued income taxes  | (187)               | 71                  | (71)                |
| Accrued expenses  | 148                 | 694                 | 926                 |
| Total adjustments   | (1,200)             | 809                 | (2,601)             |
| Net cash provided by (used in) operating activities   | 269                 | 3,198               | (158)               |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |                     |                     |                     |
| Capital expenditures  | (1,600)             | (2,179)             | (8,172)             |
| Proceeds from sale of property  | 9                   | 26                  | 6                   |
| Net cash provided by (used in) investing activities   | (1,591)             | (2,153)             | (8,166)             |
| CASH FLOWS FROM FINANCING ACTIVITIES:   |                     |                     |                     |
| Purchase and retirement of shares   | 0                   | 0                   | (22,250)            |
| Issuance of shares  | 0                   | 0                   | 17,609              |
| Expenses related to capital transactions  | 0                   | 0                   | (2,184)             |
| Principal payments on long-term debt  | (994)               | (3,251)             | (5,328)             |
| Proceeds from issuance of long-term debt  | 2,535               | 4,579               | 0                   |
| Proceeds from issuance of long-term debt to stockholders                                    | 0                   | 0                   | 6,641               |
| Proceeds from term loan   | 0                   | 0                   | 1,000               |
| Revolving loan borrowings and repayments, net   | 0                   | 0                   | 12,140              |
| Borrowings (repayments) of short-term debt, net   | (172)               | (2,179)             | 0                   |
| Net cash provided by (used in) financing activities   | 1,369               | (851)               | 7,628               |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  | 47                  | 194                 | (696)               |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD  | 486                 | 533                 | 727                 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD  | \$ 533              | \$ 727              | \$ 31               |

|  | =====   | =====   | =====    |
|--|---------|---------|----------|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: |         |         |          |
| Cash paid during the period for:                   |         |         |          |
| Interest   | \$ 327  | \$ 612  | \$ 1,038 |
|  | =====   | =====   | =====    |
| Income taxes, net of refunds                       | \$1,147 | \$1,500 | \$ 2,144 |
|  | =====   | =====   | =====    |

|   |       |       |          |
|---|-------|-------|----------|
| SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES:         |       |       |          |
| Issuance of debt to stockholders for the purchase of shares       | \$ 0  | \$ 0  | \$13,051 |
|   | ===== | ===== | =====    |
| Issuance of stock as compensation related to capital transactions | \$ 0  | \$ 0  | \$ 322   |
|   | ===== | ===== | =====    |

| Thirteen Week<br>Period Ended |                |
|-------------------------------|----------------|
| -----                         | -----          |
| April 29,<br>1995             | May 4,<br>1996 |
| -----                         | -----          |
| (Unaudited)                   |                |

CASH FLOWS FROM OPERATING ACTIVITIES:

|  |         |         |
|--|---------|---------|
| Net income   | \$ 799  | \$ 935  |
| Adjustments to reconcile net income to net cash provided by<br>(used in) operating activities: |         |         |
| Depreciation and amortization  | 398     | 447     |
| Deferred income taxes  | (58)    | (58)    |
| (Gain) loss on disposal of assets  | 0       | (478)   |
| Interest expense funded through additional debt  | 0       | 14      |
| (Increase) decrease in assets:   |         |         |
| Accounts receivable, net   | 77      | (77)    |
| Inventories  | (2,550) | (5,360) |
| Prepaid expenses and other   | (156)   | (279)   |
| Refundable income taxes  | 0       | 419     |
| Other noncurrent assets  | (1)     | (6)     |
| Increase (decrease) in liabilities:  |         |         |
| Accounts payable   | (45)    | 1,007   |
| Accrued income taxes   | 406     | 221     |
| Accrued expenses   | (280)   | 425     |
|  | -----   | -----   |
| Total adjustments  | (2,209) | (3,725) |
|  | -----   | -----   |
| Net cash provided by (used in) operating activities  | (1,410) | (2,790) |
|  | -----   | -----   |

CASH FLOWS FROM INVESTING ACTIVITIES:

|  |         |         |
|--|---------|---------|
| Capital expenditures                                   | (1,365) | (1,128) |
| Proceeds from sale of property                         | 5       | 5,553   |
|  | -----   | -----   |
| Net cash provided by (used in) in investing activities | (1,360) | 4,425   |
|  | -----   | -----   |

CASH FLOWS FROM FINANCING ACTIVITIES:

|  |         |         |
|--|---------|---------|
| Purchase and retirement of shares                        | 0       | 0       |
| Issuance of shares                                       | 0       | 0       |
| Expenses related to capital transactions                 | 0       | 0       |
| Principal payments on long-term debt                     | (1,113) | (4,267) |
| Proceeds from issuance of long-term debt                 | 0       | 0       |
| Proceeds from issuance of long-term debt to stockholders | 0       | 0       |
| Proceeds from term loan                                  | 0       | 0       |
| Revolving loan borrowings and repayments, net            | 0       | 2,633   |
| Borrowings (repayments) of short-term debt, net          | 3,830   | 0       |
|  | -----   | -----   |
| Net cash provided by (used in) financing activities      | 2,717   | (1,634) |
|  | -----   | -----   |

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(53) 1

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

727 31

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$ 674 \$ 32

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

|                                  |        |        |  |
|----------------------------------|--------|--------|--|
| Cash paid during the period for: |        |        |  |
| Interest                         | \$ 224 | \$ 311 |  |
|                                  | =====  | =====  |  |
| Income taxes, net of refunds     | \$ 147 | \$ 0   |  |
|                                  | =====  | =====  |  |

SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES:

|   |       |       |
|---|-------|-------|
| Issuance of debt to stockholders for the purchase of shares       | \$ 0  | \$ 0  |
|   | ===== | ===== |
| Issuance of stock as compensation related to capital transactions | \$ 0  | \$ 0  |
|   | ===== | ===== |

The accompanying notes are an integral part of these consolidated statements.

## HIBBETT SPORTING GOODS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Business

Hibbett Sporting Goods, Inc. (the "Company") is an operator of full-line sporting goods retail stores in small to mid-sized markets in the Southeastern United States. The Company's fiscal year ends on the Saturday closest to January 31 of each year.

##### Principles of Consolidation

The consolidated financial statements of the Company include its accounts and the accounts of all wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

##### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect (1) the reported amounts of certain assets and liabilities and disclosure of certain contingent assets and liabilities at the date of the financial statements, and (2) the reported amounts of certain revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### Unaudited Interim Financial Statements

In the opinion of management, the unaudited consolidated balance sheet as of May 4, 1996, and the unaudited consolidated statements of income and cash flows for the thirteen week periods ended April 29, 1995 and May 4, 1996, reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly the information set forth therein. The results of operations for interim periods are not necessarily indicative of results for the full year as the Company's business is seasonal. Typically, sales and net income from operations are highest during the fourth fiscal quarter.

##### Inventories

Inventories are valued at the lower of cost or market using the retail inventory method of accounting, with cost determined on a first-in, first-out basis and market based on the lower of replacement cost or estimated realizable value.

##### Property and Equipment

Property and equipment are recorded at cost. It is the Company's policy to depreciate assets acquired prior to January 28, 1995 using accelerated and straight-line methods over the estimated service lives (3 to 10 years for equipment, 5 to 10 years for furniture and fixtures, and 10 to 31.5 years for buildings) and to amortize leasehold improvements using the straight-line method over the periods of the applicable leases. Depreciation on assets acquired subsequent to January 28, 1995 is provided using the straight-line method over the estimated service lives (3 to 5 years for equipment,

7 years for furniture and fixtures, and 39 years for buildings) or, in the case of leasehold improvements, 10 years or over the lives of the respective leases, if shorter.

Maintenance and repairs are charged to expense as incurred. Costs of renewals and betterments are capitalized by charges to property accounts and are depreciated using applicable annual rates. The cost and accumulated depreciation of assets sold, retired, or otherwise disposed of are removed from the accounts, and the related gain or loss is credited or charged to income.

#### Store Opening Costs

Non-capital expenditures incurred in preparation for opening new retail stores are expensed in the period each store opens.

#### Fair Value of Financial Instruments

In preparing disclosures about the fair value of financial instruments, management has assumed that the carrying amount approximates fair value for cash and cash equivalents, receivables, short-term borrowings and accounts payable, because of the short maturities of those instruments. The estimated fair values of long-term debt instruments are based upon the current interest rate environment and remaining term to maturity.

#### Income Taxes

The Company accounts for income taxes using the asset and liability method, which generally requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. In addition, the asset and liability method requires the adjustment of previously deferred income taxes for changes in tax rates.

#### Net Income Per Share

Net income per share for each of the periods presented is calculated by dividing net income by the number of weighted average common shares outstanding. Common stock equivalents in the form of stock options are included in the calculation utilizing the treasury stock method for all periods presented.

#### Consolidated Statements of Cash Flows

For purposes of the consolidated statements of cash flows, the Company considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

#### Accounting for the Impairment of Long-Lived Assets

During 1995, Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, was issued. The new standard requires all businesses to recognize an impairment loss on a long-lived asset as a charge to current income when certain events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Company adopted the new standard effective February 4, 1996 with no significant impact on its financial position or results of operations (unaudited).

#### Accounting for Stock-Based Compensation

SFAS No. 123, Accounting for Stock-Based Compensation, allows

companies to continue to record compensation cost under Accounting Principles Board Opinion ("APB") No. 25 or to record compensation cost based on the fair value of stock based awards. Management currently anticipates that it will continue using its current accounting policy under APB No. 25; and as a result, adoption of SFAS No. 123 will not affect the financial condition or results of operations of the Company. SFAS No. 123 does, however, require certain pro forma disclosures reflecting what compensation cost would have been if the fair value based method of recording compensation expense for stock-based compensation had been adopted. The disclosure rules under SFAS No. 123 will be adopted by the Company in fiscal 1997.

Prior Year Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. STOCKHOLDERS' INVESTMENT TRANSACTIONS

In December 1994, the Company's Board of Directors approved an increase in the number of authorized shares of common stock from 20,000 to 3,000,000 shares and a decrease in the par value from \$.10 to \$.01 per share. In addition, the Company's Board of Directors declared a 100-for-1 stock split in the form of a 100% stock dividend.

On November 1, 1995, the Company's Board of Directors approved a series of equity and debt transactions which resulted in a recapitalization of the Company and a change in controlling ownership of the common stock outstanding (the "Recapitalization"). In connection with the Recapitalization, the Company's Board of Directors (i) increased the number of authorized shares of common stock from 3,000,000 to 50,000,000 shares, (ii) declared a 38.687189-for-1 stock split, (iii) approved the repurchase and retirement of 34,220,000 shares of common stock for \$1.00 per share (\$22,250,000 cash and the issuance of \$13,051,000 of debt), and (iv) approved the issuance of 17,609,000 new shares of common stock at \$1.00 per share and \$7,074,000 of debt for \$24,250,000 cash. Expenses of \$2,506,000 were incurred in connection with the Recapitalization and have reduced paid-in capital.

All references in the financial statements to weighted average shares outstanding, net income per share, and stock options have been restated to reflect the above stock splits.

3. LONG-TERM DEBT

The Company's long-term debt is as follows:

|   | January 28,<br>1995 | February 3,<br>1996 | May 4,<br>1996 |
|---|---------------------|---------------------|----------------|
|   | -----               | -----               | -----          |
|   |                     |                     | (Unaudited)    |
| Revolving loan agreement  | \$ 0                | \$12,140,000        | \$14,773,000   |
| Term loan agreement, due November 1997, unsecured   | 0                   | 1,000,000           | 1,000,000      |
| Subordinated notes payable to stockholders, unsecured, 12%, due November 2002, interest payable quarterly, beginning November 1, 1996 | 0                   | 16,000,000          | 16,000,000     |
| Senior subordinated bridge notes payable to stockholders, unsecured, 12%, due November 2000, interest payable quarterly               | 0                   | 4,253,000           | 0              |
| Revolving convertible term loan   | 4,580,000           | 0                   | 0              |
| Bank notes payable  | 748,000             | 0                   | 0              |
| Unamortized debt discount   | 0                   | (1,481,000)         | (1,448,000)    |
|   | -----               | -----               | -----          |
|   | 5,328,000           | 31,912,000          | 30,325,000     |

Less current maturities

|             |              |              |
|-------------|--------------|--------------|
| 420,000     | 0            | 0            |
| -----       | -----        | -----        |
| \$4,908,000 | \$31,912,000 | \$30,325,000 |
| -----       | -----        | -----        |

At February 3, 1996 and May 4, 1996 (unaudited), the Company maintained a secured revolving loan agreement totaling \$25,000,000 which expires November 2000. Amounts available and secured under the loan agreement are based on levels of certain specified Company assets. Based on the agreement, the Company may borrow amounts against a Base Rate or a LIBOR Rate, as defined in the agreement. Base Rate loans have no specified maturity date and interest on the loans is payable monthly. The Base Rate on these loans at February 3, 1996 and May 4, 1996 was 8.75% and 8.50% (unaudited), respectively. LIBOR Rate loans have specified interest periods (30, 60, 90, or 180 days) attached to the loan with the maturity date being the date principal and interest are due. The rate on these loans at February 3, 1996 and May 4, 1996 was 7.89% and 7.73% (unaudited), respectively. As amounts under the loan agreement do not have to be repaid until the expiring date of November 2000, the full amount outstanding is classified as long-term debt.

The Company's term loan also allows the Company to specify the interest rate against which amounts are borrowed, the Base Rate or LIBOR Rate. At February 3, 1996 and May 4, 1996, the full amount of the term loan was borrowed against the LIBOR Rate which was 9.45% and 8.78% (unaudited), respectively.

As part of the Recapitalization, in November 1995, the Company issued to stockholders subordinated notes and senior subordinated bridge notes totaling \$20,125,000 with an original issue discount of \$1,514,000 related solely to the stockholders subordinated notes. In January 1996, the Company issued \$128,000 of additional notes as satisfaction for interest on the Company's bridge notes. A portion of the proceeds of these borrowings was utilized to retire existing debt.

The Company's debt agreements contain certain restrictive covenants common to such agreements. The Company was in compliance, or had received a noncompliance waiver, with respect to all of its covenants at February 3, 1996 and May 4, 1996 (unaudited).

Long-term debt contractually matures in each of the next five fiscal years as follows: \$0 in 1997, \$1,000,000 in 1998, \$0 in 1999, \$0 in 2000, \$16,393,000 in 2001, and \$16,000,000 thereafter. However, the senior subordinated bridge notes (\$4,253,000) were repaid in advance during the thirteen week period ended May 4, 1996 (unaudited).

During fiscal 1995 and the majority of fiscal 1996, the Company maintained working capital lines of credit under which the average borrowings outstanding were \$4,009,000 and \$5,200,000, and the maximum borrowings outstanding were \$6,620,000 and \$6,697,000 in fiscal 1995 and 1996, respectively. The weighted average interest rate was approximately 7.35% and 9.0% in fiscal 1995 and 1996, respectively. In addition, during fiscal 1995, the Company also borrowed funds to meet working capital needs from a related party. The average amount of borrowings outstanding under these loans during fiscal 1995 was \$120,000, the maximum amount outstanding was \$810,000, and the weighted average interest rate was 7.45%. No borrowings related to these former working capital lines of credit were outstanding at January 28, 1995, February 3, 1996, or May 4, 1996 (unaudited).

The estimated fair value of the Company's long-term debt was \$32,657,000 and \$30,921,000 (unaudited) at February 3, 1996 and May 6, 1996, respectively.

#### 4. LEASES



The Company leases the premises for its retail sporting goods stores under operating leases which expire in various years through the year 2008. Many of these leases contain renewal options and require the Company to pay executory costs (such as property taxes, maintenance, and insurance). Rental payments typically include minimum rentals plus contingent rentals based on sales.

In February 1996, the Company entered into a sale-leaseback transaction to finance its new warehouse and office facilities. The sales price of \$4,700,000 approximated the book value of the facility after considering transaction expenses. The related lease term is for 15 years at \$476,000 per year, and is structured as an operating lease.

Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of February 3, 1996 are as follows:

| Fiscal Year Ending |              |
|--------------------|--------------|
| -----              |              |
| 1997               | \$ 3,497,000 |
| 1998               | 3,434,000    |
| 1999               | 3,115,000    |
| 2000               | 2,926,000    |
| 2001               | 2,192,000    |
| Thereafter         | 9,375,000    |
|                    | -----        |
|                    | \$24,539,000 |
|                    | =====        |

Rental expense for all operating leases consisted of the following:

|                    | Fiscal Year Ended   |                     |                     | Thirteen Week<br>Period Ended |                |
|--------------------|---------------------|---------------------|---------------------|-------------------------------|----------------|
|                    | January 29,<br>1994 | January 28,<br>1995 | February 3,<br>1996 | April 29,<br>1995             | May 4,<br>1996 |
|                    | -----               | -----               | -----               | -----                         | -----          |
|                    |                     |                     |                     | (Unaudited)                   |                |
| Minimum rentals    | \$1,749,000         | \$2,469,000         | \$3,080,000         | \$ 673,000                    | \$ 913,000     |
| Contingent rentals | 315,000             | 392,000             | 487,000             | 134,000                       | 244,000        |
|                    | -----               | -----               | -----               | -----                         | -----          |
|                    | \$2,064,000         | \$2,861,000         | \$3,567,000         | \$ 807,000                    | \$1,157,000    |
|                    | =====               | =====               | =====               | =====                         | =====          |

#### 5. PROFIT-SHARING PLAN

The Company maintains a 401(k) profit sharing plan (the "Plan") which permits participants to make pretax contributions to the Plan. The Plan covers all employees who have completed one year of service and who are at least 21 years of age. Participants of the Plan may voluntarily contribute from 2% to 15% of their compensation within certain dollar limits as allowed by law. These elective contributions are made under the provisions of Section 401(k) of the Internal Revenue Code which allows deferral of income taxes on the amount contributed to the Plan. The Company's contribution to the Plan equals (1) an amount determined at the discretion of the Board of Directors plus (2) a matching contribution equal to a discretionary percentage of up to 6% of a participant's compensation. Contribution expense for fiscal years 1994, 1995, and 1996 was \$89,000, \$108,000, and \$165,000, respectively, and was \$21,000 and \$60,000 (unaudited) for the thirteen week periods ended April 29, 1995 and May 4, 1996, respectively.

#### 6. RELATED-PARTY TRANSACTIONS

Subsequent to November 1, 1995, the Company's new majority shareholder began providing financial advisory services to the

Company for an annual fee of \$200,000. Such services include, but are not necessarily limited to, advice and assistance concerning any and all aspects of the operation, planning, and financing of the Company. Management fee expense under this arrangement was \$50,000 in each of fiscal 1996 and the thirteen week period ended May 4, 1996 (unaudited).

Prior to November 1, 1995, the Company's previous majority shareholders (now minority shareholders) provided to the Company similar services as discussed above. Fees for these services amounted to \$227,000, \$256,000, and \$95,000 in fiscal years 1994, 1995, and 1996, respectively, and \$30,000 and \$0 (unaudited) in the thirteen week periods ended April 29, 1995 and May 4, 1996, respectively.

Subordinated notes payable to stockholders, net of the related unamortized debt discount, were outstanding and included in long-term debt in the amount of \$18,772,000 and \$14,552,000 (unaudited) at February 3, 1996 and May 4, 1996, respectively. Related to these notes, the Company incurred approximately \$620,000 of interest expense in fiscal 1996, of which approximately \$492,000 was included in accrued expenses and approximately \$128,000 was capitalized into the senior subordinated bridge notes payable at February 3, 1996. For the thirteen week period ended May 4, 1996, the Company incurred approximately \$500,000 (unaudited) of interest expense related to these notes.

In connection with the Recapitalization discussed in Note 2, both the majority shareholder and minority shareholders were paid for services provided to the Company related to the Recapitalization. These costs were recorded as a reduction to paid-in capital and approximated \$960,000 in fiscal 1996.

The Company leased its previous warehouse and office facilities under a lease-purchase agreement which was fully paid in a previous year. Subsequent to February 3, 1996, the Company sold an assignment of its interest in the lease on this property to a related party for \$850,000, which resulted in a gain of approximately \$513,000 in the thirteen week period ended May 4, 1996.

7. INCOME TAXES

A summary of the components of the provision for income taxes is as follows:

|                            | Fiscal Year Ended |                  |                  | Thirteen Week Period Ended |             |
|----------------------------|-------------------|------------------|------------------|----------------------------|-------------|
|                            | January 29, 1994  | January 28, 1995 | February 3, 1996 | April 29, 1995             | May 4, 1996 |
|                            |                   |                  |                  | (Unaudited)                |             |
| Federal:                   |                   |                  |                  |                            |             |
| Current                    | \$799,000         | \$1,553,000      | \$1,476,000      | \$493,000                  | \$573,000   |
| Deferred                   | 19,000            | (237,000)        | (126,000)        | (52,000)                   | (52,000)    |
|                            | 818,000           | 1,316,000        | 1,350,000        | 441,000                    | 521,000     |
| State:                     |                   |                  |                  |                            |             |
| Current                    | 100,000           | 192,000          | 178,000          | 60,000                     | 69,000      |
| Deferred                   | 2,000             | (29,000)         | (14,000)         | (6,000)                    | (6,000)     |
|                            | 102,000           | 163,000          | 164,000          | 54,000                     | 63,000      |
| Provision for income taxes | \$920,000         | \$1,479,000      | \$1,514,000      | \$495,000                  | \$584,000   |

The provision for income taxes differs from the amounts computed by applying federal statutory rates due to the following:

|  | Fiscal Year Ended   |                     |                     | Thirteen Week<br>Period Ended |                |
|--|---------------------|---------------------|---------------------|-------------------------------|----------------|
|  | January 29,<br>1994 | January 28,<br>1995 | February 3,<br>1996 | April 29,<br>1995             | May 4,<br>1996 |
|  |                     |                     |                     | (Unaudited)                   |                |
| Tax provision computed at the federal statutory rate (34%) | \$812,000           | \$1,315,000         | \$1,345,000         | \$440,000                     | \$516,000      |
| Effect of state income taxes, net of benefits              | 66,000              | 127,000             | 118,000             | 36,000                        | 42,000         |
| Other  | 42,000              | 37,000              | 51,000              | 19,000                        | 26,000         |
|  | \$920,000           | \$1,479,000         | \$1,514,000         | \$495,000                     | \$584,000      |

Temporary differences which create deferred tax assets are detailed below:

|                         | January 28, 1995 |            | February 3, 1996 |            | May 4, 1996 |            |
|-------------------------|------------------|------------|------------------|------------|-------------|------------|
|                         | Current          | Noncurrent | Current          | Noncurrent | Current     | Noncurrent |
|                         |                  |            |                  |            | (Unaudited) |            |
| Depreciation            | \$ 0             | \$296,000  | \$ 0             | \$308,000  | \$ 0        | \$320,000  |
| Inventory               | 253,000          | 0          | 371,000          | 0          | 312,000     | 0          |
| Accruals                | 147,000          | 0          | 153,000          | 0          | 258,000     | 0          |
| Other                   | 10,000           | 0          | 14,000           | 0          | 14,000      | 0          |
|                         | 410,000          | 296,000    | 538,000          | 308,000    | 584,000     | 320,000    |
| Valuation allowance     | 0                | 0          | 0                | 0          | 0           | 0          |
| Deferred tax asset, net | \$410,000        | \$296,000  | \$538,000        | \$308,000  | \$584,000   | \$320,000  |

The Company has not recorded a valuation allowance for deferred tax assets as realization is considered more likely than not.

#### 8. STOCK OPTIONS

The Hibbett Sporting Goods, Inc. Employee Stock Option Plan (the "Stock Option Plan") authorizes the granting of stock options for the purchase of up to 1,000,000 shares of common stock. The difference in the total exercise price of the options and the estimated fair value at the date of the grant is recorded as compensation expense over the vesting period. As of February 3, 1996, a total of 595,251 shares of the Company's authorized and unissued common stock were reserved for future grants under the Stock Option Plan and options for 404,749 shares were outstanding at that date. The weighted average exercise price of the options granted in fiscal 1996 was \$.74 per share. Options outstanding become exercisable 33% at the end of each of the following three successive years for 154,749 shares and the remainder become exercisable 20% at the end of each of the following five successive years.

Subsequent to February 3, 1996, the Company granted options for 277,000 shares which are exercisable at \$1.00 per share, and become exercisable 20% at the end of each of the following five successive years (unaudited).

#### 9. COMMITMENTS AND CONTINGENCIES

##### Employment Agreement

On November 1, 1995, the Company entered into an employment agreement with an employee which provides for a three-year employment period at a base salary plus various incentives.

##### Legal

The Company is a party to various legal proceedings incidental to its

business. In the opinion of management, after consultation with legal counsel, the ultimate liability, if any, with respect to those proceedings is not presently expected to materially affect the financial position or results of operations of the Company.

10. INITIAL PUBLIC OFFERING (UNAUDITED)

The Company is proceeding with the offering of \_\_\_\_\_ shares of common stock at an initial public price of \$\_\_\_\_\_ per share. The estimated net proceeds to the Company of \$\_\_\_\_\_ will be used to repay the subordinated notes payable to stockholders and to reduce borrowings on the revolving loan agreement.

Supplemental net income per share before extraordinary item is calculated by dividing net income (after adjustment for applicable interest expense) by the number of weighted average shares outstanding after giving effect to the estimated number of shares that would be required to be sold (at the initial public offering price of \$\_\_\_\_\_ per share) to repay \$\_\_\_\_\_ and \$\_\_\_\_\_ of debt at February 3, 1996 and May 4, 1996, respectively. Supplemental net income per share before extraordinary item for the fiscal year ended February 3, 1996 and the thirteen week period ended May 4, 1996 was \$\_\_\_\_\_ and \$\_\_\_\_\_, respectively. Supplemental net income per share after extraordinary item (to reflect the write off of unamortized debt discount and debt issuance costs) for the fiscal year ended February 3, 1996 and the thirteen week period ended May 4, 1996 was \$\_\_\_\_\_ and \$\_\_\_\_\_, respectively.

=====  
No dealer, salesperson or any other person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offer contained herein, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or by any of the Underwriters. This Prospectus does not constitute an offer of any securities other than those to which it relates or an offer to sell, or a solicitation of an offer to buy, those to which it relates in any state to any person to whom it is not lawful to make such offer in such state. The delivery of this Prospectus at any time does not imply that the information herein is correct as of any time subsequent to its date.

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UNTIL , 1996 (25 DAYS AFTER THE COMMENCEMENT OF THE OFFERING), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

=====

Shares

HIBBETT SPORTING GOODS, INC.

Common Stock

-----  
PROSPECTUS

, 1996

-----

Smith Barney Inc.

Montgomery Securities

The Robinson-Humphrey Company, Inc.

=====

PART II  
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

|  |          |
|--|----------|
| Registration Fee.....                  | \$11,897 |
| NASD Filing Fee.....                   | 3,950    |
| NASDAQ/National Market filing fee..... |          |
| Transfer Agent's Fees.....             |          |
| Printing and Engraving.....            |          |
| Legal Fees.....                        |          |
| Accounting Fees.....                   |          |
| Blue Sky Fees.....                     |          |
| Miscellaneous.....                     |          |
|  | -----    |
| Total.....                             | \$       |
|  | =====    |

Each of the amounts set forth above, other than the Registration Fee, NASD Filing Fee and NASDAQ/National Market filing fee, is an estimate.

Item 14. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Act permits the Registrant to indemnify officers, directors or employees against expenses (including attorney's fees), judgments, fines and amounts paid in settlement in connection with legal proceedings "if [as to any officer, director or employee] he acted in good faith and in a manner he reasonably believed to be in, or not opposed to the best interests of the corporation, and, with respect to any criminal act or proceeding, had no reasonable cause to believe his conduct was unlawful", provided that with respect to actions by, or in the right of the corporation against, such individuals, indemnification is not permitted as to any matter as to which such person "shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation, unless, and only to the extent that, the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as the court shall deem proper." Individuals who are successful in the defense of such action are entitled to indemnification against expenses reasonably incurred in connection therewith.

The By-Laws of the Registrant require the Registrant to indemnify directors and officers against liabilities which they may incur under the circumstances set forth in the preceding paragraph.

The Registrant is in the process of obtaining standard policies of insurance under which coverage will be provided (a) to its directors and officers against loss arising from claims made by reason of breach of duty or other wrongful act, and (b) to the Registrant with respect to payments which may be made by the Registrant to such officers and directors pursuant to the above indemnification provision or otherwise as a matter of law.

The proposed form of Underwriting Agreement filed as Exhibit 1 to this Registration Statement provides for indemnification of directors and officers of the Registrant by the underwriters against certain liabilities.

Item 15. Recent Sales of Unregistered Securities.

Since June 1, 1993, the Registrant has sold the following securities without registration under the Securities Act of 1933, as amended (the "Act"):

1. Immediately prior to the Recapitalization, in consideration for his assistance in arranging the Recapitalization, the Company issued to Clyde B. Anderson 322,419 shares of Common Stock. Section 4(2) of the Act was relied upon for exemption from the registration requirements.

2. On November 1, 1995, as part of the Recapitalization, The SK Equity Fund, L.P. purchased 17,418,455 shares of Common Stock for \$17,418,455 in cash, and SK Investment Fund, L.P. purchased 190,545 shares of Common Stock for \$190,545. Section 4(2) of the Act was relied upon for exemption from the registration requirements.

Item 16. Exhibits and Financial Statement Schedules.

(a) The following exhibits are filed as part of this Registration Statement:

| Exhibit<br>Number | Description  |
|-------------------|--|
| - - - - -         | - - - - -  |
| 1*                | Form of Underwriting Agreement   |
| 3.1*              | Articles of Incorporation of the Registrant, as amended  |
| 3.2*              | Bylaws of the Registrant, as amended   |
| 3.3*              | Form of Certificate of Incorporation of the Registrant   |
| 3.4*              | Form of Bylaws of the Registrant   |
| 4.1*              | Form of Share Certificate  |
| 5.1*              | Opinion of Davis Polk & Wardwell   |
| 10.1.1            | Loan and Security Agreement dated as of November 1, 1995 between the Registrant, Hibbett Team Sales, Inc. and Heller Financial, Inc. (the "Heller Loan Agreement")   |
| 10.1.2            | Letter from Heller Financial, Inc. to the Registrant dated February 12, 1996 re: certain waivers from the Heller Loan Agreement  |
| 10.2.1*           | Stockholders Agreement dated as of November 1, 1995 among The SK Equity Fund, L.P., SK Investment Fund, L.P., the Registrant and certain stockholders of the Registrant named therein (the "Stockholders Agreement") |
| 10.2.2*           | Form of Amendment No. 1 to the Stockholders Agreement  |
| 10.3**            | Advisory Agreement dated November 1, 1995 between the Registrant and Saunders, Karp & Co., L.P.  |
| 10.4**            | Employment and Post-Employment Agreement dated as of November 1, 1995 between the Registrant and Michael J. Newsome  |
| 10.5**            | Letter from the Registrant to Michael J. Newsome dated November 1, 1995 re: Incentive Compensation Arrangements  |
| 10.6**            | Non-competition Agreement dated November 1, 1995 among Charles C. Anderson, Joel R. Anderson, Clyde B. Anderson, the Registrant, The SK Equity Fund, L.P. and SK Investment Fund, L.P.                               |

- 10.7\*\* The Registrant's Stock Option Plan (as amended, effective as of March 6, 1996)
- 10.8\*\* The Registrant's 1996 Stock Option Plan ("the 1996 Plan")
- 10.9.1\*\* Lease Agreement dated as of February 12, 1996 between QRS 12-14 (AL), Inc. and Sports Wholesale, Inc. (the "Lease Agreement")
- 10.9.2 Landlord's Waiver and Consent re: Lease Agreement dated February 12, 1996 by QRS 12-14 (AL), Inc.
- 10.10\* Form of the Registrant's Employee Stock Purchase Plan
- 10.11\* Form of the Registrant's Outside Director Stock Plan
- 11\*\* Statement of Computation of Net Income Per Share
- 21\*\* List of Registrant's Subsidiaries
- 23.1 Consent of Arthur Andersen LLP
- 23.2\* Consent of Davis Polk & Wardwell (to be included in Exhibit 5.1 to this Registration Statement)
- 27\*\* Financial Data Schedule

\* Each exhibit marked by an (\*) will be filed by Amendment to this Registration Statement.

\*\* Previously filed exhibits are marked by (\*\*).

(b) Financial Statement Schedules.

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because they are not required under the related instructions or are inapplicable as the information has been provided in the financial statements or related notes thereto.

Item 17. Undertakings

The undersigned registrant hereby undertakes:

(a) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and persons controlling the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification (other than by policies of insurance) is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the



Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and has duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Birmingham, State of Alabama, on the 16th day of July, 1996.

Hibbett Sporting Goods, Inc.

By /s/ Michael J. Newsome

-----  
 Michael J. Newsome  
 President, Chief Operating Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 1 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

| Signature<br>-----                                   | Title<br>-----   | Date<br>----  |
|--|--|---------------|
| *<br>-----<br>Michael J. Newsome                     | Principal Executive Officer<br>and Director                                    | July 16, 1996 |
| /s/ Susan H. Fitzgibbon<br>-----<br>Susan Fitzgibbon | Principal Financial Officer,<br>Controller and Principal<br>Accounting Officer | July 16, 1996 |
| *<br>-----<br>Clyde B. Anderson                      | Director   | July 16, 1996 |
| *<br>-----<br>Thomas A. Saunders, III                | Director   | July 16, 1996 |
| *<br>-----<br>F. Barron Fletcher, III                | Director   | July 16, 1996 |
| *<br>-----<br>John F. Megrue                         | Director   | July 16, 1996 |
| *<br>-----<br>Barry H. Feinberg                      | Director   | July 16, 1996 |

\*By /s/ Susan H. Fitzgibbon

-----  
Susan H. Fitzgibbon  
(Attorney-in-fact)

EXHIBIT INDEX

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| 21**              | List of Registrant's Subsidiaries  |
| 23.1              | Consent of Arthur Andersen LLP   |
| 23.2*             | Consent of Davis Polk & Wardwell (to be included in Exhibit 5.1 to<br>this Registration Statement)   |
| 27**              | Financial Data Schedule  |

\* Each exhibit marked by an (\*) will be filed by Amendment to this  
Registration Statement.

\*\* Previously filed exhibits are marked by (\*\*).

LOAN AND SECURITY AGREEMENT

DATED AS OF NOVEMBER 1, 1995

between

HIBBETT SPORTING GOODS, INC.

and

HIBBETT TEAM SALES, INC.,

as Borrowers,

and

HELLER FINANCIAL, INC.,

as Agent and as Lender

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT is dated as of November 1, 1995 and entered into among HIBBETT SPORTING GOODS, INC. ("Hibbett") and HIBBETT TEAM SALES, INC. ("Hibbett Team"), each an Alabama corporation (Hibbett and Hibbett Team, each a "Borrower" and collectively, "Borrowers"), each with its principal place of business at 131 South 25th Street, Birmingham, Alabama 35211, the financial institutions listed on the signature pages hereof and their respective successors and assigns (each individually a "Lender" and collectively Lenders) and HELLER FINANCIAL, INC., a Delaware corporation (in its individual capacity, "Heller"), with offices at 500 W. Monroe Street, Chicago, Illinois 60661, for itself as a Lender and as Agent. All capitalized terms used herein are defined in Section 1 of this Agreement.

WHEREAS, Borrowers desire that Lenders extend a credit facility to (i) refinance Borrower's existing indebtedness for money borrowed and (ii) provide working capital financing and to provide funds for other general corporate purposes;

WHEREAS, Borrowers desire to secure its obligations under the Loan Documents by granting to Agent, for the ratable benefit of Lenders, a security interest in and lien upon certain of each Borrower's property; and

WHEREAS, Sports Wholesale, Inc., an Alabama corporation ("Guarantor") is willing to guaranty all of the obligations of Borrowers to Agent and Lenders under the Loan Agreement.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, Borrowers, Agent and Lenders agree as follows:

SECTION 1. DEFINITIONS

1.1. Certain Defined Terms. The following terms used in this Agreement shall have the following meanings:

"Acceptable CPA" means a firm of independent certified public accountants of recognized national standing (such as the firms widely known as the "Big Six") selected by Borrowers.

"Accounts" means, all "accounts" (as defined in the UCC), accounts receivable, contract rights and general intangibles relating thereto, notes, drafts and other forms of obligations owed to or owned by Borrowers arising or

resulting from the sale of goods or the rendering of services.

"Affiliate" means any Person (other than Agent or Lender): (a) directly or indirectly controlling, controlled by, or under common control with, any Borrower; (b) directly or indirectly owning or holding five percent (5%) or more of any equity interest in any Borrower; or (c) five percent (5%) or more of whose voting stock or other equity interest is directly or indirectly owned or held by any Borrower. For purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" and "under common control with") means the possession directly or indirectly of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities or by contract or otherwise.

"Agent" means Heller in its capacity as agent for the Lenders under the Loan Documents and any successor in such capacity appointed pursuant to subsection 9.1.

"Agent's Account" means ABA No. 0710-0001-3, Account No. 55-34046 at First National Bank of Chicago, One First National Plaza, Chicago, IL 60670, Reference: Heller Business Credit for the benefit of Hibbett Sporting Goods, Inc. and Hibbett Team Sales, Inc.

"Aggregate Formula Borrowing Base" means at any time the sum of each Borrower's Formula Borrowing Base.

"Aggregate Maximum Revolving Amount" means at any time, an amount equal to \$25,000,000 less the aggregate Letter of Credit Reserve.

"Agreement" means this Loan and Security Agreement as it may be amended, supplemented or otherwise modified from time to time.

"Anderson Subordinated Bridge Loan" means the subordinated bridge loan made by one or more members of the Anderson Group to Hibbett in the aggregate principal amount of \$1,625,000 pursuant to the Anderson Subordinated Bridge Loan Documentation.

"Anderson Subordinated Bridge Loan Documentation" means the notes evidencing the Anderson Subordinated Bridge Loan and all documents and agreements executed in connection therewith on terms and conditions satisfactory to Agent.

"Anderson Group" means each of the "Stockholders" of Hibbett as defined in the Purchase and Redemption Agreement.

"Asset Disposition" means the disposition, whether by sale, lease, transfer, loss, damage, destruction, condemnation or otherwise, of any or all of the assets of any Borrower or any of such Borrower's Subsidiaries other than sales of Inventory in the ordinary course of business.

"Average Excess Availability" means, for any month, the quotient determined by dividing (a) the sum of the Excess Availability for each day during such month by (b) the number of days in such month.

"Bank Letters of Credit" means letters of credit issued by a bank for the account of any Borrower and supported by a Risk Participation Agreement.

"Base Rate" means a variable rate of interest per annum equal to the higher of (a) the rate of interest from time to time published by the Board of Governors of the Federal Reserve System as the "Bank Prime Loan" rate in Federal Reserve Statistical Release H.15(519) entitled "Selected Interest Rates" or any successor publication of the Federal Reserve System reporting the Bank Prime Loan rate or its equivalent, or (b) the Federal Funds Effective Rate. The statistical release generally sets forth a Bank Prime Loan rate for each Business Day. In the event the Board of Governors of the Federal Reserve System ceases to publish a Bank Prime Loan rate or its equivalent, the term "Base Rate" shall mean a variable rate of interest per annum equal to the highest of the "prime rate", "reference rate", "base rate", or other similar

rate announced from time to time by any of Bankers Trust Company, The Chase Manhattan Bank, National Association or Chemical Bank, or their successors (with the understanding that any such rate may merely be a reference rate and may not necessarily represent the lowest or best rate actually charged to any customer by any such bank).

"Base Rate Loans" means Loans bearing interest at rates determined by reference to the Base Rate.

"Blocked Accounts" has the meaning assigned to that term in subsection 5.6.

"Borrowers" has the meaning assigned to that term in the preamble to this Agreement.

"Borrowing Agent" shall mean Hibbett.

"Borrowing Base Certificate" means a certificate and assignment schedule duly executed by an officer of each Borrower appropriately completed and in substantially the form of Exhibit 1.1(A).

"Bridge Loan Documentation" means, collectively, the Anderson Subordinated Bridge Loan Documentation and the Saunders Subordinated Bridge Loan Documentation.

"Bridge Loans" means, collectively, the Saunders Subordinated Bridge Loan and the Anderson Subordinated Bridge Loan.

"Business Day" means any day excluding Saturday, Sunday and any day which is a legal holiday under the laws of the States of Illinois, Pennsylvania, Alabama or for the purposes of LIBOR Rate Loans only, London, England or is a day on which banking institutions located in any such state or city are closed.

"Capital Commitments" means (i) all contracts or commitments for (a) leases of real property and/or improvements which require the making of Capital Expenditures by any Borrower ("Real Property Leases"), (b) Capital Leases in conjunction with any Real Property Leases and (ii) all purchase orders for any fixed assets or improvements.

"Capital Expenditures" means all expenditures (including deposits and cash down payments for assets acquired under Capital Leases) for any fixed assets or improvements, or for replacements, substitutions or additions thereto, which have a useful life of more than one year, including the direct or indirect acquisition of such assets by way of increased product or service charges, offset items or otherwise.

"Capital Lease" means any lease of any property (whether real, personal or mixed) that, in conformity with GAAP, should be accounted for as a capital lease.

"Cash Equivalents" means: (a) marketable direct obligations issued or unconditionally guaranteed by the United States Government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within six (6) months from the date of acquisition thereof; (b) commercial paper maturing no more than six (6) months from the date issued and, at the time of acquisition, having a rating of at least A-1 from Standard & Poor's Corporation ("S&P") or at least P-1 from Moody's Investors Service, Inc. ("Moody's"); (c) certificates of deposit or bankers' acceptances maturing within six (6) months from the date of issuance thereof issued by, or overnight reverse repurchase agreements from, any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia having combined capital and surplus of not less than \$250,000,000 and not subject to setoff rights in favor of such bank; (d) money market funds; and (e) bonds of corporate or municipal issuers having a rating of not less than "A" from Moody's or S&P and having a put feature of not more than one year from the date of purchase.

"Closing Certificate" means a certificate duly executed by the chief executive officer or chief financial officer of each Borrower appropriately completed and in substantially the form of Exhibit 1.1(B).

"Closing Date" means November 1, 1995.

"Collateral" has the meaning assigned to that term in subsection 2.7.

"Collecting Banks" has the meaning assigned to that term in subsection 5.6.

"Commitment" or "Commitments" means the commitment or commitments of Lenders to make Loans as set forth in subsections 2.1(A) and/or 2.1(B) and to provide Lender Letters of Credit as set forth in subsection 2.1(G).

"Dating Program" means a Borrower's sales program pursuant to which such Borrower offers extended dating terms on Accounts which arise from the sale of Inventory to such Borrower's customers during certain prescribed months, which shall at all times be consistent with such program as in effect on the Closing Date.

"Default" means a condition or event that, after notice or lapse of time or both, would constitute an Event of Default if that condition or event were not cured or removed within any applicable grace or cure period.

"Default Rate" has the meaning assigned to that term in subsection 2.2(A).

"EBITDA" means, for any period, without duplication, the total of the following for Borrowers and their Subsidiaries on a consolidated basis, each calculated for such period: (1) net income determined in accordance with GAAP; plus, to the extent included in the calculation of net income, (2) the sum of (a) income and franchise taxes paid or accrued; (b) Interest Expenses, net of interest income, paid or accrued; (c) interest paid in kind; (d) amortization and depreciation and (e) other non-cash charges (excluding accruals for cash expenses made in the ordinary course of business); less, to the extent included in the calculation of net income, (3) the sum of (a) the income of any Person (other than wholly-owned Subsidiaries of each Borrower) in which any Borrower or a wholly owned Subsidiary of such Borrower has an ownership interest unless such income is received by such Borrower or such wholly-owned Subsidiary in a cash distribution; (b) gains or losses from sales or other dispositions of assets (other than Inventory in the normal course of business); and (c) extraordinary or non-recurring gains, but not net of extraordinary or non-recurring "cash" losses.

"Eligible Accounts" has the meaning assigned to that term in subsection 2.1(C).

"Eligible Inventory" has the meaning assigned to that term in subsection 2.1(C).

"Employee Benefit Plan" means any employee benefit plan within the meaning of Section 3(3) of ERISA which (a) is maintained for employees of any Loan Party or any ERISA Affiliate or (b) has at any time within the preceding six (6) years been maintained for the employees of any Loan Party or any current or former ERISA Affiliate.

"Environmental Claims" means claims, liabilities, investigations, litigation, administrative proceedings, judgments or orders relating to Hazardous Materials.

"Environmental Laws" means any present or future federal, state or local law, rule, regulation or order relating to pollution, waste, disposal or the protection of human health or safety, plant life or animal life, natural resources or the environment.

"Equipment" means all "equipment" (as defined in the UCC), including, without limitation, all machinery and all parts thereof and all additions and

accessions thereto and replacements therefor but does not include any "fixtures" (as defined in the UCC) or motor vehicles, trucks, trailers, vessels, aircraft and rolling stock.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor statute and all rules and regulations promulgated thereunder.

"ERISA Affiliate", as applied to any Loan Party, means any Person who is a member of a group which is under common control with any Loan Party, who together with any Loan Party is treated as a single employer within the meaning of Section 414(b) and (c) of the IRC.

"Event of Default" means each of the events set forth in subsection 8.1.

"Excess Availability" means at any time the amount by which the lesser of (a) the Aggregate Maximum Revolving Loan Amount and (b) the Aggregate Formula Borrowing Base exceeds the sum of (a) the outstanding principal balance of the Revolving Loans plus (b) the aggregate amount of trade payables of each Borrower which are due and owing beyond such Borrower's historical payment practices.

"Excess Cash Flow" means, for any period, the greater of (A) zero (0); or (B) without duplication, the total of the following for Borrowers and their Subsidiaries on a consolidated basis, each calculated for such period: (1) EBITDA; plus (2) tax refunds actually received; less (3) Capital Expenditures (to the extent actually made in cash and/or due to be made in cash within such period but in no event more than the amount permitted by subsection 6.5 hereof); less (4) income and franchise taxes paid or accrued excluding any provision for deferred taxes included in the determination of net income; less (5) decreases in deferred income taxes resulting from payments of deferred taxes accrued in prior periods; less (6) Interest Expenses paid or accrued; less (7) mandatory repayments of Indebtedness actually paid and/or due to be paid within such period and permitted under subsection 7.5.

"Existing Facility" means Hibbett's location at 131 South 25th Street, Birmingham, Alabama.

"Expiry Date" means November 1, 2000.

"Federal Funds Effective Rate" means, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the immediately following Business Day by the Federal Reserve Bank of New York or, if such rate is not published for any Business Day, the average of the quotations for the day of the requested Loan received by Agent from three Federal funds brokers of recognized standing selected by Agent.

"Fiscal Quarter" means each fiscal quarter of Borrowers ending on or about April 30, July 31, October 31, and January 31 of each Fiscal Year.

"Fiscal Year" means each twelve-month period ending on or about January 31 of each year.

"Fixed Charge Coverage" means, for any period, Operating Cash Flow divided by Fixed Charges.

"Fixed Charges" means, for any period, and each calculated for such period (without duplication), (a) Interest Expenses paid or accrued by Borrowers and their Subsidiaries; plus (b) scheduled payments of principal with respect to all Indebtedness of Borrowers and their Subsidiaries; plus (c) any provision for (to the extent it is greater than zero) income or franchise taxes included in the determination of net income, excluding any provision for deferred taxes; plus (d) Restricted Junior Payments made in cash to the extent permitted under subsection 7.5(b) plus (e) payment of deferred taxes accrued during any prior period.

"Formula Borrowing Base" has the meaning given to it in Section

2.1(B) (i) .

"Funding Date" means the date of each funding of a Loan or issuance of a Lender Letter of Credit.

"Funds" means, collectively The SK Equity Fund, L.P. and SK Investment Fund, L.P.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board that are applicable to the circumstances as of the date of determination.

"Guarantor" has the meaning assigned to that term in the preamble to this Agreement.

"Guaranty" means the continuing guaranty executed by Guarantor in substantially the form of Exhibit 1.1(D), as such agreement may hereafter be amended, restated, supplemented or otherwise modified from time to time.

"Hazardous Material" means all or any of the following: (a) substances that are defined or listed in, or otherwise classified pursuant to, any Environmental Laws or regulations as "hazardous substances", "hazardous materials", "hazardous wastes", "toxic substances" or any other formulation intended to define, list or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity or "EP toxicity"; (b) oil, petroleum or petroleum derived substances, natural gas, natural gas liquids or synthetic gas and drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal resources; (c) any flammable substances or explosives or any radioactive materials; and (d) asbestos in any form or electrical equipment which contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty parts per million.

"Hibbett" has the meaning assigned to that term in the preamble to this Agreement.

"Hibbett Team" has the meaning assigned to that term in the preamble to this Agreement.

"Indebtedness", as applied to any Person, means without duplication: (a) all indebtedness for borrowed money; (b) obligations under leases which in accordance with GAAP constitute Capital Leases; (c) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money; (d) any obligation owed for all or any part of the deferred purchase price of property or services if the purchase price is due more than six months from the date the obligation is incurred or is evidenced by a note or similar written instrument; and (e) all indebtedness secured by any Lien on any property or asset owned or held by that Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is nonrecourse to the credit of that Person.

"Individual Borrowing Base" has the meaning assigned to that term in subsection 2.1(B) .

"Intangible Assets" means all intangible assets (determined in conformity with GAAP) including, without limitation, goodwill, trademarks, tradenames, licenses, organizational costs, deferred amounts, covenants not to compete, unearned income and restricted funds.

"Intellectual Property" means all present and future designs, patents, patent rights and applications therefor, trademarks and registrations or applications therefor, trade names, inventions, copyrights and all applications and registrations therefor, software or computer programs, license rights, trade secrets, methods, processes, know-how, drawings, specifications, descriptions, and all memoranda, notes and records with



respect to any research and development, whether now owned or hereafter acquired, all goodwill associated with any of the foregoing, and proceeds of all of the foregoing, including, without limitation, proceeds of insurance policies thereon.

"Interest Coverage" means, for any period, Operating Cash Flow divided by Interest Expenses.

"Interest Expenses" means, without duplication, for any period, the following, for Borrowers and their Subsidiaries each calculated for such period: interest expenses deducted in the determination of net income (excluding the amortization of fees and costs with respect to the transactions contemplated hereunder on the Closing Date which have been capitalized as transaction costs).

"Interest Period" has the meaning assigned to that term in subsection 2.2(B).

"Interest Rate" has the meaning assigned to that term in subsection 2.2(A).

"Inventory" means all "inventory" (as defined in the UCC), including, without limitation, finished goods, raw materials, work in process and other materials and supplies used or consumed in a Person's business, and goods which are returned or repossessed.

"Inventory Report" means a report duly executed by an officer of each Borrower appropriately completed and in substantially the form of Exhibit 1.1(E).

"IRC" means the Internal Revenue Code of 1986, as amended from time to time, and any successor statute and all rules and regulations promulgated thereunder.

"Lender" or "Lenders" has the meaning assigned to that term in the preamble to this Agreement.

"Lender Addition Agreement" means an agreement among Agent, a Lender and such Lender's assignee regarding their respective rights and obligations with respect to assignments of the Loans, the Commitments and other interests under this Agreement and the other Loan Documents substantially in the form of Exhibit 1.1(F).

"Lender Letter of Credit" has the meaning assigned to that term in subsection 2.1(G).

"Letter of Credit Liability" means, all reimbursement and other liabilities of each Borrower with respect to each Lender Letter of Credit, whether contingent or otherwise, including: (a) the amount available to be drawn or which may become available to be drawn; (b) all amounts which have been paid or made available by the issuing bank to the extent not reimbursed; and (c) all unpaid interest, fees and expenses.

"Letter of Credit Reserve" means, at any time, an amount equal to (a) the aggregate amount of Letter of Credit Liability with respect to all Lender Letters of Credit outstanding at such time plus (b) the aggregate amount theretofore paid by Agent or any Lender under Lender Letters of Credit and not debited to the Loan Account pursuant to subsection 2.1(G)(2) or otherwise reimbursed by Borrowers.

"Liabilities" shall have the meaning given that term in accordance with GAAP and shall include Indebtedness.

"LIBOR Rate" means, for each Interest Period, a rate of interest equal to:

(a) the rate of interest determined by Agent at which deposits in Dollars for the relevant Interest Period are offered based on information

presented on the Reuters Screen LIBOR Page as of 11:00 A.M. (London time) on the day which is two (2) Business Days prior to the first day of such Interest Period; provided that if at least two such offered rates appear on the Reuters Screen LIBOR Page in respect of such Interest Period, the arithmetic mean of all such rates (as determined by Agent) will be the rate used; provided further that if Reuters ceases to provide LIBOR quotations, such rate shall be the average rate of interest determined by Agent at which deposits in Dollars are offered for the relevant Interest Period by Bankers Trust Company, Chase Manhattan Bank, N.A. and Chemical Bank, or their successors, (or their respective successors) to prime banks in the London interbank market as of 11:00 A.M. (London time) on the applicable interest rate determination date, divided by

(b) a number equal to 1.0 minus the aggregate (but without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on the day which is two (2) Business Days prior to the beginning of such Interest Period (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other governmental authority having jurisdiction with respect thereto, as now and from time to time in effect) for Eurocurrency funding (currently referred to as "Eurocurrency liabilities" in Regulation D of such Board) which are required to be maintained by a member bank of the Federal Reserve System:

(such rate to be adjusted to the nearest one sixteenth of one percent (1/16 of 1%) or, if there is not a nearest one sixteenth of one percent (1/16 of 1%), to the next higher one sixteenth of one percent (1/16 of 1%).

"LIBOR Rate Loan" means at any time that portion of the Loans bearing interest at rates determined by reference to the LIBOR Rate.

"Lien" means any lien, mortgage, pledge, security interest, charge or encumbrance of any kind, whether voluntary or involuntary, (including any conditional sale or other title retention agreement, any Capital Lease in the nature thereof, and any agreement to give any security interest).

"Loan" or "Loans" means an advance or advances under the Term Loan Commitment or the Revolving Loan Commitment.

"Loan Documents" means this Agreement, the Notes, and all other instruments, documents and agreements executed by or on behalf of each Borrower and delivered concurrently herewith or at any time hereafter to or for Agent or any Lender in connection with the Loans and other transactions contemplated by this Agreement, all as amended, restated, supplemented or modified from time to time.

"Loan Party" means, collectively, Borrowers, Guarantor and any other Person (other than Agent or any Lender) which is or becomes a party to any Loan Document.

"Loan Year" means each period of twelve (12) consecutive months commencing on the Closing Date and on each anniversary thereof.

"Material Adverse Effect" means a material adverse effect upon (a) the business, operations, prospects, properties, assets or condition (financial or otherwise) of any Loan Party on an individual basis or taken as a whole or (b) the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party or of Agent or any Lender to enforce or collect any of the Obligations.

"Maximum Revolving Loan Amount" has the meaning assigned to that term in subsection 2.1(B) (i).

"Net Worth" means, as of any date, with respect to Borrowers and their Subsidiaries on a consolidated basis, the sum of the capital stock and additional paid-in capital plus retained earnings (or minus accumulated deficit) calculated in conformity with GAAP.

"New Distribution Facility" means the new distribution facility of Borrowers currently under construction at 425 Industrial Lane, Oxmoor Industrial Park, Birmingham, Alabama.

"Notes" means the Revolving Note and the Term Note.

"Notice of Borrowing" has the meaning assigned to that term in subsection 2.1(D).

"Obligations" means all obligations, liabilities and indebtedness of every nature of each Loan Party from time to time owed to Agent or to any Lender under the Loan Documents including the principal amount of all debts, claims and indebtedness (whether incurred before or after the Termination Date), accrued and unpaid interest and all fees, costs and expenses, whether primary, secondary, direct, contingent, Fixed Charge Coverage covenant or otherwise, heretofore, now and/or from time to time hereafter owing, due or payable.

"Operating Cash Flow" means, for any period, (a) EBITDA; less (b) Capital Expenditures.

"Permitted Contractual Landlords Liens" means security interests which have been granted by a Borrower to landlords pursuant to the leases listed on Schedule 1.1(D) and which (i) have not been perfected in accordance with applicable law (other than perfected security interests constituting the greater of one and 10% or less of the total number of such contractual landlord security interests) and (ii) secure solely such Borrower's obligations to pay rent and other amounts due under the applicable lease.

"Permitted Encumbrances" means the following types of Liens: (a) Liens (other than Liens relating to Environmental Claims or ERISA) for taxes, assessments or other governmental charges not yet due and payable; (b) statutory Liens of landlords, carriers, warehousemen, mechanics, materialmen and other similar liens imposed by law, which are incurred in the ordinary course of business for sums not more than thirty (30) days delinquent; (c) Liens (other than any Lien imposed by ERISA) incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, statutory obligations, surety and appeal bonds, bids, leases, government contracts, trade contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money); (d) easements, rights-of-way, restrictions, and other similar charges or encumbrances not interfering in any material respect with the ordinary conduct of the business of any Loan Party; (e) Liens for purchase money obligations or Capital Leases, provided that (i) the purchase of the asset subject to any such Lien is permitted under subsection 6.3, (ii) the Indebtedness secured by any such Lien is permitted under subsection 7.1, and (iii) such Lien encumbers only the asset so purchased; (f) Liens in favor of Agent, on behalf of Lenders, (g) Liens on the New Distribution Facility to secure a Real Property Financing, (h) Permitted Contractual Landlords Liens and (i) Liens set forth on Schedule 1.1(B).

"Person" means and includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and governments and agencies and political subdivisions thereof.

"Prepayment Fee" has meaning set forth in Section 2.3(C) hereof.

"Pro Forma" means the unaudited consolidated balance sheet of Borrowers as of the Closing Date after giving effect to the transactions contemplated by this Agreement. The Pro Forma is annexed hereto as Schedule 1.1(C).

"Pro Rata Share" means (a) with respect to matters relating to a particular Commitment of a Lender, the percentage obtained by dividing (i) such Commitment of that Lender by (ii) all such Commitments of all Lenders and

(b) with respect to all other matters, the percentage obtained by dividing (i) the Total Loan Commitment of a Lender by (ii) the Total Loan Commitments of all Lenders, in either case as such percentage may be adjusted by assignments permitted pursuant to subsection 9.1; provided, however, for the purpose hereof, the amount of the Commitment shall be deemed to be the outstanding balance of the respective Loan after the Commitment has been terminated.

"Projections" means Borrowers' forecasted consolidated: (a) balance sheets; (b) profit and loss statements; (c) cash flow statements; and (d) capitalization statements, all prepared on a basis consistent with Borrowers' historical financial statements, together with appropriate supporting details and a statement of underlying assumptions.

"Purchase and Redemption Agreement" means that certain Stock Purchase and Redemption Agreement dated the Closing Date by and among The SK Equity Fund, L.P., a Delaware limited partnership, SK Investment Fund, L.P. a Delaware limited partnership, Hibbett and the Anderson Group and all exhibits and schedules attached thereto and all other documents and agreements executed in connection therewith.

"Real Property" means the real property owned or leased by Borrowers or any of their Subsidiaries as described on Schedule 1.1(A).

"Real Property Documentation" means all documents, agreements, mortgages and instruments executed in connection with a Real Property Financing.

"Real Property Financing" means either (i) a financing provided by a third-party lender in favor of a Borrower in an amount not to exceed \$5,000,000 in principal amount and bearing an effective cost of not more than 11-1/2 percent per annum (including principal and interest payments) or (ii) a Sale Leaseback Transaction in respect of the New Distribution Facility having an initial attributable principal amount not exceeding \$5,000,000 and an effective cost of not more than 11-1/2 percent per annum; provided, however, any such financing or Sale Leaseback Transaction shall be secured solely by the New Distribution Facility and the proceeds thereof shall be used to repay the Saunders Subordinated Bridge Loan in full and the Anderson Subordinated Bridge Loan in whole or in part.

"Reconciliation Report" means a report duly executed by the chief executive officer or chief financial officer of each Borrower appropriately completed and in substantially the form of Exhibit 1.1(G).

"Requisite Lenders" means Lenders holding or being responsible for fifty-one percent (51%) or more of the sum of (a) outstanding Loans, (b) outstanding Letter of Credit Liability and (c) unutilized Commitments.

"Restricted Junior Payment" means: (a) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock of any Borrower or any of such Borrower's Subsidiaries now or hereafter outstanding, except a stock dividend; (b) any payment or prepayment of principal of, premium, if any, or interest on, or any redemption, conversion, exchange, retirement, defeasance, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any Subordinated Debt or any shares of any class of stock of any Borrower or any of such Borrower's Subsidiaries now or hereafter outstanding; (c) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of stock of any Borrower or any of such Borrower's Subsidiaries now or hereafter outstanding; and (d) any payment by any Borrower or any of such Borrower's Subsidiaries of any management fees or similar fees to any Affiliate, whether pursuant to a management agreement or otherwise.

"Revolving Loan" means all advances made by Lenders pursuant to subsection 2.1(B) and any amounts added to the principal balance of the Revolving Loan pursuant to this Agreement.

"Revolving Loan Commitment" means (a) as to any Lender, the commitment of such Lender to make a portion of the Revolving Loan and to purchase

participations in Lender Letters of Credit pursuant to subsection 2.1(G) as set forth on the signature page of this Agreement opposite such Lender's signature or in the most recent Lender Addition Agreement, if any, executed by such Lender and (b) as to all Lenders, the aggregate commitment of all Lenders to make the Revolving Loan and to purchase participations in Lender Letters of Credit pursuant to subsection 2.1(G).

"Revolving Note" means each promissory note of Borrowers in substantially the form of Exhibit 1.1(H), issued pursuant to subsection 2.1(B).

"Risk Participation Agreement" has the meaning assigned to that term in subsection 2.1(G).

"Sale Leaseback Transaction" means an arrangement with any Person providing for the leasing (otherwise than pursuant to a Capital Lease) by any Borrower or any of such Borrower's Subsidiaries of any asset that has been or is to be sold, assigned, transferred or otherwise disposed of by such Borrower or such Subsidiary to such Person with the intention of entering into such a lease.

"Saunders" means Saunders Karp & Co., L.P.

"Saunders Subordinated Bridge Loan" means the subordinated bridge loan made by one of the Funds to Hibbett in the aggregate principal amount of \$2,500,000 pursuant to the Saunders Subordinated Bridge Loan Documentation.

"Saunders Subordinated Bridge Loan Documentation" means the notes evidencing the Saunders Subordinated Bridge Loan and all documents and agreements executed in connection therewith on terms and conditions satisfactory to Agent.

"Settlement Date" has the meanings assigned to that term in subsection 9.6(A)(2).

"Subordinated Debt" means all Indebtedness owing by Borrowers under the Subordinated Notes and the Bridge Loan Documentation.

"Subordinated Notes" means those certain 12% Subordinated Notes dated the Closing Date issued by Borrowers in favor of one of the Funds and one or more members of the Anderson Group in the aggregate principal sum of \$16,000,000 and all documents and agreements executed in connection therewith.

"Subsidiary" means, with respect to any Borrower or any Person, any corporation, association or other business entity of which more than fifty percent (50%) of the total voting power of shares of stock (or equivalent ownership or controlling interest) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Borrower or Person or one or more of the other Subsidiaries of that Borrower or Person or a combination thereof.

"Tangible Net Worth" means, with respect to Borrowers and their Subsidiaries on a consolidated basis, an amount equal to: (a) Net Worth; less (b) Intangible Assets; less (c) prepaid expenses; and less (d) all obligations owed to Borrowers and their Subsidiaries by any Affiliate of any Borrower or any of such Borrower's Subsidiaries.

"Term Loan" means the \$1,000,000 Term Loan made pursuant to subsection 2.1(A).

"Term Loan Commitment" means (a) as to any Lender, the commitment of such Lender to make a portion of the Term Loan in the amount set forth on the signature page of this Agreement opposite such Lender's signature or in the most recent Lender Addition Agreement, if any, executed by such Lender and (b) as to all Lenders, the aggregate commitment of all Lenders to make the Term Loan.

"Term Note" means each promissory note of Borrowers in substantially the

form of Exhibit 1.1(I), issued pursuant to subsection 2.1(A).

"Termination Date" means the date this Agreement is terminated as set forth in subsection 2.5.

"Testing Date" means any date at which the Fixed Charge Coverage covenant set forth in Section 6.4 is tested.

"Total Loan Commitment" means the aggregate commitments of any Lender with respect to the Revolving Loan Commitment and the Term Loan Commitment.

"UCC" means the Uniform Commercial Code as in effect on the date hereof in the State of Illinois, as amended from time to time, and any successor statute.

"Working Capital" means with respect to Borrowers and their Subsidiaries on a consolidated basis: (a) current assets; less (b) current liabilities; and less (c) the amount of any obligations owed to any Borrower or any of such Borrower's Subsidiaries by any Affiliate of any Borrower or any of such Borrower's Subsidiaries.

1.2. Accounting Terms. For purposes of this Agreement, all accounting terms not otherwise defined herein shall have the meanings assigned to such terms in conformity with GAAP. Financial statements and other information furnished to Agent or any Lender pursuant to subsection 5.1 shall be prepared in accordance with GAAP (as in effect at the time of such preparation) on a consistent basis (except for changes approved by an Acceptable CPA which are in accordance with GAAP). In the event any "Accounting Changes" (as defined below) shall occur and such changes affect financial covenants, standards or terms in this Agreement, then Borrowers and Lenders agree to enter into negotiations in order to amend such provisions of this Agreement so as to equitably reflect such Accounting Changes with the desired result that the criteria for evaluating the financial condition of Borrowers shall be the same after such Accounting Changes as if such Accounting Changes had not been made, and until such time as such an amendment shall have been executed and delivered by Borrowers and Requisite Lenders, (A) all financial covenants, standards and terms in this Agreement shall be calculated and/or construed as if such Accounting Changes had not been made, and (B) Borrowers shall prepare footnotes to each Compliance Certificate and the financial statements required to be delivered hereunder that show the differences between the financial statements delivered (which reflect such Accounting Changes) and the basis for calculating financial covenant compliance (without reflecting such Accounting Changes). "Accounting Changes" means: (a) changes in accounting principles required by GAAP and implemented by Borrowers; (b) changes in accounting principles recommended by an Acceptable CPA; and (c) changes in carrying value of Borrowers' (or any of their Subsidiaries') assets, liabilities or equity accounts or any other adjustments that, in each case, were applicable to, but not included in, the Pro Forma. All such adjustments resulting from expenditures made subsequent to the Closing Date (including, but not limited to, capitalization of costs and expenses or payment of pre-Closing Date liabilities) shall be treated as expenses in the period the expenditures are made and deducted as part of the calculation of EBITDA in such period.

1.3. Other Definitional Provisions. References to "Sections", "subsections", "Exhibits" and "Schedules" shall be to Sections, subsections, Exhibits and Schedules, respectively, of this Agreement unless otherwise specifically provided. References to the "Subordinated Notes" and the "Subordinated Bridge Loan Documentation" shall mean the Subordinated Notes and Subordinated Bridge Loan Documentation as in effect on the Closing Date. Any of the terms defined in subsection 1.1 may, unless the context otherwise requires, be used in the singular or the plural depending on the reference. In this Agreement, words importing any gender include the other genders; the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to agreements and other contractual instruments shall be deemed to include subsequent amendments, assignments, and other modifications thereto, but only to the extent such amendments, assignments and other modifications are not prohibited by the terms of this Agreement or any other Loan Document; references to Persons include their

respective permitted successors and assigns or, in the case of governmental Persons, Persons succeeding to the relevant functions of such Persons; and all references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations.

## SECTION 2. LOANS AND COLLATERAL

### 2.1. Loans.

(A) Term Loan. Subject to the terms and conditions of this Agreement and in reliance upon the representations and warranties of each Borrower herein set forth, each Lender, severally, agrees to lend to Borrowers, on the Closing Date, its Pro Rata Share of the Term Loan. The Term Loan shall be funded in one drawing. Amounts borrowed under this subsection 2.1(A) and repaid may not be reborrowed. The outstanding balance of the Term Loan shall be due and payable in full on November 1, 1997.

(B) Revolving Loan. Subject to the terms and conditions of this Agreement and in reliance upon the representations and warranties of each Borrower herein set forth, each Lender, severally, agrees to lend to Borrowers from time to time its Pro Rata Share of the Revolving Loan. The aggregate amount of all Revolving Loan Commitments shall not exceed at any time the Aggregate Maximum Revolving Amount. The Revolving Loan to each Borrower shall not exceed at any time an amount outstanding greater than the lesser of (x) the applicable Maximum Revolving Loan Amount or (y) such Borrower's Individual Borrowing Base, and the aggregate outstanding principal balance of all Revolving Loans at any time shall not exceed the Aggregate Maximum Revolving Amount. Revolving Loans may be borrowed, repaid and reborrowed without penalty, all in accordance with the terms and conditions of this Agreement.

(i) "Maximum Revolving Loan Amount" means, as to any Borrower as of any date of determination, the lesser of (a) the Revolving Loan Commitment minus the Letter of Credit Reserve applicable to such Borrower's Letters of Credit minus the aggregate outstanding amount of (1) Revolving Loans made to the other Borrower and (2) Letter of Credit Reserves applicable to all other Letters of Credit and (b) the Individual Borrowing Base of such Borrower minus the Letter of Credit Reserve applicable to such Borrower's Letters of Credit ("Formula Borrowing Base").

(ii) "Individual Borrowing Base" means, as of any date of determination, with respect to each Borrower an amount equal to the sum of (a) eighty percent (80%) of Eligible Accounts plus (b) during the months of January, April, August and September of each year up to sixty-five percent (65%) of Eligible Inventory of such Borrower plus (c) during the months of February, March, May, June, July, October, November and December of each year up to seventy percent (70%) of Eligible Inventory of such Borrower plus (c) the lesser of (x) \$650,000 and (y) (i) sixty-five percent (65%) of Inventory ordered but not received, the payment for which is to be made under documentary Lender Letters of Credit ("Letter of Credit Inventory") less (ii) duty and freight due with respect to the Letter of Credit Inventory, and less in each case such reserves (the "Reserves") as Agent in its reasonable business judgment elects to establish, including, without limitation, reserves for shrinkage, markdowns, unpaid taxes, overdue and unpaid rent for each of Borrowers' leased locations and for the preservation of the Collateral and Agent's security interest therein. Agent shall endeavor to give Borrowing Agent telephonic notice concurrently with any imposition of a Reserve; provided, however, that Agent's failure to give such notice shall not result in any liability to Agent or any Lender.

### (C) Eligible Collateral.

"Eligible Accounts" means, as at any date of determination, the aggregate of all Accounts that Agent, in its reasonable judgment, deems to be eligible for borrowing purposes. Without limiting the generality of the foregoing, unless otherwise agreed by Agent, the following Accounts are not Eligible Accounts:

(1) Accounts (other than Accounts under the Dating Program) which, at the date of issuance of the respective invoice therefor, were payable more than sixty (60) days after the date of issuance of such invoice and with respect to Accounts under the Dating Program which at the date of issuance of the respective invoice therefor, were payable more than one hundred eighty (180) days after the date of issuance of such invoice;

(2) Accounts (other than Accounts under the Dating Program) which remain unpaid for more than sixty (60) days after the due date specified in the original invoice or for more than ninety (90) days after the invoice date if no due date was specified or with respect to Accounts under the Dating Program, Accounts which remain unpaid for more than thirty (30) days after the due date or one hundred ninety (190) days after the invoice date;

(3) Accounts which are otherwise eligible with respect to which the account debtor is owed a credit by Borrowers, but only to the extent of such credit;

(4) Accounts due from a customer whose principal place of business is located outside the United States of America;

(5) Accounts due from a customer which Agent has notified Borrowers does not have a satisfactory credit standing;

(6) Accounts with respect to which the customer is the United States of America, any state or any municipality, or any department, agency or instrumentality thereof unless such Borrower has, with respect to such Accounts, complied with the Federal Assignment of Claims Act (31 U.S.C. Section 3727) or any applicable statute or municipal ordinance of similar purpose and effect;

(7) Accounts with respect to which the customer is an Affiliate of a Borrower or a director, officer, agent, stockholder or employee of any Borrower or any of its Affiliates;

(8) Accounts due from a customer if more than twenty-five percent (25%) of the aggregate amount of Accounts of such customer have at the time remained unpaid for more than sixty (60) days after due date or ninety (90) days after the invoice date if no due date was specified;

(9) Accounts with respect to which there is any unresolved dispute with the respective customer (but only to the extent of such dispute);

(10) Accounts evidenced by an "instrument" or "chattel paper" (as defined in the UCC) not in the possession of Agent, on behalf of Lenders;

(11) Accounts with respect to which Agent, on behalf of Lenders, does not have a valid, first priority and fully perfected security interest;

(12) Accounts subject to any Lien except those in favor of Agent, on behalf of Lenders;

(13) Accounts with respect to which the customer is the subject of any bankruptcy or other insolvency proceeding;

(14) Accounts due from a customer to the extent that such Accounts exceed in the aggregate an amount equal to twenty percent (20%) of the aggregate of all Accounts at said date;

(15) Accounts with respect to which the customer's obligation to pay is conditional or subject to a repurchase obligation or a contractual right to return or with respect to which the goods or services giving rise to such Account have not been delivered (or performed, as applicable) and accepted by such account debtor, including progress billings, bill and hold sales, guaranteed sales, sale or return transactions, sales on



approval or consignment sales;

(16) Accounts with respect to which the customer is located in Indiana, New Jersey, Minnesota, or any other state denying creditors access to its courts in the absence of a Notice of Business Activities Report or other similar filing, unless such Borrower has either qualified as a foreign corporation authorized to transact business in such state or has filed a Notice of Business Activities Report or similar filing with the applicable state agency for the then current year;

(17) Accounts with respect to which the customer is a creditor of any Borrower, provided, however, that any such Account shall only be ineligible as to that portion of such Account which is less than or equal to the amount owed by such Borrower to such Person.

(18) Accounts of Hibbett.

"Eligible Inventory" means, as at any date of determination, the value (determined at the lower of cost or market on a first-in, first-out basis) of all Inventory owned by and in the possession of each Borrower and located in the United States of America that Agent, in its reasonable credit judgment, deems to be eligible for borrowing purposes. Without limiting the generality of the foregoing, unless otherwise agreed by Agent, the following is not Eligible Inventory: (a) work-in-process and raw materials; (b) finished goods which do not meet the specifications of the purchase order for such goods; (c) Inventory which Agent determines is unacceptable for borrowing purposes due to age, quality, type, category and/or quantity; (d) Inventory with respect to which Agent, on behalf of Lenders, does not have a valid, first priority (subject to statutory landlord's Liens described in clause (e) of this definition) and fully perfected security interest; (e) Inventory with respect to which there exists any Lien (other than statutory landlords' Liens and Permitted Contractual Landlords Liens) in favor of any Person other than Agent, on behalf of Lenders; and (f) Inventory produced in violation of the Fair Labor Standards Act and subject to the so-called "hot goods" provisions contained in Title 29 U.S.C. 215 (a)(i).

(D) Borrowing Mechanics. (1) LIBOR Rate Loans made on any Funding Date shall be in an aggregate minimum amount of \$500,000 and integral multiples of \$100,000 in excess of such amount. (2) On any day when any Borrower desires to borrow under this subsection 2.1, Borrowing Agent shall give Agent telephonic notice of the proposed borrowing by 11:00 a.m. Central time on the Funding Date of a Base Rate Loan and two (2) Business Days in advance of the Funding Date of a LIBOR Rate Loan, which notice (a "Notice of Borrowing") must also specify the proposed Funding Date (which shall be a Business Day), whether such Loans shall consist of Base Rate Loans or LIBOR Rate Loans and for LIBOR Rate Loans the Interest Period applicable thereto. Any such telephonic notice shall be confirmed in writing on the same day. Neither Agent nor any Lender shall incur any liability to Borrowers for acting upon any telephonic notice Agent believes in good faith to have been given by a duly authorized officer or other person authorized to borrow on behalf of Borrowers or for otherwise acting in good faith under this subsection 2.1(D). Neither Agent nor any Lender will make any advance pursuant to any telephonic notice unless Agent has also received the most recent Borrowing Base Certificate and all other documents required under subsection 5.1(F) by 11:00 a.m. Central time. Each advance made to Borrowers under the Revolving Loan shall be deposited by wire transfer in immediately available funds in such account as Borrowing Agent may from time to time designate to Agent in writing. Unless payment is otherwise timely made by Borrowers, the becoming due of any amount required to be paid under this Agreement or any of the other Loan Documents as principal, accrued interest and fees shall be deemed irrevocably to be a request by Borrowers for a Base Rate Revolving Loan on the due date of, and in the amount required to pay, such principal, accrued interest and fees, and the proceeds of each such Revolving Loan if made by Agent or any Lender shall be disbursed by Agent or such Lender by way of direct payment of the relevant obligation.

(E) Notes. Borrowers shall execute and deliver to each Lender (i) a Term Note to evidence such Lender's portion of the Term Loan, such Term

Note to be in the principal amount of the respective Term Loan Commitment of such Lender and with other appropriate insertions, and (ii) a Revolving Note to evidence such Lender's portion of the Revolving Loan, such Revolving Note to be in the principal amount of the Revolving Loan Commitment of such Lender and with other appropriate insertions. In the event of an assignment under subsection 9.1, Borrowers shall, upon surrender of the assigning Lender's Notes, issue new Notes to reflect the new Commitments of the assigning Lender and its assignee (or in the case of the Term Note, the outstanding principal amount of the assigning Lender's and its assignee's portions of the Term Loan).

(F) Evidence of Revolving Loan Obligations. The advances constituting the Revolving Loan shall be evidenced by this Agreement, the Revolving Note, and notations made from time to time by Agent in its books and records, including computer records. Agent shall record in its books and records, including computer records, the principal amount of the Revolving Loans owing to each Lender from time to time. Agent's books and records shall constitute presumptive evidence, absent manifest error, of the accuracy of the information contained therein. Failure by Agent to make any such notation or record shall not affect the obligations of Borrowers to Lenders with respect to the Revolving Loans.

(G) Letters of Credit. Subject to the terms and conditions of this Agreement and in reliance upon the representations and warranties of each Borrower herein set forth, the Revolving Loan Commitments may, in addition to advances under the Revolving Loan, be utilized, upon the request of Borrowing Agent, for (i) the issuance of letters of credit by Agent; or with Agent's consent any Lender, or (ii) the issuance by Agent of risk participations (a Risk Participation Agreement) to banks to induce such banks to issue letters of credit for the account of Borrowers (each of (i) and (ii) above a "Lender Letter of Credit"). Each Lender shall be deemed to have purchased a participation in each Lender Letter of Credit issued on behalf of a Borrower in an amount equal to its Pro Rata Share thereof. In no event shall any Lender Letter of Credit be issued to the extent that a Revolving Loan in the same amount would not have been available to such Borrower under subsection 2.1(B) hereof.

(1) Maximum Amount. The aggregate amount of Letter of Credit Liability with respect to all Lender Letters of Credit outstanding at any time shall not exceed \$1,000,000.

(2) Reimbursement. Each Borrower shall be irrevocably and unconditionally obligated forthwith without presentment, demand, protest or other formalities of any kind, to reimburse Agent or the issuer for any amounts paid with respect to a Lender Letter of Credit including all fees, costs and expenses paid to any bank that issues Bank Letters of Credit ("Reimbursement Obligation"). Each Borrower hereby authorizes and directs Agent, at Agent's option, to debit such Borrower's account (by increasing the principal balance of the Revolving Loan) in the amount of any payment made with respect to any Lender Letter of Credit ("Agent's Option"). All Reimbursement Obligations that are not immediately repaid by Borrowers with the proceeds of a Revolving Loan or otherwise shall bear interest at the Default Rate applicable to Revolving Loans; provided, however, that if Agent chooses not to exercise Agent's Option at a time when no Event of Default has occurred and is then continuing and there would be Excess Availability in an amount greater than \$1.00 if such Agent's Option were then exercised, then the Reimbursement Obligations shall bear interest at the rate then applicable to a Base Rate Loan (assuming no Event of Default had occurred and was continuing) rather than at the Default Rate. Agent will endeavor to give Borrowers notice of any failure on the part of any Borrower to immediately repay Lenders as provided for in the immediately preceding sentence and the consequent imposition of the Default Rate for any Lender Letter of Credit provided that Agent's failure to give such notice shall not result in any liability to Agent nor preclude accrual of interest at the Default Rate. In the event that Borrowers shall fail to reimburse Agent on the date of any payment under a Lender Letter of Credit in an amount equal to the amount of such payment, Agent shall promptly notify each Lender of the unreimbursed amount of such payment together with accrued interest thereon and each Lender, on the next Business Day, shall deliver to Agent an amount equal to its respective

participation in same day funds. The obligation of each Lender to deliver to Agent an amount equal to its respective participation pursuant to the foregoing sentence shall be absolute and unconditional and such remittance shall be made notwithstanding the occurrence or continuation of an Event of Default or Default or the failure to satisfy any condition set forth in Section 3. In the event any Lender fails to make available to Agent the amount of such Lender's participation in such Lender Letter of Credit, Agent shall be entitled to recover such amount on demand from such Lender together with interest at the Base Rate.

(3) Conditions of Issuance. In addition to all other terms and conditions set forth in this Agreement, the issuance of any Lender Letter of Credit shall be subject to the conditions precedent that the letter of credit which a Borrower requests be in such form, be for such amount, contain such terms and support such transactions as are reasonably satisfactory to Agent. The expiration date of each Lender Letter of Credit shall be on a date which is at least thirty (30) days prior to the Expiry Date.

(4) Request for Letters of Credit. Borrowing Agent shall give Agent at least five (5) Business Days prior notice specifying the date a Lender Letter of Credit is to be issued, identifying the beneficiary and the Borrower which is requesting the Letter of Credit and describing the nature of the transactions proposed to be supported thereby. The notice shall be accompanied by the form of the letter of credit being requested.

(H) Other Letter of Credit Provisions.

(1) Obligations Absolute. The obligation of Borrowers to reimburse Agent or any Lender for payments made under any Lender Letter of Credit shall be unconditional and irrevocable and shall be paid strictly in accordance with the terms of this Agreement under all circumstances including the following circumstances:

(a) any lack of validity or enforceability of any Lender Letter of Credit or any other agreement;

(b) the existence of any claim, set-off, defense or other right which any Borrower, any Affiliate of a Borrower, Agent or any Lender, on the one hand, may at any time have against any beneficiary or transferee of any Lender Letter of Credit or Bank Letter of Credit (or any Persons for whom any such transferee may be acting), Agent, any Lender or any other Person, on the other hand, whether in connection with this Agreement, the transactions contemplated herein or any unrelated transaction (including any underlying transaction between any Borrower or any of its Affiliates and the beneficiary of the letter of credit);

(c) any draft, demand, certificate or any other document presented under any Lender Letter of Credit or Bank Letter of Credit which is forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(d) payment under any Lender Letter of Credit against presentation of a demand, draft or certificate or other document which does not comply with the terms of such letter of credit; provided that, in the case of any payment by Lender under any Lender Letter of Credit, Lender has not acted with gross negligence or willful misconduct (as determined by a court of competent jurisdiction) in determining that the demand for payment under such Lender Letter of Credit complies on its face with any applicable requirements for a demand for payment under such Lender Letter of Credit;

(e) any other circumstance or happening whatsoever, which is similar to any of the foregoing; or

(f) the fact that a Default or an Event of Default shall have occurred and be continuing.

(2) Nature of Lender's Duties. As between Agent and Lenders, on the one hand, and Borrowers, on the other hand, Borrowers assume

all risks of the acts and omissions of, or misuse of any Lender Letter of Credit by the beneficiary thereof. In furtherance and not in limitation of the foregoing, neither Agent nor any Lender shall be responsible: (a) for the form, validity, sufficiency, accuracy, genuineness or legal effect of any document by any party in connection with the application for and issuance of any Lender Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged; (b) for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any Lender Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (c) for failure of the beneficiary of any Lender Letter of Credit to comply fully with conditions required in order to demand payment thereunder; provided that, in the case of any payment by Agent or any Lender under any Lender Letter of Credit, Agent or Lender has not acted with gross negligence or willful misconduct (as determined by a court of competent jurisdiction) in determining that the demand for payment under such Lender Letter of Credit complies on its face with any applicable requirements for a demand for payment thereunder; (d) for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (e) for errors in interpretation of technical terms; (f) for any loss or delay in the transmission or otherwise of any document required in order to make a payment under any Lender Letter of Credit; (g) for the credit of the proceeds of any drawing under any Lender Letter of Credit; and (h) for any consequences arising from causes beyond the control of Agent or any Lender as the case may be. None of the above shall affect, impair, or prevent the vesting of any of Agent's or any Lender's rights or powers hereunder.

(3) Liability. In furtherance and extension of and not in limitation of, the specific provisions herein above set forth, any action taken or omitted by Agent or any Lender under or in connection with any Lender Letter of Credit, if taken or omitted in good faith, shall not put Agent or any Lender under any resulting liability to Borrowers.

## 2.2. Interest.

(A) Rate of Interest. The Loans and all other Obligations shall bear interest from the date such Loans are made or such other Obligations become due to the date paid at a rate per annum equal to (i) in the case of Base Rate Loans, the Base Rate plus (a) one quarter of one percent (0.25%) with respect to the Revolving Loan and (b) one and one half percent (1.50%) with respect to the Term Loan and (ii) in the case of LIBOR Rate Loans, the LIBOR Rate plus (a) two and one quarter percent (2.25%) with respect to the Revolving Loan, and (b) three and one half percent (3.50%) with respect to the Term Loan (the "Interest Rate"). The applicable basis for determining the rate of interest shall be selected by Borrowing Agent initially at the time a notice of borrowing is given pursuant to subsection 2.1(D). The basis for determining the interest rate with respect to any Loan or a portion of any Loan may be changed from time to time pursuant to subsection 2.2(E). If on any day a Loan or a portion of any Loan is outstanding with respect to which notice has not been delivered to Agent in accordance with the terms of this Agreement specifying the basis for determining the rate of interest, then for that day that Loan or portion thereof shall bear interest determined by reference to the Base Rate.

After the occurrence and during the continuance of an Event of Default (i) the Loans and all other Obligations shall, at the option of Requisite Lenders, bear interest at a rate per annum equal to two percent (2%) plus the applicable Interest Rate (the "Default Rate"), (ii) each LIBOR Rate Loan shall automatically convert to a Base Rate Loan at the end of any applicable Interest Period and (iii) no Loans may be converted to LIBOR Rate Loans.

(B) Interest Periods. In connection with each LIBOR Rate Loan, Borrowing Agent shall elect an interest period (each an "Interest Period") to be applicable to such Loan, which Interest Period shall be either a one, two, three or six month period; provided that:

- (1) the initial Interest Period for any Loan shall

commence on the Funding Date of such Loan;

(2) in the case of successive Interest Periods, each successive Interest Period shall commence on the day on which the immediately preceding Interest Period expires;

(3) if an Interest Period expiration date is not a Business Day, such Interest Period shall expire on the next succeeding Business Day; provided that if any Interest Period expiration date is not a Business Day but is a day of the month after which no further Business Day occurs in such month, such Interest Period shall expire on the immediately preceding Business Day;

(4) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to part (5), below, end on the last Business Day of a calendar month;

(5) no Interest Period shall extend beyond the Termination Date;

(6) no Interest Period may extend beyond a scheduled principal payout date unless the sum of (a) the aggregate principal amount of Loans that are Base Rate Loans or that have Interest Periods expiring on or before such date and (b) the lesser of the (i) available, unused Revolving Loan Commitment or (ii) Borrowing Base equals or exceeds the principal amount required to be paid on the Loans on such date; and

(7) there shall be no more than six (6) Interest Periods relating to LIBOR Rate Loans outstanding at any time.

(C) Computation and Payment of Interest. Interest on the Loans and all other Obligations shall be computed on the daily principal balance on the basis of a 360 day year for the actual number of days elapsed in the period during which it accrues. In computing interest on any Loan, the date of funding of the Loan or the first day of an Interest Period applicable to such Loan or, with respect to a Base Rate Loan being converted from a LIBOR Rate Loan, the date of conversion of such LIBOR Rate Loan to such Base Rate Loan, shall be included and the date of payment of such Loan or the expiration date of an Interest Period applicable to such Loan, or with respect to a Base Rate Loan being converted to a LIBOR Rate Loan, the date of conversion of such Base Rate Loan to such LIBOR Rate Loan, shall be excluded; provided that if a Loan is repaid on the same day on which it is made, one day's interest shall be paid on that Loan. Interest on Base Rate Loans and all other Obligations other than LIBOR Rate Loans shall be payable to Agent for benefit of Lenders monthly in arrears on the first day of each month, on the date of any prepayment of Loans and at maturity, whether by acceleration or otherwise. Interest on LIBOR Rate Loans shall be payable to Agent for benefit of Lenders on the last day of the applicable Interest Period for such Loan, on the date of any prepayment of the Loans, and at maturity, whether by acceleration or otherwise. In addition, for each LIBOR Rate Loan having an Interest Period longer than three (3) months, interest accrued on such Loan shall also be payable on the last day of each three (3) month interval during such Interest Period.

(D) Interest Laws. Notwithstanding any provision to the contrary contained in this Agreement or any other Loan Document, Borrowers shall not be required to pay, and neither Agent nor any Lender shall be permitted to collect, any amount of interest in excess of the maximum amount of interest permitted by law ("Excess Interest"). If any Excess Interest is provided for or determined by a court of competent jurisdiction to have been provided for in this Agreement or in any other Loan Document, then in such event: (1) the provisions of this subsection shall govern and control; (2) neither Borrowers nor any Loan Party shall be obligated to pay any Excess Interest; (3) any Excess Interest that Agent or any Lender may have received hereunder shall be, at such Lender's option, (a) applied as a credit against the outstanding principal balance of the Obligations or accrued and unpaid

interest (not to exceed the maximum amount permitted by law), (b) refunded to the payor thereof, or (c) any combination of the foregoing; (4) the interest rate(s) provided for herein shall be automatically reduced to the maximum lawful rate allowed from time to time under applicable law (the "Maximum Rate"), and this Agreement and the other Loan Documents shall be deemed to have been and shall be, reformed and modified to reflect such reduction; and (5) neither Borrowers nor any Loan Party shall have any action against Agent or any Lender for any damages arising out of the payment or collection of any Excess Interest. Notwithstanding the foregoing, if for any period of time interest on any Obligations is calculated at the Maximum Rate rather than the applicable rate under this Agreement, and thereafter such applicable rate becomes less than the Maximum Rate, the rate of interest payable on such Obligations shall remain at the Maximum Rate until each Lender shall have received the amount of interest which such Lender would have received during such period on such Obligations had the rate of interest not been limited to the Maximum Rate during such period.

(E) Conversion or Continuation. Subject to the provisions of subsection 2.2(A) Borrowers shall have the option to (1) convert at any time all or any part of outstanding Loans equal to \$500,000 and integral multiples of \$100,000 in excess of that amount from Base Rate Loans to LIBOR Rate Loans or (2) upon the expiration of any Interest Period applicable to a LIBOR Rate Loan, to (a) continue all or any portion of such Loan equal to \$500,000 and integral multiples of \$100,000 in excess of that amount as a LIBOR Rate Loan or (b) convert all or any portion of such Loan to a Base Rate Loan. The succeeding Interest Period(s) of such continued or converted Loan commence on the last day of the Interest Period of the Loan to be continued or converted; provided that no outstanding Loan may be continued as, or be converted into, a LIBOR Rate Loan, when any Event of Default or Default has occurred and is continuing.

Borrowing Agent shall deliver a notice of conversion/continuation to Agent no later than 11:00 a.m. (Central time) at least two (2) Business Days in advance of the proposed conversion/continuation date ("Notice of Conversion/Continuation"). A Notice of Conversion/Continuation shall certify: (1) the proposed conversion/continuation date (which shall be a Business Day); (2) the amount of the Loan to be converted/continued; (3) the nature of the proposed conversion/continuation; (4) in the case of conversion to, or a continuation of, a LIBOR Rate Loan, the requested Interest Period; and (5) that no Default or Event of Default has occurred and is continuing or would result from the proposed conversion/continuation.

In lieu of delivering the Notice of Conversion/Continuation, Borrowing Agent may give Agent telephonic notice by the required time of any proposed conversion/continuation under this subsection 2.2(E); provided that such notice shall be promptly confirmed in writing by delivery of a Notice of Conversion/Continuation to Agent on or before the proposed conversion/continuation date.

Neither Agent nor any Lender shall incur any liability to Borrowers in acting upon any telephonic notice referred to above that Agent believes in good faith to have been given by a duly authorized officer or other person authorized to act on behalf of Borrowers or for otherwise acting in good faith under this subsection 2.2(E) and upon conversion/continuation by Lenders in accordance with this Agreement pursuant to any telephonic notice, Borrowers shall have effected such conversion or continuation, as the case may be, hereunder.

### 2.3. Fees.

(A) Unused Line Fee. Borrowers shall pay to Agent, for the benefit of Lenders, a fee in an amount equal to the Revolving Loan Commitment less the sum of the average daily balance of the Revolving Loan plus the average daily face amount of the Lender Letter of Credit Reserve during the preceding Fiscal Quarter multiplied by three eighths percent (3/8%) per annum, such fee to be calculated on the basis of a 360 day year for the actual number of days elapsed and to be payable quarterly in arrears on the first day of the first Fiscal Quarter following the Closing Date and on the first day of each

Fiscal Quarter thereafter.

(B) Letter of Credit Fees. Borrowers shall pay to Agent for the benefit of Lenders, a fee with respect to the Lender Letters of Credit in the amount of the average daily amount of Letter of Credit Liability outstanding during such Fiscal Quarter multiplied by two percent (2%) per annum. Such fees will be calculated on the basis of a 360 day year for the actual number of days elapsed and will be payable quarterly in arrears on the first day of each Fiscal Quarter. Borrowers shall also reimburse Agent for any and all fees and expenses, if any, paid by Agent or any Lender to the issuer of Bank Letters of Credit.

(C) Prepayment Fees. If Borrowers voluntarily terminate the Revolving Loan Commitment, Borrowers at the time of such termination, shall prepay all outstanding Obligations and in addition shall pay to Agent, for the benefit of Lenders, as compensation for the costs of being prepared to make funds available to Borrowers under this Agreement, and not as a penalty, an amount (the "Prepayment Fee") determined by multiplying the percentage set forth below by the Revolving Loan Commitment plus the outstanding balance of the Term Loan: three percent (3%) upon a prepayment during the first Loan Year; two percent (2%) upon a prepayment during the second Loan Year; and one percent (1%) upon a prepayment during third Loan Year and each Loan Year thereafter; provided, however, the Prepayment Fee shall be waived (a) if termination is made in conjunction with an Initial Public Offering or private placement of common stock of Hibbett ("Offering") and Borrowers have in good faith provided Agent and Lenders with reasonable opportunity to provide any senior financing sought in conjunction with such Offering including, without limitation, the right to match the most favorable terms offered by any other bona fide third-party lender or (b) if prepayment is made within ninety (90) days before the Expiry Date.

(D) Audit Fees. Borrowers agree to pay to Agent for its own account an audit fee for each inspection equal to \$650.00 per auditor per day or any portion thereof, together with out of pocket expenses; provided, however, so long as no Event of Default or Default has occurred and is continuing, Borrowers shall pay fees and reasonable out-of-pocket costs and disbursements for (i) no more than four (4) such inspections in any Fiscal Year and (ii) inspections lasting not more than seven (7) days each.

(E) Other Fees and Expenses. Borrowers shall pay to Agent, for its own account, all charges for returned items and all other bank charges incurred by Agent, as well as Agent's standard wire transfer charges for each wire transfer made under this Agreement.

(F) Closing Fee. Borrowers shall pay to Agent for the ratable benefit of Lenders on the Closing Date, a closing fee in the amount of \$260,000.

(G) Agency Fee. Borrowers shall pay Agent an annual agency fee in an amount equal to \$26,000 per year payable on the Closing Date and on the anniversary date of the Closing Date during each year of the term hereof and such fee shall in no event be subject to any proration.

#### 2.4. Payments and Prepayments.

(A) Manner and Time of Payment. In its sole discretion, Agent may charge principal, interest and fees and all other amounts ("Other Amounts") due and payable hereunder, to the Revolving Loan, all as set forth on Agent's books and records. If Agent elects to bill Borrowers for any amount due hereunder, such amount shall be immediately due and payable with interest thereon as provided herein. Agent shall endeavor to provide Borrowers with concurrent notice of any charge of Other Amounts to the Revolving Loan. All payments made by Borrowers with respect to the Obligations shall be made without deduction, defense, setoff or counterclaim. All payments to Agent hereunder shall, unless otherwise directed by Agent, be made to Agent's Account or in accordance with subsection 5.6. Proceeds remitted to Agent's Account shall be credited to the Obligations on the first Business Day following the day such proceeds were received; provided, however,

for the purpose of calculating interest on the Obligations, such funds shall be deemed received on the first Business Day thereafter. Proceeds remitted to Agent's Account by wire transfer shall be credited to the Obligations on the Business Day received; provided, however, for the purpose of calculating interest on the Obligations such funds shall be deemed received the first Business Day thereafter.

(B) Mandatory Prepayments.

(1) Overadvance. At any time that the principal balance of the Revolving Loan exceeds the Maximum Revolving Loan Amount, Borrowers shall, upon demand by Agent, immediately repay the Revolving Loan to the extent necessary to reduce the principal balance to an amount that is equal to or less than the Maximum Revolving Loan Amount.

(2) Proceeds of Asset Dispositions. Immediately upon receipt by any Borrower of proceeds of Inventory, and within five (5) Business Days upon receipt by any Borrower of proceeds of any other Asset Disposition (in one or a series of related transactions) (other than a sale of the Existing Facility or a sale of or Sale Leaseback Transaction involving the New Distribution Facility in connection with a Real Property Financing), which proceeds exceed \$25,000 (it being understood that if the proceeds exceed \$25,000, the entire amount and not just the portion above \$25,000 shall be subject to this subsection 2.4(B)(2)), Borrowers shall prepay the Loans in an amount equal to such proceeds net of actual cash costs incurred in connection with such Asset Disposition and taxes paid or payable as a result thereof. If any Borrower reasonably expects net proceeds of any Asset Disposition to be reinvested within 180 days to repair or replace such assets with like assets, such Borrower shall deliver such net proceeds to Agent to be applied to the Revolving Loan, and such Borrower may, so long as no Default or Event of Default shall have occurred and be continuing, reborrow such net proceeds only for such repair or replacement. If any Borrower fails to reinvest such net proceeds within 180 days, such Borrower hereby authorizes Lenders to make a Revolving Loan to repay the Term Loan as required hereby. All such prepayments shall first be applied in payment of the Term Loan and then, upon payment in full of the Term Loan, such payments shall be applied to the outstanding balance of the Revolving Loans.

(3) Prepayments from Excess Cash Flow. So long as the Term Loan is outstanding, within 120 days after the end of each Fiscal Year, Borrowers shall prepay the Term Loan in an amount equal to fifty percent (50%) of Excess Cash Flow for such prior Fiscal Year calculated on the basis of the audited financial statements for such Fiscal Year delivered to Agent and Lenders pursuant to subsection 5.1(c). Concurrently with the making of any such payment, Borrowers shall deliver to Agent and Lenders a certificate of each Borrower's chief executive officer or chief financial officer demonstrating its calculation of the amount required to be paid.

(C) Voluntary Prepayments and Repayments. The Revolving Loan Commitment may not be reduced and may only be terminated in full after or concurrently with the payment in full of the Term Loan. Upon termination of the Revolving Loan Commitment, Borrowers shall cause Agent and each Lender to be released from all liability under any Lender Letters of Credit or, at Agent's option, Borrowers will deposit cash collateral with Agent in an amount equal to 105% of the Letter of Credit Liability that will remain outstanding after prepayment or repayment. Revolving Loans may be repaid in full or in part without penalty.

(D) Payments on Business Days. Whenever any payment to be made hereunder shall be stated to be due on a day that is not a Business Day, the payment may be made on the next succeeding Business Day and such extension of time shall be included in the computation of the amount of interest or fees due hereunder.

2.5. Term of this Agreement. This Agreement shall be effective until the earlier of the Expiry Date and the date this Agreement is terminated pursuant to Section 8.3 hereof (the "Termination Date"). The Commitments shall (unless earlier terminated) terminate on the Termination Date. On the



Termination Date, all Obligations shall become immediately due and payable without notice or demand. Notwithstanding any termination, until all Obligations have been fully paid and satisfied, Agent, on behalf of Lenders, shall be entitled to retain security interests in and liens upon all Collateral, and even after payment of all Obligations hereunder, each Borrower's obligation to indemnify Agent and each Lender in accordance with the terms hereof shall continue.

2.6. Statements. Agent shall render a monthly statement of account to Borrowing Agent within twenty (20) days after the end of each month. Such statement of account shall constitute an account stated unless Borrowing Agent makes written objection thereto within thirty (30) days from the date such statement is mailed to Borrowing Agent. Borrowers jointly and severally promise to pay all of its Obligations as such amounts become due or are declared due pursuant to the terms of this Agreement.

2.7. Grant of Security Interest. To secure the payment and performance of the Obligations, including all renewals, extensions, restructurings and refinancings of any or all of the Obligations, each Borrower hereby grants to Agent, on behalf of Lenders, a continuing security interest, lien and mortgage in and to all right, title and interest of Borrowers in the following property of Borrowers, whether now owned or existing or hereafter acquired or arising and regardless of where located (all being collectively referred to as the "Collateral"): (A) Accounts, and all guaranties and security therefor, and all goods and rights represented thereby or arising therefrom including the right of stoppage in transit, replevin and reclamation; (B) Inventory; (C) general intangibles (as defined in the UCC); (D) documents (as defined in the UCC) or other receipts covering, evidencing or representing goods; (E) instruments (as defined in the UCC); (F) chattel paper (as defined in the UCC); (G) Equipment; (H) Intellectual Property; (I) all deposit accounts of each Borrower maintained with any bank or financial institution; (J) all cash and other monies and property of each Borrower in the possession or under the control of Agent, any Lender or any participant; (K) all books, records, ledger cards, files, correspondence, computer programs, tapes, disks and related data processing software that at any time evidence or contain information relating to any of the property described above or are otherwise necessary or helpful in the collection thereof or realization thereon; and (L) proceeds of all or any of the property described above, including, without limitation, the proceeds of any insurance policies covering any of the above described property.

2.8. Capital Adequacy and Other Adjustments. In the event Agent or any Lender shall have determined that the adoption after the date hereof of any law, treaty, governmental (or quasi-governmental) rule, regulation, guideline or order regarding capital adequacy, reserve requirements or similar requirements or compliance by Agent or such Lender or any corporation controlling Agent or such Lender with any request or directive regarding capital adequacy, reserve requirements or similar requirements (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) from any central bank or governmental agency or body having jurisdiction does or shall have the effect of increasing the amount of capital, reserves or other funds required to be maintained by Agent or such Lender or any corporation controlling Agent or such Lender and thereby reducing the rate of return on Agent's or such Lender's or such corporation's capital as a consequence of its obligations hereunder, then Borrowers shall from time to time within fifteen (15) days after notice and demand from such Lender (with a copy to Agent) or Agent (together with the certificate referred to in the next sentence) pay to Agent or such Lender additional amounts sufficient to compensate Agent or such Lender for such reduction. A certificate as to the amount of such cost and showing the basis of the computation of such cost submitted by Agent or any Lender to Borrowers shall, absent manifest error, be final, conclusive and binding for all purposes.

2.9. Taxes.

(A) No Deductions. Any and all payments or reimbursements made hereunder or under the Term Note shall be made free and clear of and without deduction for any and all taxes, levies, imposts, deductions, charges or

withholdings, and all liabilities with respect thereto; excluding, however, the following: taxes imposed on the net income of any Lender or Agent by the jurisdiction under the laws of which Agent or such Lender is organized or doing business or any political subdivision thereof and taxes imposed on its net income by the jurisdiction of Agent's or such Lender's applicable lending office or any political subdivision thereof (all such taxes, levies, imposts, deductions, charges or withholdings and all liabilities with respect thereto excluding such taxes imposed on net income, herein "Tax Liabilities"). If Borrowers shall be required by law to deduct any such Tax Liabilities from or in respect of any sum payable hereunder to Agent or any Lender, then the sum payable hereunder shall be increased as may be necessary so that, after making all required deductions, Agent or such Lender receives an amount equal to the sum it would have received had no such deductions been made.

(B) Changes in Tax Laws. In the event that, subsequent to the Closing Date, (i) any changes in any existing law, regulation, treaty or directive or in the interpretation or application thereof, (ii) any new law, regulation, treaty or directive enacted or any interpretation or application thereof, or (iii) compliance by Lender with any request or directive (whether or not having the force of law) from any governmental authority, agency or instrumentality:

(1) does or shall subject Agent or any Lender to any tax of any kind whatsoever with respect to this Agreement, the other Loan Documents or any Loans made or Lender Letters of Credit issued hereunder, or change the basis of taxation of payments to Agent or such Lender of principal, fees, interest or any other amount payable hereunder (except for net income taxes, or franchise taxes imposed in lieu of net income taxes, imposed generally by federal, state or local taxing authorities with respect to interest or commitment or other fees payable hereunder or changes in the rate of tax on the overall net income of Agent or such Lender); or

(2) does or shall impose on Agent or any Lender any other condition or increased cost in connection with the transactions contemplated hereby or participations herein; and the result of any of the foregoing is to increase the cost to Agent or such Lender of issuing any Lender Letter of Credit or making or continuing any LIBOR Rate Loan hereunder, as the case may be, or to reduce any amount receivable hereunder, then, in any such case, Borrowers shall promptly pay to Agent or such Lender, upon its demand, any additional amounts necessary to compensate Agent or such Lender, on an after-tax basis, for such additional cost or reduced amount receivable, as determined by Agent or such Lender with respect to this Agreement or the other Loan Documents. If Agent or any Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly notify Borrowers of the event by reason of which Agent or such Lender has become so entitled. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Agent or any Lender to Borrowers shall, absent manifest error, be final, conclusive and binding for all purposes.

(C) Foreign Lenders. Each Lender organized under the laws of a jurisdiction outside the United States (a "Foreign Lender") as to which payments to be made under this Agreement or under the Term Note are exempt from United States withholding tax or are subject to United States withholding tax at a reduced rate under an applicable statute or tax treaty shall provide to Borrowers and Agent (i) a properly completed and executed Internal Revenue Service Form 4224 or Form 1001 or other applicable form, certificate or document prescribed by the Internal Revenue Service of the United States certifying as to such Foreign Lender's entitlement to such exemption or reduced rate of withholding with respect to payments to be made to such Foreign Lender under this Agreement and under the Term Note (a "Certificate of Exemption") or (ii) a letter from any such Foreign Lender stating that it is not entitled to any such exemption or reduced rate of withholding (a "Letter of Non-Exemption"). Prior to becoming a Lender under this Agreement and within fifteen (15) days after a reasonable written request of Borrowers or Agent from time to time thereafter, each Foreign Lender that becomes a Lender under this Agreement shall provide a Certificate of Exemption or a Letter of Non-Exemption to Borrowers and Agent.

If a Foreign Lender is entitled to an exemption with respect to payments to be made to such Foreign Lender under this Agreement (or to a reduced rate of withholding) and does not provide a Certificate of Exemption to Borrowers and Agent within the time periods set forth in the preceding paragraph, Borrowers shall withhold taxes from payments to such Foreign Lender at the applicable statutory rates and Borrowers shall not be required to pay any additional amounts as a result of such withholding; provided, however, that all such withholding shall cease upon delivery by such Foreign Lender of a Certificate of Exemption to Borrowers and Agent.

2.10. Required Termination and Prepayment. If on any date any Lender shall have reasonably determined (which determination shall be final and conclusive and binding upon all parties) that the making or continuation of its LIBOR Rate Loans has become unlawful or impossible by compliance by Lender in good faith with any law, governmental rule, regulation or order (whether or not having the force of law and whether or not failure to comply therewith would be unlawful), then, and in any such event, that Lender shall promptly give notice (by telephone confirmed in writing) to Borrowing Agent and Agent of that determination. Subject to prior withdrawal of a Notice of Borrowing or a Notice of Conversion/Continuation or prepayment of the LIBOR Rate Loans as contemplated by the subsection 2.11, the obligation of such Lender to make or maintain its LIBOR Rate Loans during any such period shall be terminated at the earlier of the termination of the Interest Period then in effect or when required by law and Borrowers shall no later than the termination of the Interest Period in effect at the time any such determination pursuant to this subsection 2.10 is made or, earlier, when required by law, repay or prepay the LIBOR Rate Loans made by such Lender together with all interest accrued thereon or convert the LIBOR Rate Loans to Base Rate Loans.

2.11. Optional Prepayment/Replacement of Agent or Lenders in Respect of Increased Costs. Within fifteen (15) days after receipt by Borrowing Agent of written notice and demand from Agent or any Lender (an "Affected Lender") for payment of additional costs as provided in subsections 2.8, 2.9 or 2.10, Borrowers may, at their option, notify Agent and such Affected Lender of its intention to do one of the following:

(A) Borrowers may obtain, at Borrowers' expense, a replacement Lender ("Replacement Lender") for such Affected Lender, which Replacement Lender shall be reasonably satisfactory to Agent. In the event Borrowers obtain a Replacement Lender within ninety (90) days following notice of its intention to do so, the Affected Lender shall sell and assign its Loans and Commitments to such Replacement Lender provided, that Borrowers have reimbursed such Affected Lender for its increased costs for which it is entitled to reimbursement under this Agreement through the date of such sale and assignment.

(B) Borrowers may prepay in full all outstanding Obligations owed to such Affected Lender and terminate such Affected Lender's Commitments. Borrowers shall, within ninety (90) days following notice of its intention to do so, prepay in full all outstanding Obligations owed to such Affected Lender (including such Affected Lender's increased costs for which it is entitled to reimbursement under this Agreement through the date of such prepayment but excluding the prepayment fee referenced in subsection 2.3(C) and terminate such Affected Lender's Commitments).

2.12. Compensation. Borrowers shall compensate Lenders, upon written request by Lenders (which request shall set forth in reasonable detail the basis for requesting such amounts and which shall, absent manifest error, be conclusive and binding upon all parties hereto), for all reasonable losses, expenses and liabilities (including, without limitation, any loss (including interest paid) sustained by Lenders in connection with the re-employment of such funds), Lenders may sustain: (i) if for any reason (other than a default by Lenders) a borrowing of any LIBOR Rate Loan does not occur on a date specified therefor in a Notice of Borrowing, a Notice of Conversion/Continuation or a telephonic request for borrowing or Conversion/Continuation; (ii) if any prepayment of any of its LIBOR Rate Loans occurs on a date that is not the last day of an Interest Period applicable to that Loan; (iii) if any prepayment of any of its LIBOR Rate Loans is not made

on any date specified in a notice of prepayment given by Borrowing Agent; or (iv) as a consequence of any other default by Borrowers to repay their LIBOR Rate Loans when required by the terms of this Agreement; provided that during the period while any such amounts have not been paid, Lenders shall reserve an equal amount from amounts otherwise available to be borrowed under the Revolving Loan.

2.13. Booking of LIBOR Rate Loans. Lenders may make, carry or transfer LIBOR Rate Loans at, to, or for the account of, any of its branch offices or the office of an Affiliate of any Lender; provided, however, Lenders shall make, carry or transfer LIBOR Rate Loans at such office so as to avoid the imposition of the provision of subsections 2.8, 2.9 or 2.10 hereof.

2.14. Assumptions Concerning Funding of LIBOR Rate Loans. Calculation of all amounts payable to each Lender under subsection 2.12 shall be made as though such Lender had actually funded its relevant LIBOR Rate Loan through the purchase of a LIBOR deposit bearing interest at the LIBOR Rate in an amount equal to the amount of that LIBOR Rate Loan and having maturity comparable to the relevant Interest Period and through the transfer of such LIBOR deposit from an offshore office to a domestic office in the United States of America; provided, however, that each Lender may fund each of its LIBOR Rate Loans in any manner it sees fit and the foregoing assumption shall be utilized only for the calculation of amounts payable under subsection 2.12.

### SECTION 3. CONDITIONS TO LOANS

3.1. Conditions to Loans. The obligations of Agent and each Lender to make Loans and the obligation of Agent or any Lender to issue Lender Letters of Credit on the Closing Date and on each Funding Date are subject to satisfaction of all of the conditions set forth below.

(A) Closing Deliveries. Agent shall have received, in form and substance satisfactory to Agent, all documents, instruments and information identified on Schedule 3.1(A) and all other agreements, notes, certificates, orders, authorizations, financing statements, mortgages and other documents which Agent may reasonably request prior to or on the Closing Date.

(B) Security Interests. Agent shall have received satisfactory evidence that all security interests and liens granted to Agent for the benefit of Lenders pursuant to this Agreement or the other Loan Documents have been duly perfected and constitute first priority liens on the Collateral, subject only to Permitted Encumbrances.

(C) Closing Date Availability. After giving effect to the consummation of the transactions contemplated hereunder on the Closing Date and the payment by Borrowers of all costs, fees and expenses relating thereto, Excess Availability shall be at least \$2,400,000.

(D) Representations and Warranties. The representations and warranties contained herein and in the Loan Documents shall be true, correct and complete in all material respects on and as of that Funding Date to the same extent as though made on and as of that date, except for any representation or warranty limited by its terms to a specific date and taking into account any amendments to the Schedules or Exhibits as a result of any disclosures made by Borrowers to Agent after the Closing Date and approved by Agent.

(E) Fees. With respect to Loans or Lender Letters of Credit to be made or issued on the Closing Date, Borrowers shall have paid the fees payable on the Closing Date.

(F) No Default. No event shall have occurred and be continuing or would result from the consummation of the requested borrowing or notice requesting issuance of a Lender Letter of Credit that would constitute an Event of Default or a Default.

(G) Performance of Agreements. Each Loan Party shall have performed in all material respects all agreements and satisfied all conditions

which any Loan Document provides shall be performed by it on or before that Funding Date.

(H) No Prohibition. No order, judgment or decree of any court, arbitrator or governmental authority shall purport to enjoin or restrain Agent or any Lender from making any Loans or issuing any Lender Letters of Credit.

(I) No Litigation. There shall not be pending or, to the knowledge of Borrowers, threatened, any action, charge, claim, demand, suit, proceeding, petition, governmental investigation or arbitration by, against or affecting any Loan Party or any of its Subsidiaries or any property of any Loan Party or any of its Subsidiaries that has not been disclosed by Borrowers in writing, and there shall have occurred no development in any such action, charge, claim, demand, suit, proceeding, petition, governmental investigation or arbitration that, in the Agent's reasonable judgment, could reasonably be expected to have a Material Adverse Effect.

(J) Equity Contribution. Borrowers shall have entered into the Purchase and Redemption Agreement and shall have received on or before the Closing Date an aggregate contribution to its equity in cash of not less than \$17,176,000 on terms and conditions acceptable to Agent.

(K) Financial Condition Opinions. On the Closing Date Agent shall have received an executed officer's certificate together with the Pro Formas and the Projections satisfactory in form and substance to Agent, certifying the solvency of Hibbett on a consolidated basis after giving effect to the Indebtedness and Obligations contemplated hereby and as to Borrowers' financial resources, their ability to meet their obligations and liabilities as they become due and to the effect that as of the Closing Date the Borrowers have sufficient capital with which to engage in their business as conducted on the Closing Date and as anticipated to be conducted subsequent to the Closing Date.

(L) Subordinated Debt Documents. On or before the Closing Date (i) Agent shall have received final executed copies of the Subordinated Notes and the Bridge Loan Documentation and all related agreements, documents and instruments which shall contain provisions acceptable to Agent and the transactions contemplated by such documentation shall be consummated concurrently with the making of the initial Loan hereunder and (ii) Borrowers shall have received cash proceeds of Subordinated Debt in an aggregate amount of not less than \$4,574,000.

(M) Insurance. Lender shall have received in form and substance satisfactory to Agent, certified copies of Borrowers' casualty insurance policies, together with loss payable endorsements satisfactory to Agent naming Agent as loss payee, and certified copies of Borrowers' liability insurance policies, together with endorsements naming Agent as a co-insured;

(N) Consents. Agent shall have received any and all consents necessary to permit the effectuation of the transactions contemplated by this Agreement and the Loan Documents; and, Agent shall have received such consents and waivers of such third parties as might assert claims with respect to the Collateral (other than the consents of Borrowers' landlords who may claim the benefit of applicable statutory and contractual landlord's liens or contractual change of control provisions), as Agent and its counsel shall deem necessary.

(O) No Adverse Material Change. (i) Since August 26, 1995, there shall not have occurred (x) any material adverse change in the condition, financial or otherwise, operations, properties of Borrowers, (y) any material damage or destruction to the Collateral considered as a whole nor any material depreciation in the value thereof considered as a whole and (z) any event, condition or state of facts which would reasonably be expected materially and adversely to affect the business, prospects, financial condition or results of operations of Borrowers and (ii) no representations made or information supplied to Agent shall have been proven to be inaccurate or misleading in any material respect.

#### SECTION 4. BORROWERS' REPRESENTATIONS AND WARRANTIES

To induce Agent and each Lender to enter into this Agreement, to make Loans and to issue Lender Letters of Credit, each Borrower represents and warrants to Agent and each Lender that the following statements are and will be true, correct and complete:

##### 4.1. Organization, Powers, Capitalization.

(A) Organization and Powers. Each of the Loan Parties is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and qualified to do business in all states where such qualification is required except where failure to be so qualified could not be reasonably expected to have a Material Adverse Effect. Each of the Loan Parties has all requisite corporate power and authority to own and operate its properties, to carry on its business as now conducted and proposed to be conducted and to enter into each Loan Document.

(B) Capitalization. The authorized capital stock of each of the Loan Parties is as set forth on Schedule 4.1(B). All issued and outstanding shares of capital stock of each of the Loan Parties are duly authorized and validly issued, fully paid, nonassessable, free and clear of all Liens, and such shares were issued in compliance with all applicable state and federal laws concerning the issuance of securities. The capital stock of each of the Loan Parties is owned by the stockholders and in the amounts set forth on Schedule 4.1(B). No shares of the capital stock of any Loan Party, other than those described above, are issued and outstanding. There are no preemptive or other outstanding rights, options, warrants, conversion rights or similar agreements or understandings for the purchase or acquisition from any Loan Party, of any shares of capital stock or other securities of any such entity other than warrants issued pursuant to the Purchase and Redemption Agreement and options under the Borrowers' employee benefit plans.

4.2. Authorization of Borrowing, No Conflict. Such Borrower has the corporate power and authority to incur the Obligations and to grant security interests in the Collateral. On the Closing Date, the execution, delivery and performance of the Loan Documents by each Loan Party signatory thereto will have been duly authorized by all necessary corporate and shareholder action. The execution, delivery and performance by each Loan Party of each Loan Document to which it is a party and the consummation of the transactions contemplated by this Agreement and the other Loan Documents by each Loan Party do not contravene and will not be in contravention of the corporate charter or bylaws of any Loan Party or contravene any applicable law, agreement or order by which any Loan Party or any Loan Party's property is bound, the effect of which could reasonably be expected to result in a Material Adverse Effect. This Agreement is, and the other Loan Documents, including the Notes when executed and delivered will be, the legally valid and binding obligations of the applicable Loan Parties respectively, each enforceable against the Loan Parties, as applicable, in accordance with their respective terms.

4.3. Financial Condition. All financial statements concerning Borrowers and their Subsidiaries which have been or will hereafter be furnished by Borrowers to Agent or any Lender pursuant to this Agreement have been or will be prepared in accordance with GAAP consistently applied throughout the periods involved (except as disclosed therein) and do or will present fairly the financial condition of the corporations covered thereby as at the dates thereof and the results of their operations for the periods then ended. The Pro Forma was prepared by Borrower based on the unaudited consolidated balance sheet of Borrowers dated August 26, 1995. The Projections delivered and to be delivered have been and will be prepared by Borrower in light of the past operations of the business of Borrowers and their Subsidiaries, and such Projections represent and will represent the good faith estimate of Borrowers and its senior management concerning the most probable course of its business as of the date such Projections are prepared and delivered.

4.4. Indebtedness and Liabilities. As of the Closing Date, no Borrower has (a) any Indebtedness except as reflected on the Pro Forma or on the most

recent financial statements delivered to Agent and Lenders; or (b) any Liabilities other than as reflected on the Pro Forma or the most recent financial statements delivered to Agent and Lenders or as incurred in the ordinary course of business following the date of the Pro Forma or the most recent financial statements delivered to Agent and Lenders.

4.5. Account Warranties. Each Borrower represents, warrants and covenants as to each Account that, at the time of its creation, the Account is a valid, bona fide account, representing an undisputed indebtedness incurred by the named account debtor for goods actually sold and delivered or for services completely rendered; there are no setoffs, offsets or counterclaims, genuine or otherwise, against the Account, other than credits given in the ordinary course of business; the Account does not represent a sale to an Affiliate or a consignment, sale or return or a bill and hold transaction; no agreement exists permitting any deduction or discount (other than the discount stated on the invoice); a Borrower is the lawful owner of the Account and has the right to assign the same to Agent, for the benefit of Lenders; the Account is free of all security interests, liens and encumbrances other than those in favor of Agent, on behalf of Lenders, and the Account is due and payable in accordance with its terms.

4.6. Names. Schedule 4.6 sets forth all names, trade names, fictitious names and business names under which each Borrower currently conducts business or has at any time during the past five years conducted business.

4.7. Locations; FEIN. Schedule 4.7 sets forth the location of each Borrower's principal place of business, the location of each Borrower's books and records, the location of all other offices of each Borrower and all Collateral locations, and such locations are each Borrower's sole locations for its business and the Collateral. Each Borrower's federal employer identification number is set forth on the signature page hereof.

4.8. Title to Properties; Liens. Except as otherwise disclosed on Schedule 1.1(A), each Borrower has good, sufficient and legal title, subject to Permitted Encumbrances, to all its respective material properties and assets. Except for Permitted Encumbrances, all such properties and assets are free and clear of Liens. To the best knowledge of each Borrower after due inquiry, there are no actual, threatened or alleged defaults with respect to any leases of real property under which any Borrower or any of such Borrower's Subsidiaries is lessee or lessor which would reasonably be expected to have a Material Adverse Effect.

4.9. Litigation; Adverse Facts. There are no judgments outstanding against any Loan Party or affecting any property of any Loan Party nor is there any action, charge, claim, demand, suit, proceeding, petition, governmental investigation or arbitration now pending or, to the best knowledge of each Borrower after due inquiry, threatened against or affecting any Loan Party or any property of any Loan Party which could reasonably be expected to result in any Material Adverse Effect. No Loan Party has received any opinion or memorandum or legal advice from legal counsel to the effect that it is exposed to any liability which could reasonably be expected to result in any Material Adverse Effect.

4.10. Payment of Taxes. All material tax returns and reports of each Borrower and of each Borrower's Subsidiaries required to be filed by any of them have been timely filed, and all taxes, assessments, fees and other governmental charges upon such Persons and upon their respective properties, assets, income and franchises which are shown on such returns as due and payable have been paid when due and payable. As of the Closing Date, none of the United States income tax returns of any Borrower or any of such Borrower's Subsidiaries are under audit. No tax liens have been filed and no claims (except as otherwise permitted by Section 5.9) are being asserted with respect to any such taxes. The charges, accruals and reserves on the books of each Borrower in respect of any taxes or other governmental charges are in accordance with GAAP.

4.11. Performance of Agreements. None of the Loan Parties is in default in the performance, observance or fulfillment of any material obligations,

covenants or conditions contained in any contract for money borrowed or any material contractual obligation of any such Person, and no condition exists that, with the giving of notice or the lapse of time or both, would constitute such a default.

4.12. Employee Benefit Plans. No Borrower nor any ERISA Affiliate maintains or contributes to any Employee Benefit Plan other than those listed on Schedule 4.12. Except as set forth in Schedule 4.12, each Borrower, each Subsidiary of each Borrower and each ERISA Affiliate is in compliance in all material respects with all applicable provisions of ERISA, the IRC and all other applicable laws and the regulations and interpretations thereof with respect to all Employee Benefit Plans. No material liability has been incurred by any Borrower, any Subsidiary of any Borrower or any ERISA Affiliate which remains unsatisfied for any funding obligation, taxes or penalties with respect to any Employee Benefit Plan.

4.13. Intellectual Property. Each Borrower and each Subsidiary of each Borrower owns, is licensed to use or otherwise has the right to use, all Intellectual Property used in or necessary for the conduct of its business as currently conducted (except to the extent its failure to own or have the right to use such Intellectual Property could not reasonably be expected to have a Material Adverse Effect), and all such Intellectual Property is identified on Schedule 4.13.

4.14. Broker's Fees. No broker's or finder's fee or commission will be payable with respect to any of the transactions contemplated hereby other than a fee to (a) Smith Barney, Inc. in the amount of \$650,000 plus reasonable expenses and (b) Saunders in an amount previously disclosed to Agent.

4.15. Environmental Compliance. Each Loan Party has been and is currently in compliance with all applicable Environmental Laws (except to the extent its failure to comply with any such law could not reasonably be expected to have a Material Adverse Effect), including obtaining and maintaining in effect all permits, licenses or other authorizations required by applicable Environmental Laws. To the best of each Borrower's knowledge, there are no claims, liabilities, investigations, litigation, administrative proceedings, whether pending or threatened, or judgments or orders relating to any Hazardous Materials asserted or threatened against any Loan Party or relating to any real property currently or formerly owned, leased or operated by any Loan Party.

4.16. Solvency. As of and from and after the date of this Agreement, each Borrower: (a) owns and will own assets the fair salable value of which are (i) greater than the total amount of its liabilities (including contingent liabilities) and (ii) greater than the amount that will be required to pay the probable liabilities of such Borrower as they mature; (b) has capital that is not unreasonably small in relation to its business as presently conducted or any contemplated or undertaken transaction; and (c) does not intend to incur and does not believe that it will incur debts beyond its ability to pay such debts as they become due.

4.17. Disclosure. No representation or warranty of any Borrower or any other Loan Party contained in this Agreement, the financial statements, the other Loan Documents, or any other document, certificate or written statement furnished to Agent or any Lender by or on behalf of any such Person for use in connection with the Loan Documents contains any untrue statement of a material fact or omitted, omits or will omit to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances in which the same were made. The Projections and pro forma financial information contained in such materials are based upon good faith estimates and assumptions believed by such Persons to be reasonable at the time made, it being recognized by Agent and Lenders that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered by any such projections may differ from the projected results. There is no material fact known to any Borrower that has had or reasonably be expected to have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates and statements furnished to Agent or any Lender for use in



connection with the transactions contemplated hereby.

4.18. Insurance. Each Borrower and each Subsidiary maintains adequate insurance policies for public liability, property damage for its business and properties, product liability, and business interruption, no notice of cancellation has been received with respect to such policies and Borrower and each of Subsidiary is in compliance with all conditions contained in such policies.

4.19. Compliance with Laws. Neither any Borrower nor any Subsidiary is in violation of any law, ordinance, rule, regulation, order, policy, guideline or other requirement of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of its business or the ownership of its properties, including, without limitation, any violation relating to any use, release, storage, transport or disposal of any Hazardous Material, which violation would subject any Borrower or any Subsidiary, or any of their respective officers to criminal liability or could reasonably be expected to have a Material Adverse Effect and no such violation has been alleged.

4.20. Bank Accounts. Schedule 4.20 sets forth the account numbers and locations of all bank accounts of each Borrower.

4.21. Subsidiaries. No Borrower has any Subsidiary other than as set forth on Schedule 4.21.

4.22. Employee Matters. Except as set forth on Schedule 4.22, (a) no Loan Party nor any of such Loan Party's employees is subject to any collective bargaining agreement, (b) no petition for certification or union election is pending with respect to the employees of any Loan Party and no union or collective bargaining unit has sought such certification or recognition with respect to the employees of any Loan Party and (c) there are no strikes, slowdowns, work stoppages or controversies pending or, to the best knowledge of each Borrower after due inquiry, threatened between any Loan Party and its respective employees, other than employee grievances arising in the ordinary course of business which could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Except as set forth on Schedule 4.22, no Borrower is subject to an employment contract.

4.23. Governmental Regulation. None of the Loan Parties is, or after giving effect to any loan will be, subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act or the Investment Company Act of 1940 or to any federal or state statute or regulation limiting its ability to incur indebtedness for borrowed money.

The Borrowers may, at any time and from time to time (and subject to subsection 5.13), amend any one or more of the Schedules referred in this Section 4 and any representation or warranty contained herein which refers to any such Schedule shall from and after the date of any such amendment refer to such Schedule as so amended, provided, however, that in no event may the Borrowers amend any such Schedule if such amendment would reflect or evidence a Default or Event of Default.

## SECTION 5. AFFIRMATIVE COVENANTS

Each Borrower covenants and agrees that, so long as any of the Commitments hereunder shall be in effect and until payment in full of all Obligations and termination of all Lender Letters of Credit, unless Requisite Lenders shall otherwise give their prior written consent, Borrowers shall perform, and shall cause each of their Subsidiaries to perform, all covenants in this Section 5 applicable to such Person.

5.1. Financial Statements and Other Reports. Borrowers will maintain a system of accounting established and administered in accordance with sound business practices to permit preparation of financial statements in conformity with GAAP. Borrowers will deliver to Agent and each Lender (unless specified to be delivered solely to Agent) the financial statements and other reports

described below.

(A) Monthly Financials. As soon as available and in any event within forty-five (45) days after the end of each month for the period commencing with November of 1995 and ending with May of 1996 and within thirty (30) days after the end of each month thereafter, Borrowers will deliver (1) the consolidated balance sheet of Borrowers and their Subsidiaries as at the end of such month and the related consolidated statements of income, stockholders' equity and cash flow for such month and for the period from the beginning of the then current Fiscal Year to the end of such month, and (2) a schedule of the outstanding Indebtedness for borrowed money of Borrowers and their Subsidiaries describing in reasonable detail each such debt issue or loan outstanding and the principal amount and amount of accrued and unpaid interest with respect to each such debt issue or loan.

(B) Year-End Financials. As soon as available and in any event within ninety (90) days after the end of each Fiscal Year, Borrowers will deliver: (1) the consolidated balance sheet of Borrowers and their Subsidiaries as at the end of such year and the related consolidated statements of income, stockholders' equity and cash flow for such Fiscal Year; (2) a schedule of the outstanding Indebtedness of Borrowers and its Subsidiaries describing in reasonable detail each such debt issue or loan outstanding and the principal amount and amount of accrued and unpaid interest with respect to each such debt issue or loan; and (3) a report with respect to the financial statements from an Acceptable CPA, which report shall be unqualified as to going concern and scope of audit of Borrowers and their Subsidiaries and shall state that (a) such consolidated financial statements present fairly the consolidated financial position of Borrowers and their Subsidiaries as at the dates indicated and the results of their operations and cash flow for the periods indicated in conformity with GAAP applied on a basis consistent with prior years (except for changes with which they concur) and (b) that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards.

(C) Accountants' Certification and Reports. Together with each delivery of consolidated financial statements of Borrowers and their Subsidiaries pursuant to subsection 5.1(B), Borrowers will deliver (1) a written statement by an Acceptable CPA (a) stating that the examination has included a review of the terms of this Agreement as same relate to accounting matters and (b) stating whether, in connection with the examination, any condition or event that constitutes a Default or an Event of Default has come to their attention and, if such a condition or event has come to their attention, specifying the nature and period of existence thereof and (2) a letter addressed to Agent and Lenders from such accountants stating that such accountants have been informed that a primary intent of Borrowers was to have the professional services such accountants provided to Borrowers in preparing their audit report and the letter referred to in this subsection 5.1(C) benefit or influence Agent and Lenders, and identifying Agent and Lenders as parties that Borrowers have indicated intend to rely on such professional services provided to Borrowers by such accountants. Promptly upon receipt thereof, Borrowers will deliver copies of all significant reports submitted to Borrowers by independent public accountants in connection with each annual, interim or special audit of the financial statements of Borrowers made by such accountants, including the comment letter submitted by such accountants to management in connection with their annual audit.

(D) Compliance Certificate. Together with the delivery of each set of financial statements referenced in subparts (A) and (B) of this subsection 5.1, Borrowers will deliver an officer's certificate as to Borrower's compliance or noncompliance as at the date of such financial statements with the financial covenants set forth in Section 6.

(E) Borrowing Base Certificates, Registers and Journals. On each Tuesday (or, if such day is not a Business Day, the immediately following Business Day), Borrowers shall deliver to Agent for the week ending the previous Saturday (1) a Borrowing Base Certificate updated to reflect the most recent sales and collections of Borrowers and an assignment schedule of all

Accounts created by Borrowers; (2) an invoice register or sales journal describing all sales of Borrowers for such week in form and substance satisfactory to Agent, and, if Agent so requests, copies of invoices evidencing such sales and proofs of delivery relating thereto; and (3) a cash receipts journal for such week.

(F) Reconciliation Reports, Inventory Reports and Listings and Agings. On the Closing Date and within twenty (20) Business Days after the last day of each month and from time to time upon the request of Agent, Borrowers will deliver to Agent: (1) an aged trial balance of all then existing Accounts as of the last day of such period; and (2) an Inventory Report as of the last day of such period. As soon as available and in any event within twenty (20) Business Days after the last day of each month, and from time to time upon the request of Agent, Borrowers will deliver to Agent: (1) a Reconciliation Report as at the last day of such period; (2) an aged trial balance of all then existing accounts payable as of the last day of such period; provided that during the first Loan Year such aged trial balance need only list accounts payable of Borrowers' five largest vendors; and (3) a detailed inventory listing and cover summary report as of the last day of such period. All such reports shall be in form and substance satisfactory to Agent.

(G) Management Report. After the end of each Fiscal Quarter through the first anniversary of the Closing Date and, thereafter, together with each delivery of financial statements of Borrowers and their Subsidiaries pursuant to subdivisions (A) and (B) of this subsection 5.1, Borrowers will deliver a management report: (1) describing the operations and financial condition of Borrowers and their Subsidiaries for the month then ended and the portion of the current Fiscal Year then elapsed (or for the Fiscal Year then ended in the case of year-end financials); (2) setting forth in comparative form the corresponding figures for the corresponding periods of the previous Fiscal Year and the corresponding figures from the most recent Projections for the current Fiscal Year delivered to Lenders pursuant to 5.1(P); and (3) discussing the reasons for any significant variations. The information above shall be presented in reasonable detail and shall be certified by the chief financial officer of each Borrower to the effect that such information fairly presents the results of operations and financial condition of Borrowers and their Subsidiaries as at the dates and for the periods indicated.

(H) Appraisals. From time to time, upon the request of Agent, but no more frequently than once during any consecutive 24 month period (except following the occurrence and during the continuation of an Event of Default), Borrowers will obtain and deliver to Agent, at Borrowers' expense, appraisal reports in form and substance and from appraisers satisfactory to Agent, stating the then current fair market and orderly liquidation values of all or any portion of the Inventory.

(I) Government Notices. Borrowers will deliver to Agent promptly after receipt copies of all notices, requests, subpoenas, inquiries or other writings received from any governmental agency concerning the violation or alleged violation of, or default under any Employee Benefit Plan, the violation or alleged violation of any Environmental Laws, the storage, use or disposal of any Hazardous Material, the violation or alleged violation of the Fair Labor Standards Act or Borrowers' payment or non-payment of any taxes including any tax audit.

(J) Events of Default, etc. Promptly upon any officer of Borrowers obtaining knowledge of any of the following events or conditions, Borrowers shall deliver a certificate of each Borrower's president, chief executive officer specifying the nature and period of existence of such condition or event and what action such Borrower has taken, is taking and proposes to take with respect thereto: (1) any condition or event that constitutes an Event of Default or Default; (2) any notice of default that any Person has given to any Borrower or any of such Borrower's Subsidiaries or any other action taken with respect to a claimed default; or (3) any Material Adverse Effect.

(K) Trade Names. Borrowers will give Agent at least thirty (30) days advance written notice of any change of name or of any new trade name or

fictitious business name. Borrowers' use of any trade name or fictitious business name will be in compliance with all laws regarding the use of such names.

(L) Locations. Borrowers will give Agent at least thirty (30) days advance written notice of any change in any Borrower's principal place of business or any change in the location of its books and records or the Collateral or of any new location for its books and records or the Collateral.

(M) Bank Accounts. Borrowers will give Agent prompt notice of any new bank accounts any Borrower or any of such Borrower's Subsidiaries intends to establish prior to its opening same.

(N) Litigation. Promptly upon any officer of any Borrower obtaining knowledge of (1) the institution of any action, suit, proceeding, governmental investigation or arbitration against or affecting any Loan Party or any property of any Loan Party not previously disclosed by Borrowers to Agent or (2) any material development in any action, suit, proceeding, governmental investigation or arbitration at any time pending against or affecting any Loan Party or any property of any Loan Party which is reasonably likely to have a Material Adverse Effect, Borrowers will promptly give notice thereof to Agent and provide such other information as may be reasonably available to them to enable Agent and its counsel to evaluate such matter.

(O) Projections. As soon as available and in any event no later than thirty (30) days prior to the end of each Fiscal Year of Borrowers, Borrowers will deliver consolidated Projections of Borrower and their Subsidiaries for the forthcoming three Fiscal Years, year by year, and for the forthcoming Fiscal Year, month by month.

(P) Subordinated Debt and Other Indebtedness Notices. Borrowers shall promptly deliver copies of all notices given or received by any Borrower and any Subsidiary with respect to noncompliance with any term or condition related to any Subordinated Debt and other Indebtedness, and shall promptly notify Lenders and Agent of any potential or actual event of default with respect to any Subordinated Debt or other Indebtedness.

(Q) Other Information. With reasonable promptness, Borrowers will deliver such other information and data with respect to any Loan Party, any Subsidiary of any Loan Party or the Collateral as Agent or any Lender may reasonably request from time to time.

(R) Opening Balance Sheet. As soon as available and in any event within ninety (90) days after the Closing Date, Borrowers will deliver an unaudited consolidated Closing Date balance sheet prepared by an officer of each Borrower.

5.2. Access to Accountants. Each Borrower authorizes Agent and Lenders to discuss the financial condition and financial statements of each Borrower and its Subsidiaries with such Borrower's independent public accountants upon reasonable notice to such Borrower of its intention to do so, and authorizes such accountants to respond to all of Agent's and Lenders' inquiries.

5.3. Inspection. Each Borrower shall permit Agent and any authorized representatives designated by Agent to visit and inspect any of the properties of any Borrower or any of such Borrower's Subsidiaries, including its financial and accounting records, and to make copies and take extracts therefrom, and to discuss its and affairs, finances and business with its officers and independent public accountants, at such reasonable times during normal business hours and as often as may be reasonably requested. Each Borrower acknowledges that Agent intends to make such inspections on at least a quarterly basis. Each Lender may with the consent of Agent, which will not be unreasonably denied, accompany Agent on any such visit or inspection.

5.4. Collateral Records. Each Borrower shall keep full and accurate books and records relating to the Collateral and shall mark such books and records to indicate Agent's security interests in the Collateral, for the benefit of Lenders.

5.5. Account Covenants; Verification. Each Borrower shall, at its own expense: (a) at the request of Agent, cause all invoices evidencing Accounts and all copies thereof to bear a notice that such invoices are payable to the lockboxes established in accordance with subsection 5.6 and (b) use its best efforts to assure prompt payment of all amounts due or to become due under the Accounts. Except to the extent provided in the ordinary course of each Borrower's business consistent with past practices, no discounts, credits or allowances will be issued, granted or allowed by any Borrower to customers and no returns will be accepted without Agent's prior written consent; provided, that until Agent notifies such Borrower to the contrary, Borrower may presume consent. Borrower will immediately notify Agent in the event that a customer alleges any dispute or claim with respect to an Account or of any other circumstances known to any Borrower that may impair the validity or collectibility of an Account having a value equal to or in excess of \$10,000. Agent shall have the right, at any time or times hereafter, to verify the validity, amount or any other matter relating to an Account, by mail, telephone or in person. After the occurrence of a Default or an Event of Default, no Borrower shall, without the prior consent of Agent, adjust, settle or compromise the amount or payment of any Account, or release wholly or partly any customer or obligor thereof, or allow any credit or discount thereon.

5.6. Collection of Accounts and Payments. Each Borrower shall establish (a) at the option of Agent, lockboxes and (b) depository accounts (collectively, "Depository Accounts") in such Borrower's name with the applicable banks or the financial institutions listed on Schedule 4.20 and such other financial institutions of which the Agent may be notified in writing by the Borrowing Agent from time to time (each a "Depository Bank"), to which all account debtors shall be instructed directly remit all payments on Accounts. Unless deposited directly into a Depository Account, Borrowers will promptly deposit all payments made for Inventory or other payments constituting proceeds of Collateral in the identical form in which such payment was made, whether by cash or check. Borrowers shall cause each Depository Bank to transfer via ACH transfer, on a daily basis, all funds on deposit in each Depository Account (other than a retained balance in the ordinary course of business consistent with past practice) to Agent's Account. Borrowers hereby agree that all payments received by Agent, whether by cash, check, wire transfer or any other instrument, made to such Agent's Account or otherwise received by Agent and whether on the Accounts or as proceeds of other Collateral or otherwise will be the sole and exclusive property of Agent, for the benefit of Lenders. Borrowers shall irrevocably instruct each Depository Bank to promptly transfer all payments or deposits to Depository Accounts into Agent's Account (other than a retained balance in the ordinary course of business consistent with past practice). Borrowers, and any of their Affiliates, employees, agents or other Persons acting for or in concert with Borrowers, shall, acting as trustee for Agent, receive, as the sole and exclusive property of Agent, any monies, checks, notes, drafts or any other payments relating to and/or proceeds of Accounts or other Collateral which come into the possession or under the control of any Borrower or any of Borrower's Affiliates, employees, agents or other Persons acting for or in concert with Borrowers, and immediately upon receipt thereof, Borrowers or such Persons shall remit the same or cause the same to be remitted, in kind, to Agent's account.

5.7. Endorsement. Borrowers hereby constitute and appoint Agent and all Persons designated by Agent for that purpose as Borrowers' true and lawful attorney-in-fact, with power to endorse Borrowers' name to any of the items of payment or proceeds described in subsection 5.6 above and all proceeds of Collateral that come into Agent's possession or under Agent's control. Both the appointment of Agent as Borrowers' attorney and Agent's rights and powers are coupled with an interest and are irrevocable until payment in full and complete performance of all of the Obligations.

5.8. Corporate Existence. Borrowers will, and will cause each Subsidiary to, at all times preserve and keep in full force and effect its corporate existence and all rights and franchises material to its business. Borrowers will promptly notify Agent of any change in its or a Subsidiary's

ownership or corporate structure.

5.9. Payment of Taxes. Borrowers will, and will cause each of its Subsidiaries to, pay all taxes, assessments and other governmental charges imposed upon it or any of its properties or assets or with respect to any of its franchises, business, income or property before any penalty accrues thereon provided that no such tax need be paid if Borrower or a Subsidiary is contesting same in good faith by appropriate proceedings promptly instituted and diligently conducted and if Borrower or a Subsidiary has established appropriate reserves as shall be required in conformity with GAAP.

5.10. Maintenance of Properties; Insurance. Borrowers will maintain or cause to be maintained in good repair (reasonable wear and tear excepted), working order and condition all material properties used in the business of Borrowers and their Subsidiaries and will make or cause to be made all appropriate repairs, renewals and replacements thereof. Borrowers will maintain or cause to be maintained, with financially sound and reputable insurers, public liability and property damage insurance with respect to its business and properties against loss or damage of the kinds customarily carried or maintained by corporations of established reputation engaged in similar businesses and in amounts acceptable to Agent. Borrowers shall cause Agent, for the benefit of Lenders, to be named as loss payee on all insurance policies relating to any Collateral and as additional insured under all liability policies, in each case pursuant to appropriate endorsements in form and substance satisfactory to Agent and shall collaterally assign to Agent, for the benefit of Lenders, as security for the payment of the Obligations all business interruption insurance of Borrowers. Borrowers shall apply any proceeds received from any policies of insurance relating to any Collateral to the Obligations as set forth in subsection 2.4(B).

5.11. Compliance with Laws. Borrowers will, and will cause each Subsidiaries to, comply with the requirements of all applicable laws, rules, regulations and orders of any governmental authority as now in effect and which may be imposed in the future in all jurisdictions in which any Borrower or any of such Borrower's Subsidiaries is now doing business or may hereafter be doing business, other than those laws the noncompliance with which would not have a Material Adverse Effect.

5.12. Further Assurances. Borrowers shall, and shall cause each Subsidiary to, from time to time, execute such guaranties, financing or continuation statements, documents, security agreements, reports and other documents or deliver to Agent such instruments, certificates of title or other documents as Agent at any time may reasonably request to evidence, perfect or otherwise implement the guaranties and security for repayment of the Obligations provided for in the Loan Documents. At Agent's request, Borrowers shall cause any Subsidiary promptly to guaranty the Obligations and to grant to Agent, on behalf of Lenders, security interests in the same type of property of such Subsidiary as currently constitutes "Collateral" under this Agreement to secure the Obligations.

5.13. Collateral Locations. Borrowers will keep the Collateral at the locations specified on Schedule 4.7. With respect to any new location (which in any event shall be within the continental United States), Borrowers will execute such documents and take such actions as Agent deems necessary to perfect and protect the security interests of the Agent, on behalf of Lenders, in the Collateral prior to the transfer or removal of any Collateral to such new location.

5.14. Bailees. If any Collateral is at any time in the possession or control of any warehouseman, bailee or any of Borrowers' agents or processors, Borrowers shall, upon the request of Lenders, notify such warehouseman, bailee, agent or processor of the security interests in favor of Agent, for the benefit of Lenders, created hereby and shall instruct such Person to hold all such Collateral for Agent's account subject to Agent's instructions.

5.15. Use of Proceeds and Margin Security. Borrowers shall use the proceeds of all Loans for proper business purposes (as described in the recitals to this Agreement) consistent with all applicable laws, statutes,

rules and regulations. No portion of the proceeds of any Loan shall be used by any Borrower or any of such Borrower's Subsidiaries for the purpose of purchasing or carrying margin stock within the meaning of Regulation G or Regulation U, or in any manner that might cause the borrowing or the application of such proceeds to violate Regulation T or Regulation X or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Exchange Act.

SECTION 6. FINANCIAL COVENANTS

Each Borrower covenants and agrees that so long as any of the Commitments remain in effect and until payment in full of all Obligations and termination of all Lender Letters of Credit, unless such Borrower has received the prior written consent of Requisite Lenders, such Borrower shall comply with all covenants in this Section 6.

6.1. Tangible Net Worth. Borrowers shall maintain Tangible Net Worth of at least the amounts set forth below at the end of each Fiscal Year set forth below.

| Fiscal Year Ending On<br>or About January 31 | Amount         |
|--|----------------|
| 1997   | \$ (9,000,000) |
| 1998   | \$ (7,500,000) |
| 1999   | \$ (6,000,000) |
| 2000   | \$ (4,500,000) |

6.2. Minimum EBITDA. (a) If Borrower's Calculated Fixed Charge Coverage as at the end of any of the periods set forth below is less than .85 to 1, then Borrowers shall be required to achieve EBITDA as at the end of each such period of at least the amounts set forth below.

| Period of Fiscal Quarters                                      | Amount      |
|--|-------------|
| On or about November 1, 1995 - on or about<br>January 31, 1996 | \$1,900,000 |
| On or about November 1, 1995 - on or about<br>April 30, 1996   | \$3,800,000 |
| On or about November 1, 1995 - on or about<br>July 31, 1996    | \$5,500,000 |

(b) Borrowers shall achieve EBITDA as at the end of each of the Fiscal Years set forth below of at least the amounts set forth below.

| Fiscal Year Ending On<br>or About January 31 | Amount       |
|--|--------------|
| 1997   | \$8,000,000  |
| 1998   | \$9,000,000  |
| 1999   | \$10,000,000 |
| 2000   | \$11,000,000 |

6.3. Capital Expenditure Limits. The aggregate amount of all Capital Expenditures of Borrowers and their Subsidiaries (excluding (i) trade-ins and (ii) Capital Expenditures in respect of replacement assets to the extent funded with casualty insurance proceeds will not exceed the amount set forth below for each period set forth below. In the event that any Borrower or any of such Borrower's Subsidiaries enters into a Capital Lease with respect to fixed assets, for purposes of calculating Capital Expenditures under this subsection only, the amount of the Capital Lease initially capitalized on Borrowers' or any Subsidiary's balance sheet prepared in accordance with GAAP shall be considered expended in full on the date that any Borrower or any of such Borrower's Subsidiaries enters into such Capital Lease. Permitted Capital Expenditures not made in any Fiscal Year may be carried over for one year only to the next Fiscal Year provided, however, any carried-over Capital Expenditure will be deemed used only after all otherwise Permitted Capital Expenditures for that Fiscal Year have been used.

| Fiscal Year | Amount |
|-------------|--------|
|-------------|--------|

|      |              |
|------|--------------|
| 1996 | \$8,000,000  |
| 1997 | \$5,400,000  |
| 1998 | \$7,000,000  |
| 1999 | \$9,400,000  |
| 2000 | \$11,500,000 |
| 2001 | \$10,900,000 |

6.4. Fixed Charge Coverage. Borrowers shall not permit its Fixed Charge Coverage as at the end of any period set forth below to be less than the amount set forth below for such period. For purposes of calculating Fixed Charge Coverage for any period, the effect of the payment of up to (i) (a) \$2,500,000 of the Saunders Subordinated Bridge Note and (b) \$500,000 of the Anderson Subordinated Bridge Note to the extent of the proceeds received from the Real Property Financing, (ii) \$850,000 of the Anderson Subordinated Bridge in connection with the conveyance of the Existing Facility and (iii) Capital Expenditures not to exceed \$1,600,000 in the aggregate incurred in connection with the construction of the New Distribution Facility ("Calculated Fixed Charge Coverage"), shall be excluded to the extent paid in the applicable period.

| Period of Fiscal Quarters                                   | Ratio For Period |
|---|------------------|
| On or about November 1, 1995 - on or about January 31, 1996 | .7 to 1          |
| On or about November 1, 1995 - on or about April 30, 1996   | .7 to 1          |
| On or about November 1, 1995 - on or about July 31, 1996    | .7 to 1          |
| Rolling Four Fiscal Quarters Ending On or About             |                  |
| October 31, 1996  | .85 to 1         |
| January 31, 1997  | .85 to 1         |
| April 30, 1997  | .85 to 1         |
| July 31, 1997   | .85 to 1         |
| October 31, 1997  | .85 to 1         |
| January 31, 1998  | .90 to 1         |
| April 30, 1998  | .90 to 1         |
| July 31, 1998   | .90 to 1         |
| October 31, 1998  | .90 to 1         |
| January 31, 1999  | 1.00 to 1        |
| April 30, 1999  | 1.00 to 1        |
| July 31, 1999   | 1.00 to 1        |
| October 31, 1999  | 1.00 to 1        |
| January 31, 2000  | 1.10 to 1        |
| April 30, 2000  | 1.10 to 1        |
| July 31, 2000   | 1.10 to 1        |
| October 31, 2000  | 1.10 to 1        |

6.5. Interest Coverage. Borrowers shall not permit Interest Coverage for any Fiscal Year to be less than the amount set forth below for such Fiscal Year.

| Fiscal Year Ending On or About January 31 | Ratio     |
|---|-----------|
| 1997                                      | 1.2 to 1  |
| 1998                                      | 1.25 to 1 |
| 1999                                      | 1.30 to 1 |
| 2000                                      | 1.35 to 1 |

6.6. Leverage. At no time during the Fiscal Years set forth below shall the ratio of (i) Consolidated Total Debt (as defined in the Subordinated Notes) at such time to (ii) EBITDA (as defined in the Subordinated Notes) for the four fiscal quarters of Hibbett then most recently ended (considered as a single accounting period), exceed the ratio set forth below opposite such



Fiscal Year:

| Fiscal Year Ending On<br>or About January 31 | Ratio   |
|--|---------|
| 1996   | 5.5:1.0 |
| 1997   | 5.5:1.0 |
| 1998   | 5.0:1.0 |
| 1999   | 5.0:1.0 |
| 2000 and thereafter                          | 4.5:1.0 |

6.7. Consolidated Fixed Charge Ratio. As of the last day of any Fiscal Quarter of Hibbett, the Consolidated Fixed Charge Ratio (as defined in the Subordinated Notes) of Hibbett will not be less than the applicable ratio set forth below.

| As of any such day on or prior<br>to January 31 (or such other<br>date as is the last day of the<br>Fiscal Year in question) of: | Ratio   |
|--|---------|
| 1996   | 1.2:1.0 |
| 1997   | 1.2:1.0 |
| 1998   | 1.2:1.0 |
| 1999   | 1.3:1.0 |
| 2000 and thereafter  | 1.4:1.0 |

#### SECTION 7. NEGATIVE COVENANTS

Each Borrower covenants and agrees that so long as any of the Commitments remain in effect and until payment in full of all Obligations and termination of all Lender Letters of Credit, unless such Borrower has received the prior written consent of Requisite Lenders, such Borrower shall not and will not permit any Subsidiary to:

7.1. Indebtedness and Liabilities. Directly or indirectly create, incur, assume, guaranty, or otherwise become or remain directly or indirectly liable, on a fixed or contingent basis, with respect to any Indebtedness except: (a) the Obligations; (b) intercompany Indebtedness, not to exceed \$100,000 outstanding at any time in the aggregate, among any Borrower and a Subsidiary; provided that such Indebtedness is subordinated in right of payment to the Obligations; (c) Indebtedness (excluding capital leases) not to exceed \$250,000 in the aggregate at any time outstanding secured by purchase money Liens; (d) Indebtedness under Capital Leases not to exceed \$250,000 outstanding at any time in the aggregate; (e) Indebtedness incurred in connection with the Real Property Financing not to exceed \$5,000,000 in the aggregate at any time outstanding and which will be secured solely by the New Distribution Facility, (f) Subordinated Debt and (g) Indebtedness existing on the Closing Date and identified on Schedule 1.1(B) and any refinancing thereof which does not increase the aggregate outstanding indebtedness set forth on Schedule 1.1(B). Except for Indebtedness described permitted in the preceding sentence, Borrowers will not, and will not permit any Subsidiaries to, incur any Liabilities in excess of \$500,000 in the aggregate that remain unpaid or unsatisfied more than 30 days when due at any time except for trade payables and normal accruals in the ordinary course of business not yet due and payable or with respect to which any Borrower or any of such Borrower's Subsidiaries is contesting in good faith the amount or validity thereof by appropriate proceedings and then only to the extent that any Borrower or any of such Borrower's Subsidiaries has established adequate reserves therefor, if appropriate under GAAP.

7.2. Guaranties. Except for endorsements of instruments or items of payment for collection in the ordinary course of business and the subordinated guaranties of Team Sales and Guarantor in favor of the holders of Subordinated Debt, guaranty, endorse, or otherwise in any way become or be responsible for any obligations of any other Person, whether directly or indirectly by

agreement to purchase the indebtedness of any other Person or through the purchase of goods, supplies or services, or maintenance of working capital or other balance sheet covenants or conditions, or by way of stock purchase, capital contribution, advance or loan for the purpose of paying or discharging any indebtedness or obligation of such other Person or otherwise.

### 7.3. Transfers, Liens and Related Matters.

(A) Transfers. Sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to any of the Collateral or the assets of such Person, except that Borrowers and their Subsidiaries may (i) sell inventory in the ordinary course of business; (ii) make Asset Dispositions if all of the following conditions are met: (1) the market value of assets sold or otherwise disposed of in any single transaction or series of related transactions does not exceed \$50,000 and the aggregate market value of assets sold or otherwise disposed of in any Fiscal Year does not exceed \$250,000; (2) the consideration received is at least equal to the fair market value of such assets; (3) the sole consideration received is cash; (4) the net proceeds of such Asset Disposition are applied as required by subsection 2.4(B); (5) after giving effect to the sale or other disposition of the assets included within the Asset Disposition and the repayment of the Obligations with the proceeds thereof, each Borrower is in compliance on a pro forma basis with the covenants set forth in Section 6 recomputed for the most recently ended month for which information is available and is in compliance with all other terms and conditions contained in this Agreement; and (6) no Default or Event of Default shall result from such sale or other disposition and (iii) sell the Existing Facility to the Anderson Group in conjunction with the completion of the New Distribution Facility (so long as the proceeds are applied as partial payment of the Anderson Subordinated Bridge Loan) or transfer, by way of sale or Sale Leaseback Transaction, the New Distribution Facility in connection with a Real Property Financing.

(B) Liens. Except for Permitted Encumbrances, directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to any of the Collateral or the assets of such Person or any proceeds, income or profits therefrom.

(C) No Negative Pledges. Other than as set forth in the Loan Documents, the Subordinated Notes, the Bridge Notes or documentation relating to any Permitted Lien or Capital Lease or purchase money debt permitted by Section 7.1 enter into or assume any agreement prohibiting the creation or assumption of any Lien upon its properties or assets, whether now owned or hereafter acquired.

7.4. Investments and Loans. Make or permit to exist (other than investments in Subsidiaries existing as of the Closing Date) investments in or loans to any other Person, except: (a) Cash Equivalents; (b) loans and advances to employees for moving, entertainment, travel and other similar expenses in the ordinary course of business in an aggregate outstanding amount not in excess of \$100,000 at any time, (c) loans by one Borrower in another Borrower not to exceed \$1,000,000 in the aggregate per Fiscal Year and (d) loans by any Borrower to Guarantor not to exceed \$50,000 in the aggregate per Fiscal Year.

7.5. Restricted Junior Payments. Directly or indirectly declare, order, pay, make or set apart any sum for any Restricted Junior Payment, except that: (a) Subsidiaries of each Borrower (including Hibbett Team with respect to Hibbett) may make Restricted Junior Payments with respect to their common stock to the extent necessary to permit such Borrower to pay the Obligations, to make Restricted Junior Payments permitted under clause (b) below and to permit Borrowers to pay expenses incurred in the ordinary course of business; (b) Borrowers may make payments on the Subordinated Debt (including any voluntary prepayments in connection with an Initial Public Offering contemplated therein) in accordance with the terms of the Subordinated Notes and the Bridge Loan Documentation; (c) Borrowers may make a cash payment to one or more members of Anderson Group in the sum of \$22,250,000 pursuant to the Purchase and Redemption Agreement, (d) in the absence of an Event of Default which is continuing, Borrowers may pay a fee to

Saunders not to exceed \$200,000 in the aggregate per Fiscal Year and (e) in the absence of an Event of Default which is continuing, Borrowers may pay such amounts as are required to permit Borrowers to buy out employee stock options pursuant to the Borrowers' stock option plan or to cash out options in connection with the death or discharge of employees; provided, however that after giving effect to such buy out or cash out (i) no Event of Default shall have occurred and (ii) Borrowers shall have Excess Availability of at least \$3,000,000.

7.6. Restriction on Fundamental Changes. (a) Enter into any transaction of merger or consolidation; (b) liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution); (c) convey, sell, lease, sublease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its business or assets, or the capital stock of any of its Subsidiaries, whether now owned or hereafter acquired; or (d) acquire by purchase or otherwise all or any substantial part of the business or assets of, or stock or other evidence of beneficial ownership of, any Person.

7.7. Changes Relating to Subordinated Debt. Change or amend the terms of the Subordinated Debt if the effect of such amendment is to: (a) increase the interest rate on such Indebtedness; (b) change the dates upon which payments of principal or interest are due on such Indebtedness; (c) change any event of default or add any covenant with respect to such Indebtedness; (d) change the payment provisions of such Indebtedness; (e) change the subordination provisions thereof; or (f) change or amend any other term if such change or amendment would materially increase the obligations of the obligor or confer additional material rights on the holder of such Indebtedness in a manner adverse to Borrowers, any Subsidiaries, Agent or any Lender.

7.8. Transactions with Affiliates. Directly or indirectly, enter into or permit to exist any transaction (including the purchase, sale or exchange of property or the rendering of any service) with any Affiliate or with any officer, director or employee of any Loan Party, except for transactions in the ordinary course of and pursuant to the reasonable requirements of Borrowers' business and upon fair and reasonable terms which are fully disclosed to Agent and Lenders and which are no less favorable to Borrowers than it would obtain in a comparable arm's length transaction with an unaffiliated Person and other than with respect to agreements listed on Schedule 7.8 hereto and any payments permitted under Section 7.5 hereof.

7.9. Environmental Liabilities. (a) Violate any applicable Environmental Law the effect of which could reasonably be expected to have a Material Adverse Effect; (b) dispose of any Hazardous Materials (except in accordance with applicable law) into or onto or from, any real property owned, leased or operated by any Loan Party; or (c) permit any Lien imposed pursuant to any Environmental Law to be imposed or to remain on any real property owned, leased or operated by any Loan Party.

7.10. Conduct of Business. From and after the Closing Date, engage in any business other than businesses of the type engaged in by Borrowers on the Closing Date.

7.11. Compliance with ERISA. Establish any new Employee Benefit Plan or amend any existing Employee Benefit Plan if the liability or increased liability resulting from such establishment or amendment is material. Neither Borrowers nor any Subsidiary shall fail to establish, maintain and operate each Employee Benefit Plan in compliance in all material respects with the provisions of ERISA, the IRC and all other applicable laws and the regulations and interpretations thereof.

7.12. Tax Consolidations. File or consent to the filing of any consolidated income tax return with any Person other than with the any other Borrower or any of its or the other Borrower's Subsidiaries.

7.13. Subsidiaries. Establish, create or acquire any new Subsidiaries.

7.14. Fiscal Year. Change its Fiscal Year.

7.15. Press Release; Public Offering Materials. Disclose the name of Agent or any Lender in any press release or in any prospectus, proxy statement or other materials filed with any governmental entity relating to a public offering of the capital stock of any Loan Party except as may be required by law.

7.16. Bank Accounts. Establish any new bank accounts, or amend or terminate any Depository Account or lockbox agreement unless established in accordance with section 5.6 hereof and Agent is given prompt notice thereof.

7.17. Capital Commitments. Enter into any Capital Commitments in any month following a month (the "Control Month") during which the Average Excess Availability for the Control Month was less than \$1,000,000.

## SECTION 8. DEFAULT, RIGHTS AND REMEDIES

8.1. Event of Default. "Event of Default" shall mean the occurrence or existence of any one or more of the following:

(A) Payment. Failure to make payment of any of the Obligations when due and in the case of interest, such failure shall not be cured within five (5) days of the applicable due date; or

(B) Default in Other Agreements. (1) Failure of any Borrower or any of such Borrower's Subsidiaries to pay when due any principal or interest on any Indebtedness (other than the Obligations), (2) breach or default of any Borrower or any of such Borrower's Subsidiaries with respect to any Indebtedness (other than the Obligations); if such failure to pay, breach or default entitles the holder to cause such Indebtedness having an individual principal amount in excess of \$100,000 or having an aggregate principal amount in excess of \$250,000 to become or be declared due prior to its stated maturity or (3) an event of default has occurred under the Subordinated Note or the Purchase and Redemption Agreement; or

(C) Breach of Certain Provisions. Failure of Borrowers to perform or comply with any term or condition contained in subsections 5.1 (A), (B) and (R), 5.3, 5.5 or 5.6 or contained in Section 6 or Section 7; provided, however, in the event Borrowers fail to comply with the Fixed Charge Coverage covenant set forth in Section 6.4 as of any Testing Date, Borrowers shall not be deemed to be in Default during the period commencing as of such Testing Date through the day immediately preceding the date of the next Testing Date (the "Forbearance Period"), solely with respect to such failure of compliance, but only for so long as Average Excess Availability for the last month prior to the first month of any such Forbearance Period and for each month during such Forbearance Period is not less than \$1,000,000. Borrowers shall not be entitled to have successive Forbearance Periods; or

(D) Breach of Warranty. Any representation, warranty, certification or other statement made by any Loan Party in any Loan Document or in any statement or certificate at any time given by such Person in writing pursuant or in connection with any Loan Document is false in any material respect on the date made; or

(E) Other Defaults Under Loan Documents. Borrowers or any other Loan Party defaults in the performance of or compliance with any term contained in this Agreement or the other Loan Documents and such default is not remedied or waived within ten (10) days after receipt by Borrowers of notice from Agent, or Requisite Lenders of such default (other than occurrences described in other provisions of this subsection 8.1 for which a different grace or cure period is specified or which constitute immediate Events of Default); or

(F) Change in Control. (1) Saunders ceases to beneficially own and control, directly or indirectly, at least fifty-one percent (51%) of the issued and outstanding shares of each class of capital stock of Hibbett

entitled (without regard to the occurrence of any contingency) to vote for the election of a majority of the members of the board of directors of Hibbett, or (2) Hibbett ceases to beneficially own and control at least one hundred percent (100%) of the issued and outstanding shares of each class of capital stock of Hibbett Team and Guarantor or (3) the Subordinated Notes held by a Fund or the Saunders Subordinated Bridge Loan Documentation are transferred contrary to the terms thereof; or

(G) Involuntary Bankruptcy; Appointment of Receiver, etc. (1) A court enters a decree or order for relief with respect to any Borrower or Guarantor in an involuntary case under the Bankruptcy Code or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, which decree or order is not stayed or other similar relief is not granted under any applicable federal or state law; or (2) the continuance of any of the following events for sixty (60) days unless dismissed, bonded or discharged: (a) an involuntary case is commenced against any Borrower, under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect; or (b) a decree or order of a court for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over any Borrower, or over all or a substantial part of their respective property, is entered; or (c) an interim receiver, trustee or other custodian is appointed without the consent of a Borrower, for all or a substantial part of the property of any Borrower; or

(H) Voluntary Bankruptcy; Appointment of Receiver, etc. (1) An order for relief is entered with respect to any Borrower or any Borrower commences a voluntary case under the Bankruptcy Code or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case or to the conversion of an involuntary case to a voluntary case under any such law or consents to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; or (2) any Borrower makes any assignment for the benefit of creditors; or (3) the board of directors of any Borrower adopts any resolution or otherwise authorizes action to approve any of the actions referred to in this subsection 8.1(H); or

(I) Liens. Any lien, levy or assessment is filed or recorded with respect to or otherwise imposed upon all or any part of the Collateral or the assets of any Borrower or any of such Borrower's Subsidiaries by the United States or any department or instrumentality thereof or by any state, county, municipality or other governmental agency (other than Permitted Encumbrances) and such lien, levy or assessment is not stayed, vacated, paid or discharged within ten (10) days; or

(J) Judgment and Attachments. Any money judgment, writ or warrant of attachment, or similar process involving (1) an amount in any individual case in excess of \$100,000 or (2) an amount in the aggregate at any time in excess of \$250,000 (in either case not adequately covered by insurance as to which the insurance company has acknowledged coverage) is entered or filed against any Borrower or any of such Borrower's Subsidiaries or any of their respective assets and remains undischarged, unvacated, unbonded or unstayed for a period of thirty (30) days or in any event later than five (5) days prior to the date of any proposed sale thereunder; or

(K) Dissolution. Any order, judgment or decree is entered against any Borrower or any of such Borrower's Subsidiaries decreeing the dissolution or split up of Borrower or that Subsidiary and such order remains undischarged or unstayed for a period in excess of twenty (20) days; or

(L) Solvency. Any Borrower admits in writing its present or prospective inability to pay its debts as they become due; or

(M) Injunction. Any Borrower or any of such Borrower's Subsidiaries is enjoined, restrained or in any way prevented by the order of any court or any administrative or regulatory agency from conducting all or any material part of its business and such order continues for more than thirty (30) days; or

(N) Invalidity of Loan Documents. Any of the Loan Documents for any reason, other than a partial or full release in accordance with the terms thereof, ceases to be in full force and effect or is declared to be null and void, or any Loan Party denies that it has any further liability under any Loan Documents to which it is party, or gives notice to such effect; or

(O) Failure of Security. Agent, on behalf of Lenders, does not have or ceases to have a valid and perfected first priority security interest in the Collateral (subject to Permitted Encumbrances), in each case, for any reason other than the failure of Agent or any Lender to take any action within its control; or

(P) Damage, Strike, Casualty. Any material damage to, or loss, theft or destruction of, any Collateral, whether or not insured, or any strike, lockout, labor dispute, embargo, condemnation, act of God or public enemy, or other casualty which causes, for more than fifteen (15) consecutive days beyond the coverage period of any applicable business interruption insurance, the cessation or substantial curtailment of revenue producing activities at any facility of any Borrower or any of such Borrower's Subsidiaries if any such event or circumstance could reasonably be expected to have a Material Adverse Effect.

(Q) Licenses and Permits. The loss, suspension or revocation of, or failure to renew, any license or permit not held or hereafter acquired by any Borrower or any of such Borrower's Subsidiaries, if such loss, suspension, revocation or failure to renew could have a Material Adverse Effect.

(R) Forfeiture. There is filed against any Borrower any civil or criminal action, suit or proceeding under any federal or state racketeering statute (including, without limitation, the Racketeer Influenced and Corrupt Organization Act of 1970), which action, suit or proceeding (1) is not dismissed within one hundred twenty (120) days; and (2) could result in the confiscation or forfeiture of any material portion of the Collateral.

8.2. Suspension of Commitments. Upon the occurrence of any Default or Event of Default, notwithstanding any grace period or right to cure, Agent may or upon demand by Requisite Lenders shall, without notice or demand, immediately cease making additional Loans and the Commitments shall be suspended; provided that, in the case of a Default, if the subject condition or event is waived or cured within any applicable grace or cure period, the Commitments shall be reinstated.

8.3. Acceleration. Upon the occurrence of any Event of Default described in the foregoing subsections 8.1(G) or 8.1(H), all Obligations shall automatically become immediately due and payable, without presentment, demand, protest or other requirements of any kind, all of which are hereby expressly waived by Borrowers, and the Commitments shall thereupon terminate. Upon the occurrence and during the continuance of any other Event of Default, Agent may, and upon demand by Requisite Lenders shall, by written notice to Borrowers, (a) declare all or any portion of the Obligations to be, and the same shall forthwith become, immediately due and payable and the Commitments shall thereupon terminate and (b) demand that Borrowers immediately deposit with Agent an amount equal to one hundred five percent (105%) of the Letter of Credit Reserve to enable Lender to make payments under the Lender Letters of Credit when required and such amount shall become immediately due and payable.

8.4. Remedies. If any Event of Default shall have occurred and be continuing, in addition to and not in limitation of any other rights or remedies available to Agent and Lenders at law or in equity, Agent may and shall upon the request of Requisite Lenders exercise in respect of the Collateral, in addition to all other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the UCC (whether or not the UCC applies to the affected Collateral) and may also (a) notify any or all obligors on the Accounts to make all payments directly to Agent; (b) require Borrowers to, and Borrowers hereby agree that they will, at their expense and upon request of Agent forthwith, assemble all or part of the Collateral as directed by Agent and

make it available to Agent at a place to be designated by Agent which is reasonably convenient to both parties; (c) withdraw all cash in the Depository Accounts and apply such monies in payment of the Obligations in the manner provided in subsection 8.7; (d) without notice or demand or legal process, enter upon any premises of Borrowers and take possession of the Collateral; and (e) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Agent's offices or elsewhere, at such time or times, for cash, on credit or for future delivery, and at such price or prices and upon such other terms as Agent may deem commercially reasonable. Borrowers agree that, to the extent notice of sale shall be required by law, at least ten (10) days notice to Borrowers of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. At any sale of the Collateral, if permitted by law, Agent or any Lender may bid (which bid may be, in whole or in part, in the form of cancellation of indebtedness) for the purchase of the Collateral or any portion thereof for the account of Agent or such Lender. Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Borrowers shall remain liable for any deficiency. Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. To the extent permitted by law, Borrowers hereby specifically waive all rights of redemption, stay or appraisal which it has or may have under any law now existing or hereafter enacted. Agent shall not be required to proceed against any Collateral but may proceed against Borrowers directly.

8.5. Appointment of Attorney-in-Fact. Borrowers hereby constitute and appoint Agent as Borrowers' attorney-in-fact with full authority in the place and stead of Borrowers and in the name of Borrowers, Agent or otherwise, from time to time in Agent's discretion while an Event of Default is continuing to take any action and to execute any instrument that Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including: (a) to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral; (b) to adjust, settle or compromise the amount or payment of any Account, or release wholly or partly any customer or obligor thereunder or allow any credit or discount thereon; (c) to receive, endorse, and collect any drafts or other instruments, documents and chattel paper, in connection with clause (a) above; (d) to file any claims or take any action or institute any proceedings that Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of Agent and Lenders with respect to any of the Collateral; and (e) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, assignments, verifications and notices in connection with Accounts and other documents relating to the Collateral. The appointment of Agent as Borrowers' attorney and Agent's rights and powers are coupled with an interest and are irrevocable until payment in full and complete performance of all of the Obligations.

8.6. Limitation on Duty of Agent with Respect to Collateral. Beyond the safe custody thereof, Agent and each Lender shall have no duty with respect to any Collateral in its possession or control (or in the possession or control of any agent or bailee) or with respect to any income thereon or the preservation of rights against prior parties or any other rights pertaining thereto. Agent shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which Agent accords its own property. Neither Agent nor any Lender shall be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any warehouseman, carrier, forwarding agency, consignee or other agent or bailee selected by Agent in good faith.

8.7. Application of Proceeds. Upon the occurrence and during the continuance of an Event of Default, (a) Borrowers irrevocably waive the right to direct the application of any and all payments at any time or times thereafter received by Agent from or on behalf of Borrowers, and Borrowers

hereby irrevocably agree that Agent shall have the continuing exclusive right to apply and to reapply any and all payments received at any time or times after the occurrence and during the continuance of an Event of Default against the Obligations in such manner as Agent may deem advisable notwithstanding any previous entry by Agent upon any books and records and (b) the proceeds of any sale of, or other realization upon, all or any part of the Collateral shall be applied: first, to all fees, costs and expenses incurred by Agent or any Lender with respect to this Agreement, the other Loan Documents or the Collateral; second, to all fees due and owing to Agent and Lenders; third, to accrued and unpaid interest on the Obligations; fourth, to the principal amounts of the Obligations outstanding; and fifth, to any other indebtedness or obligations of Borrowers owing to Agent or any Lender.

8.8. License of Intellectual Property. Borrowers hereby assign, transfer and convey to Agent, for the benefit Lenders, effective upon the occurrence of any Event of Default hereunder, the non-exclusive right and license to use all Intellectual Property owned or used by Borrowers together with any goodwill associated therewith, all to the extent necessary to enable Agent to realize on the Collateral and any successor or assign to enjoy the benefits of the Collateral. This right and license shall inure to the benefit of all successors, assigns and transferees of Agent and its successors, assigns and transferees, whether by voluntary conveyance, operation of law, assignment, transfer, foreclosure, deed in lieu of foreclosure or otherwise. Such right and license is granted free of charge, without requirement that any monetary payment whatsoever be made to Borrowers by Agent.

8.9. Waivers, Non-Exclusive Remedies. No failure on the part of Agent or any Lender to exercise, and no delay in exercising and no course of dealing with respect to, any right under this Agreement or the other Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise by Agent or any Lender of any right under this Agreement or any other Loan Document preclude any other or further exercise thereof or the exercise of any other right. The rights in this Agreement and the other Loan Documents are cumulative and are not exclusive of any other remedies provided by law.

## SECTION 9. ASSIGNMENT AND PARTICIPATION

### 9.1. Assignments and Participations in Loans.

(A) Each Lender may assign its rights and delegate its obligations under this Agreement to another Person; provided, that (a) such Lender shall first obtain the written consent of Agent and each Borrower, which shall not be unreasonably withheld, (b) the amount of Commitments and Loans of the assigning Lender being assigned shall in no event be less than the lesser of (i) \$5,000,000 or (ii) the entire amount of the Commitments and Loans of such assigning Lender and (c) (i) each such assignment shall be of a pro rata portion of all such assigning Lender's Loans and Commitments hereunder, and (ii) the parties to such assignment shall execute and deliver to Agent for acceptance and recording a Lender Addition Agreement together with (x) a processing and recording fee of \$2,500 payable to Agent and (y) the Notes originally delivered to the assigning Lender. Upon receipt of all of the foregoing, Borrowers shall comply with their obligations under the last sentence of subsection 2.1(E). In the case of an assignment authorized under this subsection 9.1, the assignee shall have, to the extent of such assignment, the same rights, benefits and obligations as it would if it were a Lender hereunder. The assigning Lender shall be relieved of its obligations hereunder with respect to its Commitment or assigned portion thereof. Borrowers hereby acknowledge and agree that any assignment will give rise to a direct obligation of Borrowers to the assignee and that the assignee shall be considered to be a "Lender".

(B) Each Lender may sell participations in all or any part of any Loans made by it to another Person; provided, that any such participation shall be in a minimum amount of \$5,000,000, and provided, further, that all amounts payable by Borrowers hereunder shall be determined as if that Lender had not sold such participation and the holder of any such participation shall not be entitled to require such Lender to take or omit to take any action



hereunder except action directly effecting (a) any reduction in the principal amount, interest rate or fees payable with respect to any Loan in which such holder participates; (b) any extension of the Expiry Date or the date fixed for any payment of principal interest or fees payable with respect to any Loan in which such holder participates; and (c) any release of substantially all of the Collateral (other than in accordance with the terms of this Agreement or the Loan Documents). Borrowers hereby acknowledge and agree that any participation will give rise to a direct obligation of Borrowers to the participant, and the participant shall for purposes of subsection 2.8, 2.9, 2.10, 9.4 and 11.2 be considered to be a "Lender".

(C) Except as otherwise provided in this subsection 9.1 no Lender shall, as between Borrowers and that Lender, be relieved of any of its obligations hereunder as a result of any sale, assignment, transfer or negotiation of, or granting of participation in, all or any part of the Loans or other Obligations owed to such Lender. Each Lender may furnish any information concerning Borrowers and their Subsidiaries in the possession of that Lender from time to time to assignees and participants (including prospective assignees and participants) provided that the Persons obtaining such information agrees to maintain the confidentiality of such information to the extent required by subsection 11.21.

(D) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time create a security interest in all or any portion of its rights under this Agreement (including, without limitation, the Loans owing to it and the Notes held by it in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System).

#### 9.2. Agent.

(A) Appointment. Each Lender hereby designates and appoints Heller as its agent under this Agreement and the Loan Documents, and each Lender hereby irrevocably authorizes Agent to take such action or to refrain from taking such action on its behalf under the provisions of this Agreement and the Loan Documents and to exercise such powers as are set forth herein or therein, together with such other powers as are reasonably incidental thereto. Agent is authorized and empowered to amend, modify, or waive any provisions of this Agreement or the other Loan Documents on behalf of Lenders subject to the requirement that certain of Lenders' consent be obtained in certain instances as provided in subsection 9.3. Agent agrees to act as such on the express conditions contained in this subsection 9.2. The provisions of this subsection 9.2 are solely for the benefit of Agent and Lenders and neither Borrowers nor any Loan Party shall have any rights as a third party beneficiary of any of the provisions hereof. In performing its functions and duties under this Agreement, Agent shall act solely as an administrative representative of Lenders and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for Lenders, Borrowers or any Loan Party. Agent may perform any of its duties hereunder, or under the Loan Documents, by or through its agents or employees.

(B) Nature of Duties. Agent shall have no duties, obligations or responsibilities except those expressly set forth in this Agreement or in the Loan Documents. The duties of Agent shall be mechanical and administrative in nature. Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Lender. Each Lender shall make its own independent investigation of the financial condition and affairs of Borrowers in connection with the extension of credit hereunder and shall make its own appraisal of the credit worthiness of Borrowers, and Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before the Closing Date or at any time or times thereafter. If Agent seeks the consent or approval of any Lenders to the taking or refraining from taking any action hereunder, then Agent shall send notice thereof to each Lender. Agent shall promptly notify each Lender any time that the applicable percentage of Lenders have instructed Agent to act or refrain from acting pursuant hereto.

(C) Rights, Exculpation, Etc. Neither Agent nor any of its officers, directors, employees or agents shall be liable to any Lender for any action taken or omitted by them hereunder or under any of the Loan Documents, or in connection herewith or therewith, except that Agent shall be obligated on the terms set forth herein for performance of its express obligations hereunder, and except that Agent shall be liable with respect to its own gross negligence or willful misconduct. Agent shall not be liable for any apportionment or distribution of payments made by it in good faith and if any such apportionment or distribution is subsequently determined to have been made in error the sole recourse of any Lender to whom payment was due but not made, shall be to recover from other Lenders any payment in excess of the amount to which they are determined to be entitled (and such other Lenders hereby agree to return to such Lender any such erroneous payments received by them). In performing its functions and duties hereunder, Agent shall exercise the same care which it would in dealing with loans for its own account, but Agent shall not be responsible to any Lender for any recitals, statements, representations or warranties herein or for the execution, effectiveness, genuineness, validity, enforceability, collectibility, or sufficiency of this Agreement or any of the Loan Documents or the transactions contemplated thereby, or for the financial condition of any Loan Party. Agent shall not be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement or any of the Loan Documents or the financial condition of any Loan Party, or the existence or possible existence of any Default or Event of Default. Agent may at any time request instructions from Lenders with respect to any actions or approvals which by the terms of this Agreement or of any of the Loan Documents Agent is permitted or required to take or to grant, and Agent shall be absolutely entitled to refrain from taking any action or to withhold any approval and shall not be under any liability whatsoever to any Person for refraining from any action or withholding any approval under any of the Loan Documents until it shall have received such instructions from the applicable percentage of the Lenders. Without limiting the foregoing, no Lender shall have any right of action whatsoever against Agent as a result of Agent acting or refraining from acting under this Agreement or any of the other Loan Documents in accordance with the instructions of the applicable percentage of the Lenders and notwithstanding the instructions of Lenders, Agent shall have no obligation to take any action if it, in good faith believes that such action exposes Agent to any liability.

(D) Reliance. Agent shall be entitled to rely upon any written notices, statements, certificates, orders or other documents or any telephone message or other communication (including any writing, telex, telecopy or telegram) believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person, and with respect to all matters pertaining to this Agreement or any of the Loan Documents and its duties hereunder or thereunder, upon advice of counsel selected by it. Agent shall be entitled to rely upon the advice of legal counsel, independent accountants, and other experts selected by Agent in its sole discretion.

(E) Indemnification. Each Lender, severally, agrees to reimburse and indemnify Agent for and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, advances or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against Agent in any way relating to or arising out of this Agreement or any of the Loan Documents or any action taken or omitted by Agent under this Agreement for any of the Loan Documents, in proportion to each Lender's Pro Rata Share; provided, however, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, advances or disbursements resulting from Agent's gross negligence or willful misconduct. The obligations of Lenders under this subsection 9.2(E) shall survive the payment in full of the Obligations and the termination of this Agreement.

(F) Heller Individually. With respect to its Commitments and the Loans made by it, and the Notes issued to it, Heller shall have and may exercise the same rights and powers hereunder and is subject to the same obligations and liabilities as and to the extent set forth herein for any

other Lender. The terms "Lenders" or "Requisite Lenders" or any similar terms shall, unless the context clearly otherwise indicates, include Heller in its individual capacity as a Lender or one of the Requisite Lenders. Heller may lend money to, and generally engage in any kind of banking, trust or other business with any Loan Party as if it were not acting as Agent pursuant hereto.

(G) Successor Agent.

(1) Resignation. Agent may resign from the performance of all its functions and duties hereunder at any time by giving at least thirty (30) Business Days' prior written notice to Borrowers and the Lenders. Such resignation shall take effect upon the acceptance by a successor Agent of appointment pursuant to clause (2) below or as otherwise provided below.

(2) Appointment of Successor. Upon any such notice of resignation pursuant to clause (G)(1) above, Requisite Lenders shall, upon receipt of Borrowers' prior consent which shall not unreasonably be withheld, appoint a successor Agent. If a successor Agent shall not have been so appointed within said thirty (30) Business Day period, the retiring Agent, upon notice to Borrowers, shall then appoint a successor Agent who shall serve as Agent until such time, as Requisite Lenders, upon receipt of Borrowers' prior written consent which shall not be unreasonably withheld, appoint a successor Agent as provided above.

(3) Successor Agent. Upon the acceptance of any appointment as Agent under the Loan Documents by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under the Loan Documents. After any retiring Agent's resignation as Agent under the Loan Documents, the provisions of this subsection 9.2 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under the Loan Documents.

(H) Collateral Matters.

(1) Release of Collateral. Lenders hereby irrevocably authorize Agent, at its option and in its discretion, to release any Lien granted to or held by Agent upon any property covered by this Agreement or the Loan Documents (i) upon termination of the Commitments and payment and satisfaction of all Obligations; (ii) constituting property being sold or disposed of if Borrowers certify to Agent that the sale or disposition is made in compliance with the provisions of this Agreement (and Agent may rely in good faith conclusively on any such certificate, without further inquiry); or (iii) constituting property leased to Borrowers under a lease which has expired or been terminated in a transaction permitted under this Agreement or is about to expire and which has not been, and is not intended by Borrowers to be, renewed or extended. In addition during any Fiscal Year (x) Agent may release Collateral having a book value of not more than 10% of the book value of all Collateral, (y) Agent, with the consent of Requisite Lenders, may release Collateral having a book value of not more than 25% of the book value of all Collateral and (z) Agent, with the consent of Lenders having 90% of (i) the Total Loan Commitments and (ii) Loans, may release all the Collateral.

(2) Confirmation of Authority; Execution of Releases. Without in any manner limiting Agent's authority to act without any specific or further authorization or consent by Lenders (as set forth in subsection 9.2(H)(1)), each Lender agrees to confirm in writing, upon request by Borrowers, the authority to release any property covered by this Agreement or the Loan Documents conferred upon Agent under subsection 9.2(H)(1). So long as no Event of Default is then continuing, upon receipt by Agent of confirmation from the requisite percentage of Lenders, of its authority to release any particular item or types of property covered by this Agreement or the Loan Documents, and upon at least five (5) Business Days prior written request by Borrowers, Agent shall (and is hereby irrevocably authorized by Lenders to) execute such documents as may be necessary to evidence the release of the Liens granted to Agent for the benefit of Lenders herein or pursuant hereto upon such Collateral; provided, however, that (i) Agent shall not be

required to execute any such document on terms which, in Agent's opinion, would expose Agent to liability or create any obligation or entail any consequence other than the release of such Liens without recourse or warranty, and (ii) such release shall not in any manner discharge, affect or impair the Obligations or any Liens upon (or obligations of any Loan Party, in respect of), all interests retained by any Loan Party, including, without limitation, the proceeds of any sale, all of which shall continue to constitute part of the property covered by this Agreement or the Loan Documents.

(3) Absence of Duty. Agent shall have no obligation whatsoever to any Lender or any other Person to assure that the property covered by this Agreement or the Loan Documents exists or is owned by Borrowers or is cared for, protected or insured or has been encumbered or that the Liens granted to Agent on behalf of Lenders herein or pursuant hereto have been properly or sufficiently or lawfully created, perfected, protected or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent in this subsection 9.2(H) or in any of the Loan Documents, it being understood and agreed that in respect of the property covered by this Agreement or the Loan Documents or any act, omission or event related thereto, Agent may act in any manner it may deem appropriate, in its discretion, given Agent's own interest in property covered by this Agreement or the Loan Documents as one of the Lenders and that Agent shall have no duty or liability whatsoever to any of the other Lenders; provided, that Agent shall exercise the same care which it would in dealing with loans for its own account.

(I) Agency for Perfection. Each Lender hereby appoints each other Lender as agent for the purpose of perfecting Lenders' security interest in Collateral which, in accordance with Article 9 of the Uniform Commercial Code in any applicable jurisdiction, can be perfected only by possession. Should any Lender (other than Agent) obtain possession of any such Collateral, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor, shall deliver such Collateral to Agent or in accordance with Agent's instructions.

(J) Exercise of Remedies. Each Lender agrees that it will not have any right individually to enforce or seek to enforce this Agreement or any Loan Document or to realize upon any collateral security for the Loans, it being understood and agreed that such rights and remedies may be exercised only by Agent.

### 9.3. Consents.

(A) In the event Agent requests the consent of a Lender and does not receive a written denial thereof within five (5) Business Days after such Lender's receipt of such request, then such Lender will be deemed to have given such consent.

(B) In the event Agent requests the consent of a Lender and such consent is denied, then Heller may, at its option, require such Lender to assign its interest in the Loans to Heller for a price equal to the then outstanding principal amount thereof plus accrued and unpaid interest and fees due such Lender, which interest and fees will be paid when collected from Borrowers. In the event that Heller elects to require any Lender to assign its interest to Heller, Heller will so notify such Lender in writing within forty-five (45) days following such Lender's denial, and such Lender will assign its interest to Heller no later than five (5) days following receipt of such notice.

9.4. Set Off and Sharing of Payments. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence and during the continuance of any Event of Default, each Lender is hereby authorized by Borrowers at any time or from time to time, with reasonably prompt subsequent notice to Borrowers or to any other Person (any prior or contemporaneous notice being hereby expressly waived) to set off and to appropriate and to apply any and all (A) balances held by such Lender or such holder at any of its offices for the account of

any Borrower or any of its Subsidiaries (regardless of whether such balances are then due to Borrower or its Subsidiaries), and (B) other property at any time held or owing by such Lender or such holder to or for the credit or for the account of any Borrower or any of its Subsidiaries, against and on account of any of the Obligations which are not paid when due; except that no Lender or any such holder shall exercise any such right without the prior written consent of Agent. Any Lender which has exercised its right to set off shall, to the extent the amount of any such set off exceeds its Pro Rata Share of the Obligations, purchase for cash (and the other Lenders or holders shall sell) participations in each such other Lender's or holder's Pro Rata Share of the Obligations as would be necessary to cause such Lender to share such excess with each other Lender or holder in accordance with their respective Pro Rata Shares. Borrower agrees, to the fullest extent permitted by law, that (a) any Lender or holder may exercise its right to set off with respect to amounts in excess of its Pro Rata Share of the Obligations and may sell participations in such excess to other Lenders and holders, and (b) any Lender or holder so purchasing a participation in the Loans made or other Obligations held by other Lenders or holders may exercise all rights of set-off, bankers' lien, counterclaim or similar rights with respect to such participation as fully as if such Lender or holder were a direct holder of Loans and other Obligations in the amount of such participation.

9.5. Disbursement of Funds. Agent may, on behalf of Lenders, disburse funds to Borrowers for Loans requested. Each Lender shall reimburse Agent on demand for all funds disbursed on its behalf by Agent, or if Agent so requests, each Lender will remit to Agent its Pro Rata Share of any Loan before Agent disburses same to Borrowers. If Agent elects to require that funds be made available prior to disbursement to Borrowers, Agent shall advise each Lender by telephone, telex or telecopy of the amount of such Lender's Pro Rata Share of such requested Loan no later than (a) one (1) Business Day prior to the Funding Date applicable thereto for LIBOR Rate Loans and (b) by 1:00 p.m. Central time on the Funding Date for Base Rate Loans, and each such Lender shall pay Agent such Lender's Pro Rata Share of such requested Loan, in same day funds, by wire transfer to Agent's account not later than 10:00 a.m. Central time on such Funding Date for LIBOR Rate Loans and 3:00 p.m. Central time for Base Rate Loans. If any Lender fails to pay the amount of its Pro Rata Share forthwith upon Agent's demand, Agent shall promptly notify Borrowing Agent and Borrowers shall immediately repay such amount to Agent. Any repayment required pursuant to this subsection 9.5 shall be without premium or penalty. Nothing in this subsection 9.5 or elsewhere in this Agreement or the other Loan Documents, including without limitation the provisions of subsection 9.6, shall be deemed to require Agent to advance funds on behalf of any Lender or to relieve any Lender from its obligation to fulfill its Commitments hereunder or to prejudice any rights that Agent or Borrowers may have against any Lender as a result of any default by such Lender hereunder.

9.6. Settlements, Payments and Information.

(A) Revolving Loan Advances and Payments; Fee Payments.

(1) The Revolving Loan balance may fluctuate from day to day through Agent's disbursement of funds to, and receipt of funds from, Borrowers. In order to minimize the frequency of transfers of funds between Agent and each Lender notwithstanding terms to the contrary set forth in Section 2 and subsection 9.5, Revolving Loan advances and payments may be settled according to the procedures described in subsection 9.6(A)(2) and 9.6(A)(3) of this Agreement. Payments of principal, interest and fees in respect of the Term Loan will be settled on the Business Day received in accordance with the provisions of Section 2. Notwithstanding these procedures, each Lender's obligation to fund its portion of any advances made by Agent to Borrowers will commence on the date such advances are made by Agent. Such payments will be made by such Lender without set-off, counterclaim or reduction of any kind.

(2) Once each week, or more frequently (including daily), if Agent so elects (each such day being a "Settlement Date"), Agent will advise each Lender by 1 p.m. Central time by telephone, telex, or telecopy of

the amount of each such Lender's Pro Rata Share of the Revolving Loan balance. In the event that payments are necessary to adjust the amount of such Lender's share of the Revolving Loan balance to such Lender's Pro Rata Share of the Revolving Loan, the party from which such payment is due will pay the other, in same day funds, by wire transfer to the other's account not later than 3:00 p.m. Central time on the Business Day following the Settlement Date.

(3) On the first Business Day of each month ("Interest Settlement Date"), Agent will advise each Lender by telephone, telefax or teletype of the amount of interest and fees charged to and collected from Borrowers for the proceeding month. Provided that such Lender has made all payments required to be made by it under this Agreement, Agent will pay to such Lender, by wire transfer to such Lender's account (as specified by such Lender on the signature page of this Agreement as amended by such Lender from time to time after the date hereof pursuant to the notice provisions contained herein or in the applicable Lender Addition Agreement) not later than 3 p.m. Central time on the next Business Day following the Interest Settlement Date such Lender's share of such interest and fees.

(B) Availability of Lender's Pro Rata Share.

(1) Unless Agent has been notified by a Lender prior to a Funding Date of such Lender's intention not to fund its Pro Rata Share of the Loan amount requested by Borrowers, Agent may assume that such Lender will make such amount available to Agent on the Funding Date or the Business Day following the next Settlement Date, as applicable. If such amount is not, in fact, made available to Agent by such Lender when due, Agent will be entitled to recover such amount on demand from such Lender without set-off, counterclaim or deduction of any kind.

(2) Nothing contained in this subsection 9.6(B) will be deemed to relieve a Lender of its obligation to fulfill its Commitments or to prejudice any rights Agent or Borrowers may have against such Lender as a result of any default by such Lender under this Agreement.

(3) Without limiting the generality of the foregoing, each Lender shall be obligated to fund its Pro Rata Share of any Revolving Loan made with respect to any draw on a Lender Letter of Credit.

(C) Return of Payments

(1) If Agent pays an amount to a Lender under this Agreement in the belief or expectation that a related payment has been or will be received by Agent from Borrowers and such related payment is not received by Agent, then Agent will be entitled to recover such amount from such Lender without set-off, counterclaim or deduction of any kind.

(2) If Agent determines at any time that any amount received by Agent under this Agreement must be returned to Borrowers or paid to any other person pursuant to any solvency law or otherwise, then, notwithstanding any other term or condition of this Agreement, Agent will not be required to distribute any portion thereof to any Lender. In addition, each Lender will repay to Agent on demand any portion of such amount that Agent has distributed to such Lender, together with interest at such rate, if any, as Agent is required to pay to Borrowers or such other Person, without set-off, counterclaim or deduction of any kind.

9.7. Dissemination of Information. Agent will provide Lenders with any information received by Agent from Borrowers which is required to be provided to a Lender hereunder; provided, however, that Agent shall not be liable to Lenders for any failure to do so, except to the extent that such failure is attributable to Agent's gross negligence or willful misconduct.

9.8. Discretionary Advances. Agent may, in its sole discretion, (i) provided that no Event of Default exists, make Revolving Loans in excess of the limitations set forth in subsection 2.1 (B) during the continuance of an Event of Default, make Revolving Loans in excess of the limitations set forth in subsection 2.1 (B) for the purpose of preserving or protection the

Collateral.

## SECTION 10. BORROWING AGENCY

### 10.1. Borrowing Agency Provisions.

(A) Each Borrower hereby irrevocably designates Borrowing Agent to be its attorney and agent and in such capacity to borrow, sign and endorse notes, and execute and deliver all instruments, documents, writings and further assurances now or hereafter required hereunder, on behalf of such Borrower or Borrowers, and hereby authorizes Agent and Lenders to pay over or credit all loan proceeds hereunder in accordance with the request of Borrowing Agent.

(B) The handling of this credit facility as a co-borrowing facility with a borrowing agent in the manner set forth in this Agreement is solely as an accommodation to Borrowers and at their request. Agent and Lenders shall not incur liability to Borrowers as a result thereof. To induce Agent and Lenders to do so and in consideration thereof, each Borrower hereby indemnifies Agent and Lenders and holds Agent and Lenders harmless from and against any and all liabilities, expenses, losses, damages and claims of damage or injury asserted against Lender by any Person arising from or incurred by reason of the handling of the financing arrangements of Borrowers as provided herein, reliance by Lender on any request or instruction from Borrowing Agent or any other action taken by Lender with respect to this Section 10.1 except due to willful misconduct or gross (not mere) negligence by the indemnified party.

(C) All Obligations shall be joint and several, and each Borrower shall make payment upon the maturity of the Obligations, by acceleration or otherwise, and such obligation and liability on the part of each Borrower shall in no way be affected by any extensions, renewals and forbearance granted to Agent and Lenders to any Borrower, failure of Agent and Lenders to give any Borrower notice of borrowing or any other notice, any failure of Lender to pursue or preserve its rights against any Borrower, the release by Agent and Lenders of any Collateral now or thereafter acquired from any Borrower, and such agreement by each Borrower to pay upon any notice issued pursuant thereto is unconditional and unaffected by prior recourse by Agent and Lenders to the other Borrowers or any Collateral for such Borrower's Obligations or the lack thereof.

10.2. Waiver of Subrogation. Each Borrower expressly waives any and all rights of subrogation, reimbursement, indemnity, exoneration, contribution of any other claim which such Borrower may now or hereafter have against the other Borrowers or other Person directly or contingently liable for the Obligations hereunder, or against or with respect to the other Borrowers' property (including, without limitation, any property which is Collateral for the Obligations), arising from the existence or performance of this Agreement, until all Obligations have been paid in full.

## SECTION 11. MISCELLANEOUS

11.1. Expenses and Attorneys' Fees. Whether or not the transactions contemplated hereby shall be consummated, Borrowers agree to promptly pay all fees, costs and expenses incurred by Agent in connection with any matters contemplated by or arising out of this Agreement or the other Loan Documents including the following, and all such fees, costs and expenses shall be part of the Obligations, payable on demand and secured by the Collateral: (a) fees, costs and expenses (including reasonable attorneys' fees, allocated costs of internal counsel and fees of environmental consultants, accountants and other professionals retained by Agent) incurred in connection with the examination, review, due diligence investigation, documentation and closing of the financing arrangements evidenced by the Loan Documents; (b) fees, costs and expenses (including reasonable attorneys' fees, allocated costs of internal counsel and fees of environmental consultants, accountants and other professionals retained by Agent) incurred in connection with the review,

negotiation, preparation, documentation, execution and administration of the Loan Documents, the Loans, and any amendments, waivers, consents, forbearances and other modifications relating thereto or any subordination or intercreditor agreements; (c) fees, costs and expenses incurred by Agent in creating, perfecting and maintaining perfection of Liens in favor of Agent, on behalf of Lenders; (d) fees, costs and expenses incurred by Agent in connection with forwarding to Borrowers the proceeds of Loans including Agent's or any Lenders' standard wire transfer fee; (e) fees, costs, expenses and bank charges, including bank charges for returned checks, incurred by Agent or any Lender in establishing, maintaining and handling lock box accounts, blocked accounts or other accounts for collection of the Collateral; (f) fees, costs, expenses (including reasonable attorneys' fees and allocated costs of internal counsel) of Agent or any Lender and costs of settlement incurred in collecting upon or enforcing rights against the Collateral or incurred in any action to enforce this Agreement or the other Loan Documents or to collect any payments due from Borrowers or any other Loan Party under this Agreement or any other Loan Document or incurred in connection with any refinancing or restructuring of the credit arrangements provided under this Agreement, whether in the nature of a "workout" or in connection with any insolvency or bankruptcy proceedings or otherwise.

11.2. Indemnity. In addition to the payment of expenses pursuant to subsection 11.1, whether or not the transactions contemplated hereby shall be consummated, Borrowers agree to indemnify, pay and hold Agent and each Lender and any holder of the Notes, and the officers, directors, employees, agents, consultants, auditors, persons engaged by Agent or any Lender and any holder of any of the Notes to evaluate or monitor the Collateral, affiliates and attorneys of Agent, Lender and such holders (collectively called the "Indemnitees") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including the fees and disbursements of counsel for such Indemnitees in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not such Indemnitee shall be designated a party thereto) that may be imposed on, incurred by, or asserted against that Indemnitee, in any manner relating to or arising out of this Agreement or the other Loan Documents, the consummation of the transactions contemplated by this Agreement, the statements contained in the commitment letters, if any, delivered by Agent or any Lender, Agent's and each Lender's agreement to make the Loans hereunder, the use or intended use of the proceeds of any of the Loans or the exercise of any right or remedy hereunder or under the other Loan Documents (the "Indemnified Liabilities"); provided that Borrower shall have no obligation to an Indemnitee hereunder with respect to Indemnified Liabilities arising from the gross negligence or willful misconduct of that Indemnitee as determined by a court of competent jurisdiction.

### 11.3. Amendments and Waivers.

(A) Except as otherwise provided herein, no amendment, modification, termination or waiver of any provision of this Agreement, the Notes or any other Loan Document, or consent to any departure by any Loan Party therefrom, shall in any event be effective unless the same shall be in writing and signed by Requisite Lenders or Agent, as applicable; provided, that no amendment, modification, termination or waiver shall, unless in writing and signed by all Lenders, do any of the following: (i) increase the Commitment of any Lender; (ii) reduce the principal of, rate of interest on or fees payable with respect to any Loan; (iii) extend the scheduled due date of any installment of principal of the Loans; (iv) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans, or the percentage of Lenders which shall be required for Lenders or any of them to take any action hereunder; (v) amend or waive this subsection 11.3 or the definitions of the terms used in this subsection 11.3 insofar as the definitions affect the substance of this subsection 11.3; (vi) consent to the assignment or other transfer by any Loan Party of any of its rights and obligations under any Loan Document; and (vii) increase the percentages contained in the definition of Borrowing Base and provided, further, that no amendment, modification, termination or waiver affecting the rights or duties of Agent under any Loan Document shall in any event be effective, unless in



writing and signed by Agent, in addition to the Lenders required herein above to take such action.

(B) Each amendment, modification, termination or waiver shall be effective only in the specific instance and for the specific purpose for which it was given. No amendment, modification, termination or waiver shall be required for Agent to take additional Collateral pursuant to any Loan Document.

(C) No amendment, modification or waiver of any provision of any Lender Letter of Credit shall be applicable without the written concurrence of the issuer of such Lender Letter of Credit. No notice to or demand on Borrowers or any other Loan Party in any case shall entitle Borrowers or any other Loan Party to any other or further notice or demand in similar or other circumstances. Any amendment, modification, termination, waiver or consent effected in accordance with this subsection 11.3 shall be binding upon each holder of the Notes at the time outstanding, each future holder of the Notes, and, if signed by a Loan Party, on such Loan Party.

(D) In the event Agent waives (1) any Default arising under subsection 8.1(E) as a result of the breach of any of the provisions of Section 5 of this Agreement (other than any such breach which constitutes an Event of Default) or (2) any Default constituting a condition to the funding of any Revolving Loan or issuance of any Lender Letter of Credit, such waiver shall expire on the date upon which the Default which was the subject of such waiver matures into an Event of Default pursuant to the terms of this Agreement.

11.4. Notices. Unless otherwise specifically provided herein, all notices shall be in writing addressed to the respective party as set forth below and may be personally served, telecopied or sent by overnight courier service or United States mail and shall be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by telecopy, on the date of transmission if transmitted on a Business Day before 4:00 p.m. Central time or, if not, on the next succeeding Business Day; (c) if delivered by overnight courier, two (2) days after delivery to such courier properly addressed; or (d) if by U.S. Mail, four (4) Business Days after depositing in the United States mail, with postage prepaid and properly addressed.

If to Borrowing Agent  
or Borrowers: c/o Hibbett Sporting Goods, Inc.  
131 South 25th Street  
Birmingham, Alabama 35211  
Telecopy No.: (205) 956-0164

With a copy to: Balch & Bingham  
1710 Sixth Avenue North  
P.O. Box 206  
Birmingham, Alabama 35201  
Telecopy No.: (205) 226-8799

and a copy to: Saunders Karp & Co., L.P.  
667 Madison Avenue, 21st Floor  
New York, New York 10021  
Attention: John Megrue  
Telecopy No.: (212) 755-1624

If to Agent  
or to Heller: HELLER FINANCIAL, INC.  
500 West Monroe Street  
Chicago, Illinois, 60661  
Attn: HBC Portfolio Manager  
Telecopy No.: (312) 441-7026

With a copy to: HELLER FINANCIAL, INC.  
500 West Monroe Street  
Chicago, Illinois 60661  
Attn: Legal Department

If to any Lender: Its address indicated on the signature page hereto, in a Lender Addition Agreement or in a notice to Agent and Borrowers or to such other address as the party addressed shall have previously designated by written notice to the serving party, given in accordance with this subsection 11.4.

11.5. Survival of Warranties and Certain Agreements. All agreements, representations and warranties made herein shall survive the execution and delivery of this Agreement and the making of the Loans hereunder. Notwithstanding anything in this Agreement or implied by law to the contrary, the agreements of Borrowers set forth in subsections 11.1 and 11.2 shall survive the payment of the Loans and the termination of this Agreement.

11.6. Indulgence Not Waiver. No failure or delay on the part of Agent, any Lender or any holder of any the Notes in the exercise of any power, right or privilege hereunder or under the Notes shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

11.7. Marshaling; Payments Set Aside. Neither Agent nor any Lender shall be under any obligation to marshal any assets in favor of any Loan Party or any other party or against or in payment of any or all of the Obligations. To the extent that any Loan Party makes a payment or payments to Agent and/or any Lender or Agent and/or any Lender enforces its security interests or exercise its rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the Obligations or part thereof originally intended to be satisfied, and all Liens, rights and remedies therefor, shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

11.8. Entire Agreement. This Agreement, the Notes, and the other Loan Documents referred to herein embody the final, entire agreement among the parties hereto and supersede any and all prior commitments, agreements, representations, and understandings, whether written or oral, relating to the subject matter hereof and may not be contradicted or varied by evidence of prior, contemporaneous, or subsequent oral agreements or discussions of the parties hereto. There are no oral agreements among the parties hereto.

11.9. Independence of Covenants. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default or an Event of Default if such action is taken or condition exists.

11.10. Severability. The invalidity, illegality or unenforceability in any jurisdiction of any provision in or obligation under this Agreement or the other Loan Documents shall not affect or impair the validity, legality or enforceability of the remaining provisions or obligations under this Agreement, or the other Loan Documents or of such provision or obligation in any other jurisdiction.

11.11. Lenders' Obligations Several; Independent Nature of Lenders' Rights. The obligation of each Lender hereunder is several and not joint and neither Agent nor any Lender shall be responsible for the obligation or commitment of any other Lender hereunder. In the event that any Lender at any time should fail to make a Loan as herein provided, the Lenders, or any of them, at their sole option, may make the Loan that was to have been made by the Lender so failing to make such Loan. Nothing contained in any Loan Document and no action taken by Agent or any Lender pursuant hereto or thereto shall be

deemed to constitute Lenders to be a partnership, an association, a joint venture or any other kind of entity. The amounts payable at any time hereunder to each Lender shall be a separate and independent debt, and, provided Agent fails or refuses to exercise any remedies against Borrowers after receiving the direction of the Requisite Lenders, each Lender shall be entitled to protect and enforce its rights arising out of this Agreement and it shall not be necessary for any other Lender to be joined as an additional party in any proceeding for such purpose.

11.12. Headings. Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect.

11.13. APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

11.14. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns except that Borrowers may not assign their rights or obligations hereunder without the written consent of Lenders.

11.15. No Fiduciary Relationship; Limitation of Liabilities.

(A) No provision in this Agreement or in any of the other Loan Documents and no course of dealing between the parties shall be deemed to create any fiduciary duty by Agent or any Lender to Borrowers.

(B) Neither Agent nor any Lender, nor any affiliate, officer, director, shareholder, employee, attorney, or agent of Agent or any Lender shall have any liability with respect to, and Borrowers hereby waive, release, and agree not to sue any of them upon, any claim for any special, indirect, incidental, or consequential damages suffered or incurred by Borrowers in connection with, arising out of, or in any way related to, this Agreement or any of the other Loan Documents, or any of the transactions contemplated by this Agreement or any of the other Loan Documents. Borrowers hereby waive, release, and agree not to sue Agent or any Lender or any of Agent's or any Lender's affiliates, officers, directors, employees, attorneys, or agents for punitive damages in respect of any claim in connection with, arising out of, or in any way related to, this Agreement or any of the other Loan Documents, or any of the transactions contemplated by this Agreement or any of the transactions contemplated hereby.

11.16. CONSENT TO JURISDICTION. BORROWERS HEREBY CONSENT TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF COOK STATE OF ILLINOIS AND IRREVOCABLY AGREES THAT, SUBJECT TO AGENT'S ELECTION, ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE TERM NOTE OR THE OTHER LOAN DOCUMENTS SHALL BE LITIGATED IN SUCH COURTS. BORROWERS ACCEPT FOR THEMSELVES AND IN CONNECTION WITH THEIR RESPECTIVE PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE NON-EXCLUSIVE JURISDICTION OF THE AFORESAID COURTS AND WAIVE ANY DEFENSE OF FORUM NON CONVENIENS, AND IRREVOCABLY AGREE TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS AGREEMENT, THE TERM NOTE, THE OTHER LOAN DOCUMENTS OR THE OBLIGATIONS.

11.17. WAIVER OF JURY TRIAL. BORROWERS, AGENT AND EACH LENDER HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE TERM NOTE OR THE OTHER LOAN DOCUMENTS. BORROWERS, AGENT AND EACH LENDER ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT, THE TERM NOTE AND THE OTHER LOAN DOCUMENTS AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. BORROWERS, AGENT AND EACH LENDER FURTHER WARRANT AND REPRESENT THAT EACH HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

11.18. Construction. Borrowers, Agent and each Lender each acknowledge that it has had the benefit of legal counsel of its own choice and has been afforded an opportunity to review this Agreement and the other Loan Documents with its legal counsel and that this Agreement and the other Loan Documents shall be construed as if jointly drafted by Borrowers, Agent and each Lender.

11.19. Counterparts; Effectiveness. This Agreement and any amendments, waivers, consents, or supplements may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which counterparts together shall constitute but one and the same instrument. This Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto.

11.20. No Duty. All attorneys, accountants, appraisers, and other professional Persons and consultants retained by Agent or any Lender shall have the right to act exclusively in the interest of Agent or such Lender and shall have no duty of disclosure, duty of loyalty, duty of care, or other duty or obligation of any type or nature whatsoever to any Borrower or any of Borrower's shareholders or any other Person.

11.21. Confidentiality. Agent and Lenders shall hold all nonpublic information obtained pursuant to the requirements hereof and identified as such by Borrowers in accordance with such Person's customary procedures for handling confidential information of this nature and in accordance with safe and sound business practices and in any event may make disclosure reasonably required by a bona fide offeree or assignee (or participation), or as required or requested by any Governmental Authority or representative thereof, or pursuant to legal process, or to its accountants, lawyers and other advisors, and shall require any such offeree or assignee (or participant) to agree (and require any of its offerees, assignees or participants to agree) to comply with this Section 11.21. In no event shall the Agent or any Lender be obligated or required to return any materials furnished by Borrowers; provided, however, each Offeree shall be required to agree that if it does not become a assignee (or participant) it shall return all materials furnished to it by Borrowers in connection herewith.

11.22. Joint and Several Obligations. Each Borrower further agrees that all Obligations shall be joint and several, and that each Borrower shall make payment upon the Obligations upon their maturity by acceleration or otherwise, and that such obligation and liability on the part of each Borrower shall in no way be affected by any extensions, renewals and forbearances granted by Agent and Lenders to any Borrower, failure of Agent or Lenders to give any Borrower notice of borrowing or any other notice, any failure of Agent or any Lender to pursue or preserve its rights against the other Borrower, the release by Agent and Lenders of any Collateral now or hereafter acquired from any Borrower, failure of Agent and Lenders to realize upon such Collateral in a commercially reasonable manner, and that such agreement by each Borrower to pay upon any notice issued pursuant hereto is unconditional and unaffected by prior recourse by Agent and Lenders to the other Borrowers or any Collateral for such Borrowers' Obligations or the lack thereof. Each Borrower hereby agrees (a) that Agent and Lenders shall be under no obligation to marshal any assets in favor of such Borrower and (b) to waive any right of subrogation with respect to any other Borrower arising out of any obligation which arises as a result of the joint and several obligations of the Borrowers hereunder.

Witness the due execution hereof by the respective duly authorized officers of the undersigned as of the date first written above.

HIBBETT SPORTING GOODS, INC.

By: /s/ Michael J. Newsome  
-----  
Name: Michael J. Newsome  
Title: President

HIBBETT TEAM SPORTS, INC.

By: /s/ Michael J. Newsome

-----  
Name: Michael J. Newsome  
Title: President

HELLER FINANCIAL, INC.

By: /s/ Mark Thies

-----  
Name: Mark Thies  
Title: Vice President

Revolving Loan Commitment:  
\$25,000,000.00

Term Loan Commitment:  
\$1,000,000.00

#### EXHIBITS

1.1(A) Borrowing Base Certificate  
1.1(B) Closing Certificate  
1.1(C) Compliance Certificate  
1.1(D) Guaranty  
1.1(E) Inventory Report  
1.1(F) Lender Addition Agreement  
1.1(G) Reconciliation Report  
1.1(H) Revolving Note  
1.1(I) Term Note

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4.13 Intellectual Property  
4.20 Bank Accounts  
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February 12, 1996

Hibbett Sporting Goods, Inc.  
Sports Wholesale, Inc.  
131 South 25th Street  
Birmingham, Alabama 35211

Reference is made to the Loan and Security Agreement (the "Agreement") dated as November 1, 1995 among Hibbett Sporting Goods, Inc. ("Hibbett") and Hibbett Team Sales, Inc., the financial institutions listed on the signature pages thereof and Heller Financial, Inc. ("Heller"), as Lender and Agent. Capitalized terms used herein without definition have the meanings given in the Agreement.

You have advised Heller that you propose to carry out a sale and leaseback transaction with respect to the New Distribution Facility, with QRS 12-14 (AL), Inc. (the "Landlord"), an affiliate of W.P. Carey & Co. Inc., as the counterparty. You will receive gross proceeds of \$4,700,000 as consideration for conveyance of the New Distribution Facility to the Landlord. Simultaneously, the Guarantor will enter into a Lease Agreement (the "Lease Agreement") with the Landlord and Hibbett will enter into with the Landlord a Guaranty and Suretyship Agreement (the "Guaranty") and a Purchase Agreement (the "Purchase Agreement"); together with the Lease Agreement and the Guaranty, the "Carey Documents") relating to the obligations of the Guarantor under the Lease Agreement. Copies of the Carey Documents in the form to be executed and delivered by the Guarantor and Hibbett are attached hereto, and all references herein to any Carey Document (including any Exhibit thereto) are limited to such Carey Document as originally executed in such form.

You and the Guarantor have requested Heller to confirm certain waivers and other agreements with respect to the Carey Documents insofar as certain restrictions and other provisions of the Agreement are applicable thereto. Heller by its execution below hereby agrees, upon satisfaction of the conditions precedent hereof, as follows.

1. The transactions contemplated by the Carey Documents shall be considered to satisfy the maximum attributable principal amount and effective cost criteria of the definition of the Real Property Financing and shall for all purposes of the Agreement qualify as and constitute the Real Property Financing. The Indebtedness so evidenced by the Real Property Financing is agreed not to exceed \$5,000,000. The proceeds of such transactions shall be used to repay the Saunders Subordinated Bridge Loan in full and the Anderson Subordinated Bridge Loan in whole or in part.

2. All property described on Exhibit B to the Lease Agreement, any right to an award or payment with respect to any Condemnation (as defined in and pursuant to Section 17(b) of the Lease Agreement) and all subleases and related property described to Section 21(d) of the Lease Agreement are hereby released from the security interest created by Section 2.7 of the Agreement and shall no longer constitute any portion of the Collateral, and all such property shall constitute part of the New Distribution Facility for all purposes of the Agreement. Heller agrees to execute and deliver, at your expense, UCC-3 financing statements and such other instruments as you may reasonably request to effect or otherwise evidence the foregoing.

3. The provisions of Section 7.2 of the Agreement are waived to the extent necessary to permit Hibbett to enter into the Guaranty and the Purchase Agreement.

4. Schedule 1.1(A) to the Agreement shall be considered modified to reflect the leasehold interest of the Borrowers and the Guarantor in the New Distribution Facility.

5. The provisions of Section 7.3(C) of the Agreement are waived to the extent necessary to permit the Guarantor and Hibbett to enter into the Carey Documents.

6. The following items shall constitute Permitted Encumbrances under the Agreement: any Escrow Payment described in Section 9(b) of the Lease Agreement; any financial assurances in the form of a letter of credit or bond with respect to Environmental Violations described in Section 10(d) of the Lease Agreement; any security, other than with respect to the Collateral, in connection with a Permitted Violation as described in Section 14 of the Lease Agreement; and any Restoration Fund as described in Section 19(c) of the Lease Agreement.

7. With respect to any period for which the Lease Agreement is not a Capital Lease, EBITDA and Fixed Charges for such period shall (except for purposes of calculating Excess Cash Flow for such period) be the amount otherwise determined for such period plus the amount of Basic Rent (as defined in the Lease Agreement) for such period.

\* \* \*

Other than specifically provided herein, no provision set forth herein shall operate as a waiver or amendment of any right, power or privilege of Heller under the Agreement or of any other term or condition of the Agreement, nor shall the entering into of this letter preclude Heller from refusing to enter into any further waivers or amendments with respect to the Agreement.

This Agreement shall become effective upon (i) receipt by Heller of a Landlord's Waiver and Consent executed by landlord in form satisfactory to Heller in all respects and (ii) the execution by Borrowers and the Guarantor of a copy of this letter.

This letter shall be governed by, and shall be construed and enforced in accordance with, the internal laws of the State of Illinois, without regard to conflicts of laws principles.

Very truly yours,

HELLER FINANCIAL, INC., as  
Lender and Agent

By: /s/ Dwayne L. Cohen  
-----  
Vice President

ACKNOWLEDGED AND AGREED:

LANDLORD'S WAIVER AND CONSENT

NAME OF RECORD OWNER OF REAL PROPERTY: QRS 12-14 (AL), INC.  
("Landlord")

ADDRESS OF REAL PROPERTY: 451 Industrial Lane, Birmingham, AL 35211 (the  
"Premises")

The Premises are more fully described in Exhibit A attached hereto and made a part hereof.

WHEREAS, Landlord is the owner of the Premises, and represents that Landlord has or is about to enter into a Lease Agreement (the "Lease") with SPORTS WHOLESALE, INC. ("Tenant") pursuant to which Tenant will acquire a leasehold interest in all of the Premises; and

WHEREAS, Landlord has been advised that all of the issued and outstanding stock of Tenant is owned by Hibbett Sporting Goods, Inc. ("HSG") and to induce Landlord to enter into the Lease and to secure Tenant's obligations thereunder, Landlord has required that HSG guaranty Tenant's obligations under the Lease pursuant to a certain Guaranty and Suretyship Agreement (the "Guaranty") between HSG and Landlord.

WHEREAS, Landlord has been advised that HELLER FINANCIAL, INC. ("Lender") has entered into that certain Loan and Security Agreement dated as of November 1, 1995 (the "Loan Agreement") with HSG and Hibbett Team Sales, Inc. (collectively, "Borrowers") and to secure such financing, Landlord has been advised that each Borrower has granted to Lender a security interest in the personal property of such Borrower, which personal property shall not include "Equipment", as defined in the Lease, as such Lease is in effect on the date hereof (the personal property in which Lender has a security interest, excluding Equipment, shall be referred to herein as the "Collateral"); and

WHEREAS, all or a portion of the Collateral may from time to time be located at the Premises or may become wholly or partially affixed to the Premises;

NOW THEREFORE, to induce Lender to consent to the Lease and the Guaranty and in consideration of any financial accommodation extended by Lender to Borrowers at any time, and other good and valuable consideration the receipt and sufficiency of which Landlord hereby acknowledges, the Landlord hereby agrees as follows:

1. The Collateral may be stored, utilized and/or installed at the Premises and shall not be deemed a fixture or part of the real estate but shall at all times be considered personal property, whether or not any of the Collateral becomes so related to the real estate that an interest therein arises under real estate law;

2. Until such time as the obligations of the Borrowers and Tenant to Lender are paid in full, the Landlord disclaims any interest in the Collateral, and agrees not to distrain upon any of the Collateral, or assert any claim (whether by levy or otherwise) against the Collateral which is senior to or on a parity with security interest of Lender for any reason.

3. Lender or its representatives may (subject to Tenant's rights under the lease to have sole possession of the Premises) enter upon the Premises at any time to inspect or remove the Collateral, and may advertise and conduct public auctions or private sales of the Collateral at the Premises, in each case without liability of Lender to Landlord but subject to paragraph 5; provided however, that Lender shall promptly repair, at Lender's expense, any physical damage to the Premises actually caused by said removal by Lender. Lender shall not be liable for any diminution in value of the Premises caused by the absence of Collateral actually removed or by any necessity of replacing the Collateral. Lender shall use its best efforts to give prior written notice to Landlord of its intention to enter

the Premises, but Lender's failure to give such notice shall neither adversely affect Lender's ability to come onto the Premises or result in any liability to Lender.

4. Subject to paragraph 5, Landlord shall not interfere with any sale of the Collateral, by public auction or otherwise, conducted by or on behalf of Lender on the Premises.

5. Landlord will permit Lender to come onto the Premises for a period of up to one hundred thirty-five (135) days following receipt by Lender of written notice from Landlord that landlord has terminated the Lease (or taken possession of the Premises) and directing removal of the Collateral, subject, however, to the payment to Landlord by the Lender of the rent and other monetary amounts due under the Lease for the period Lender's Collateral remains on the Premises following receipt by Lender of such notice, pro-rated on a per diem basis determined on a 30-day month. Lender's right to come onto the Premises under the preceding sentence shall be extended for the time period (not to exceed 60 days) Lender is prohibited from selling or taking possession of the Collateral due to the imposition of the automatic stay by the filing of bankruptcy proceedings by the Tenant. Lender shall not assume nor be liable for any unperformed or unpaid obligations of Tenant under the Lease for the period prior to the receipt of such notice of termination.

6. This waiver shall inure to the benefit of Lender, its successors and assigns and shall be binding upon the Landlord, its heirs, assigns, representatives and successors. Landlord agrees and consents to the filing of this document for recording on the Land Records.

All notices to Lender hereunder shall be in writing, sent by certified mail, and shall be addressed to Lender at the following address: Heller Financial, Inc., 500 West Monroe, Chicago, Illinois 60661.

Dated this 12th day of February, 1996.

Witnessed By: QRS 12-14 (AL), INC.

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By: /s/ Gordon J. Whiting  
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Title: Vice President

STATE OF ALABAMA  
COUNTY OF JEFFERSON

Before me, the undersigned Notary Public in the State and County aforesaid, personally appeared Gordon J. Whiting with whom I am personally acquainted and who, upon oath, acknowledged himself to be the Vice President of QRS 12-14 (AL), Inc., the within named Landlord, an Alabama corporation, and that he as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as such Vice President.

WITNESS my hand and Official Seal at office this 12th day of February, 1996.

My commission expires: 4-28-99  
/s/ Patty J. Frey  
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Notary Public

EXHIBIT "A"

Lot 1, according to Oxmoor-MDB 11-94 Survey as recorded in Map Book 181, Page 4 in the Probate Office of Jefferson County, Alabama.



CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report dated April 2, 1996 included in or made a part of this Registration Statement of Hibbett Sporting Goods, Inc. on Form S-1 (No. 333-07023) and to the reference to our Firm under the heading "Experts" in the Prospectus, which is part of this Registration Statement.

Arthur Andersen LLP

Birmingham, Alabama  
July 12, 1996