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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Sport Supply Group, Inc.:

We have audited the accompanying consolidated balance sheet of Sport Supply Group, Inc. and Subsidiaries as of March 26, 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for the fiscal year ended March 26, 2004. These consolidated financial statements are the responsibility of the management of Sport Supply Group, Inc. and Subsidiaries. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Sport Supply Group, Inc. and subsidiaries as of March 28, 2003 were audited by other auditors whose report dated May 10, 2003 expressed an unqualified opinion on those statements and was modified to include an explanatory paragraph related to the adoption of a new accounting principle.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sport Supply Group, Inc. and Subsidiaries at March 26, 2004, and the consolidated results of its operation and cash flow for the fiscal year ended March 26, 2004, in conformity with accounting principles generally accepted in the United States.

BDO SEIDMAN, LLP

Dallas, Texas
June 28, 2004

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>March 26</u> 2004	<u>March 28,</u> 2003
CURRENT ASSETS :		
Cash and equivalents	\$ 1,156,211	\$ 2,142,302
Accounts receivable:		
Trade, less allowance for doubtful accounts of \$487,000 and \$500,000, respectively	12,831,024	19,756,947
Other	308,922	488,728
Inventories, net	16,952,587	19,564,314
Other current assets	404,590	576,653
Deferred tax assets	1,343,189	1,525,472
Total current assets	<u>32,996,523</u>	<u>44,054,416</u>
 DEFERRED CATALOG EXPENSES, NET	 1,695,119	 1,912,346
PROPERTY, PLANT AND EQUIPMENT :		
Land	8,663	8,663
Buildings	1,605,102	1,605,102
Computer Equipment & Software	11,047,960	11,461,375
Machinery and equipment	6,020,794	6,558,502
Furniture and fixtures	1,310,748	1,508,393
Leasehold improvements	2,485,285	2,497,209
	<u>22,478,552</u>	<u>23,639,244</u>
Less -- Accumulated depreciation and amortization	(15,768,700)	(15,119,308)
	<u>6,709,852</u>	<u>8,519,936</u>
 DEFERRED TAX ASSETS	 2,043,672	 3,974,753
 TRADEMARKS		
less accumulated amortization of \$1,100,000 at March 26, 2004 and \$995,000 at March 28, 2003	2,821,171	2,926,288
 OTHER ASSETS		
less accumulated amortization of \$695,000 at March 26, 2004 and \$798,000 at March 28, 2003	425,834	607,900
	<u>\$ 46,692,171</u>	<u>\$ 61,995,639</u>
 CURRENT LIABILITIES :		
Accounts payable	\$ 8,068,079	\$ 11,823,287
Other accrued liabilities	2,559,190	2,769,794
Accrued customer deposits	2,467,682	1,674,196
Notes payable and capital lease obligations, current portion	48,378	71,082
Net liabilities of discontinued operations	193,316	-
Total current liabilities	<u>13,336,645</u>	<u>16,338,359</u>
 NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS, net of current portion	 6,997,721	 17,611,753
COMMITMENTS AND CONTINGENCIES		
 STOCKHOLDERS' EQUITY :		
Preferred stock, par value \$0.01, 100,000 shares authorized, no shares outstanding	-	-
Common stock, par value \$0.01, 20,000,000 shares authorized, 9,362,397 shares issued and 8,917,244 shares outstanding	93,624	93,624
Additional paid-in capital	48,101,331	48,101,331
Accumulated deficit	(18,035,868)	(16,348,146)
Treasury stock, at cost, 445,153 shares	(3,801,282)	(3,801,282)
Total stockholders' equity	<u>26,357,805</u>	<u>28,045,527</u>
	<u>\$ 46,692,171</u>	<u>\$ 61,995,639</u>

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

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For The Years Ended March 26, 2004 and March 28, 2003

	<u>2004</u>	<u>2003</u>
Net revenues	\$ 83,866,787	\$ 85,149,210
Cost of sales	<u>61,857,471</u>	<u>61,387,479</u>
Gross profit	22,009,316	23,761,731
Selling, general and administrative expense	<u>25,899,135</u>	<u>25,564,033</u>
Operating loss	(3,889,819)	(1,802,302)
Interest expense	(476,534)	(622,269)
Other income, net	<u>17,243</u>	<u>22,887</u>
Loss from continuing operations before cumulative effect of accounting change	(4,349,110)	(2,401,684)
Cumulative effect of accounting change	-	(7,442,432)
Loss from continuing operations	<u>(4,349,110)</u>	<u>(9,844,116)</u>
Income from discontinued operations, net of taxes	2,661,388	840,726
Net loss	<u>\$ (1,687,722)</u>	<u>\$ (9,003,390)</u>

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

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For The Years Ended March 26, 2004 and March 28, 2003

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance, March 29, 2002	<u>9,362,397</u>	<u>\$ 93,624</u>	<u>\$ 48,101,331</u>	<u>\$ (7,344,756)</u>	<u>445,153</u>	<u>\$ (3,801,282)</u>	<u>\$ 37,048,917</u>
Net loss				(9,003,390)			(9,003,390)
Balance, March 28, 2003	<u>9,362,397</u>	<u>\$ 93,624</u>	<u>\$ 48,101,331</u>	<u>\$ (16,348,146)</u>	<u>445,153</u>	<u>\$ (3,801,282)</u>	<u>\$ 28,045,527</u>
Net loss				(1,687,722)			(1,687,722)
Balance, March 26, 2004	<u>9,362,397</u>	<u>\$ 93,624</u>	<u>\$ 48,101,331</u>	<u>\$ (18,035,868)</u>	<u>445,153</u>	<u>\$ (3,801,282)</u>	<u>\$ 26,357,805</u>

The accompanying notes are an integral part of these financial statements

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended March 26, 2004 and March 28, 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES :		
Loss from continuing operations	\$(4,349,110)	\$ (9,844,116)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,985,617	1,998,045
Provision for allowances for accounts receivable	486,553	273,275
Cumulative effect of accounting change	-	7,442,432
Changes in assets and liabilities (net of discontinued operations):		
(Increase) decrease in accounts receivable	1,802,273	(1,347,891)
Decrease in inventories	(2,792,017)	(836,945)
Decrease in deferred catalog expenses and other current assets	319,347	81,600
Increase (decrease) in accounts payable	(2,186,690)	2,273,178
Increase in accrued liabilities	1,738,605	1,221,552
Increase in other assets	(14,411)	(31,262)
Operating cash flow (used in) provided by continuing operations	(3,009,833)	1,229,868
Operating cash flow provided by discontinued operations	2,393,988	91,843
Net cash (used in) provided by operating activities	(615,845)	1,321,711
 CASH FLOWS FROM INVESTING ACTIVITIES :		
Acquisitions of property, plant & equipment	(284,602)	(288,965)
Net cash used in investing activities by continuing operations	(284,602)	(288,965)
Proceeds from sale of ATEC	10,517,000	-
Other investing activities - discontinued operations	-	(110,151)
Net cash provided by (used in) investing activities by discontinued operations	10,517,000	(110,151)
Net cash provided by (used in) investing activities	10,232,398	(399,116)
 CASH FLOWS FROM FINANCING ACTIVITIES :		
Proceeds from issuances of notes payable	102,254,851	112,456,629
Payments of notes payable and capital lease obligations	(112,857,495)	(111,823,833)
Net cash (used in) provided by financing activities	(10,602,644)	632,796
 NET CHANGE IN CASH AND EQUIVALENTS	 (986,091)	 1,555,391
Cash and equivalents, beginning of period	2,142,302	586,911
Cash and equivalents, end of period	\$ 1,156,211	\$ 2,142,302
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION :		
Cash paid during the period for interest	\$ 527,932	\$ 564,768

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

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 26, 2004

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Background

Sport Supply Group, Inc. ("SSG") was incorporated in 1982. Effective March 2001, Sport Supply Group, Inc became a majority-owned subsidiary of Emerson Radio Corp (AMEX:MSN). Our financial statements do not include any purchase accounting adjustments to reflect our acquisition by Emerson Radio Corp. Our operations are all within one financial reporting segment: direct marketing of sports related equipment and leisure products to institutional customers in the United States. We source most of the products we sell and also manufacture some of the products we sell. Manufactured products include, but are not limited to: 1) Football, baseball and track and field equipment; 2) Tennis, volleyball, and other sports nets; 3) Steel and aluminum construction items, such as football, basketball, soccer and field hockey goals; and 4) Track and field, gymnastics and physical education mats.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of SSG and our wholly owned subsidiary, Sport Supply Group Asia Limited, a Hong Kong corporation ("SSGA"). All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements also include estimates and assumptions made by us that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses, provisions for and the disclosure of contingent assets and liabilities. Actual results could materially differ from those estimates.

From July 2003 through October 2003 our team dealers located in Little Rock, Arkansas, Enid, Oklahoma and Wichita, Kansas were discontinued. In November 2003, we sold all of the issued and outstanding capital stock of our wholly-owned subsidiary, Athletic Training Equipment Company, Inc. ("ATEC") The accompanying financial statements reflect these components of SSG as discontinued operations. (See Note 7 – Discontinued Operations.)

Certain financial information for previous fiscal years has been reclassified to conform to the fiscal 2004 presentation.

Cash Equivalents

Short-term investments with original maturities of three months or less at the time of the purchases are considered to be cash equivalents.

Accounts Receivable and Concentration of Credit Risk

Financial instruments that potentially subject us to concentration of credit risk are accounts receivable. Accounts receivable represent sales of sporting goods and leisure products to all levels of public and private schools, colleges, universities, and military academies, municipal and governmental agencies, military facilities, churches, clubs, camps, hospitals, youth sport leagues, nonprofit organizations, team dealers, and certain other retailers. We did not have any individual customers that accounted for more than 10% of outstanding accounts receivable as of March 26, 2004 or March 28, 2003. The majority of our sales are to publicly funded institutional customers. We extend credit based upon evaluations of a customer's financial condition and provide for any anticipated credit losses in our financial statements based upon management's estimates and ongoing reviews of recorded allowances. This estimate is based on historical losses and current economic conditions. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The allowance for doubtful accounts was approximately \$487,000 and \$500,000 as of March 26, 2004 and March 28, 2003, respectively. Based

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 26, 2004

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

on the information available to us, we believe our allowance for doubtful accounts is adequate, however actual write-offs might exceed the recorded allowance.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the standard cost method for items manufactured by us and weighted-average cost for items purchased for resale. As of March 26, 2004 and March 28, 2003, inventories consisted of the following:

<u>Inventory Data:</u>	<u>March 26, 2004</u>	<u>March 28, 2003</u>
Raw materials	\$ 1,137,928	\$ 2,095,242
Work-in-process	66,330	318,165
Finished and purchased goods	<u>17,317,036</u>	<u>18,223,657</u>
Inventory, Gross	18,521,294	20,637,064
Less inventory allowance for obsolete or slow moving items	<u>(1,568,707)</u>	<u>(1,072,750)</u>
Inventory, net	<u>\$16,952,587</u>	<u>\$19,564,314</u>

The inventory allowance for obsolete or slow moving items is determined based upon our periodic assessment of the net realizable value of our inventory.

Advertising and Deferred Catalog Expenses

We expense advertising costs as incurred, except for production costs related to direct-response catalog activities, which are capitalized. Direct response catalogs are product and order reference books for our customers. Production and distribution costs, primarily printing and postage, associated with catalogs are amortized over twelve months which approximates customer usage of the catalogs produced. Our catalog amortization for continuing operations for the fiscal years ended March 26, 2004 and March 28, 2003 were approximately \$2,828,000 and \$3,122,000, respectively.

Internet Expenses

We expense the operating and development costs of our Internet websites as incurred. Hardware and related software modules that interface with our SAP AS/400 system are capitalized and subsequently amortized over the remaining estimated useful life of the assets.

Property, Plant, and Equipment

Property, plant and equipment are stated at cost and depreciated over the estimated useful lives of the related assets using the straight-line method. Leasehold improvements and property and equipment leased under capital lease obligations are amortized over the terms of the related leases or their estimated useful lives, whichever is shorter. The costs of maintenance and repairs are charged to expense as incurred. Significant renewals and improvements are capitalized and depreciated over the remaining estimated useful lives of the related assets.

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 26, 2004

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Depreciation of property, plant and equipment is provided by the straight-line method as follows:

Buildings	Thirty to forty years
Machinery and Equipment	Five to ten years
Computer Equipment and Software	Three to ten years
Furniture and Fixtures	Five years
Leasehold Improvements	Remaining lease term

We periodically review property plant and equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. When any such impairment exists, the related assets will be written down to their fair value.

Intangible Assets

Trademarks relate to costs incurred in connection with the acquisition of licensing agreements for the use of certain trademarks and servicemarks in conjunction with the sale of our products. Other intangible assets are classified as other assets and consist principally of deposits, capitalized loan and financing fees and patents. Capitalized loan and financing fees are amortized over the term of the credit agreement.

Amortization of intangible assets is provided by the straight-line method as follows:

Trademarks and servicemarks	Five to forty years
Patents	Seven to eleven years

We periodically assess the recoverability of the carrying value of intangible assets in relation to projected undiscounted cash flows. Based on our assessment, we believe the carrying value of intangible assets is fully realizable as of March 26, 2004.

The cost of intangible assets and related accumulated amortization are removed from our accounts during the year in which they become fully amortized.

Adoption of Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). We adopted SFAS 142 effective March 30, 2002. Under the provisions of SFAS 142, a two step process is used to evaluate goodwill impairment. As a result of our step two impairment testing, we recorded a non cash "cumulative effect of accounting change" increase in our net loss of \$ 7,442,432 for the year ended March 28, 2003.

Income Taxes

Deferred tax assets and liabilities are determined based upon the estimated future tax effects of the differences in the tax bases of existing assets and liabilities and the related financial statement carrying amounts, using currently enacted tax laws and rates in accordance with Statement of Financial Accounting Standards No 109, "Accounting for Income Taxes." Deferred tax assets have been recorded, net of an appropriate valuation allowance, to the extent management believes it is more likely than not that such assets will be realized. (See Note 4)

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 26, 2004

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Accrued Customer Deposits

Purchases of certificates are recorded as accrued customer deposits until they are redeemed for product purchases.

Revenue Recognition

Our policy is to recognize revenue upon shipment of inventory, net of an estimate for possible returns based upon our historical return rate. Subject to certain limitations, customers have the right to return product within 60 days if they are not completely satisfied.

Shipping and Handling

On September 30, 2000, we adopted the provisions of the Emerging Issues Task Force, EITF 00-10, Accounting for Shipping and Handling Fees and Costs. The provisions of EITF 00-10 provide that all amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenues earned for the goods provided and should be classified as revenue. Accordingly, we classify shipping and handling fees as revenues in our consolidated statements of operations.

Stock-based Compensation

We have stock option plans under which certain officers and employees have been granted options. All the options have been granted with exercise prices equal to the market value of the shares at the time of the grant and expire on the tenth anniversary of the grant date. Our stock-based compensation is measured in accordance with the provisions of Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, no compensation expense is recognized for fixed option plans because the exercise prices of Employee stock options equal or exceed the market prices of the underlying stock on the dates of grant.

The following table represents the effect on net loss if we had applied the fair value based method and recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," to stock based employee compensation.

	<u>Fiscal Year Ended</u>	
	<u>March 26,</u> <u>2004</u>	<u>March 28,</u> <u>2003</u>
Net loss, as reported	\$(1,687,722)	\$(9,003,390)
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	<u>\$ (8,482)</u>	<u>\$ (2,826)</u>
Pro forma loss	<u><u>\$(1,696,204)</u></u>	<u><u>\$(9,006,216)</u></u>

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 26, 2004

2. STOCKHOLDERS' EQUITY:

Stock Options

We maintain a stock option plan that provides up to 2,000,000 shares of common stock for awards of incentive and non-qualified stock options to directors and employees. Under the stock option plan, the exercise price of options will not be less than: (i) the fair market value of the common stock at the date of grant; or (ii.) not less than 110% of the fair market value for incentive stock options granted to certain employees, as more fully described in the Amended and Restated Stock Option Plan. Options expire ten years from the grant date, or five years from the grant date for incentive stock options granted to certain employees, or such earlier date as determined by our Board of Directors (or a Stock Option Committee comprised of members of our Board of Directors).

The following table contains transactional data for our stock option plan.

<u>Stock Option Plan</u>	<u>Shares</u>	<u>Exercise Price or Weighted Avg. Price</u>
Outstanding at March 29, 2002	926,179	\$7.45
Granted	19,375	\$1.69
Forfeited	(637,112)	\$7.64
Outstanding at March 28, 2003	308,442	\$6.70
Granted	11,250	\$1.73
Forfeited	(77,875)	\$6.38
Outstanding at March 26, 2004	<u>241,817</u>	<u>\$6.57</u>

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Amount Outstanding</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Amount Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$0.95 - \$2.00	49,375	8.39	\$ 1.52	42,708	\$ 1.49
\$6.13 - \$7.50	77,192	4.22	7.04	77,192	7.04
\$7.88 - \$9.44	115,250	5.21	8.41	115,250	8.41
	<u>241,817</u>	<u>5.21</u>	<u>\$ 6.57</u>	<u>235,150</u>	<u>\$ 6.70</u>

All options granted under the stock option plan contain exercise prices equal to or greater than the fair market value of our stock on the date of the grant.

As of March 26, 2004, 235,150 of the total options were fully vested with an additional 6,667 vesting through January 2006. As of March 28, 2003, 285,108 of the total options outstanding were fully vested with an additional 23,334 vesting through January 2006.

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 26, 2004

2. STOCKHOLDERS' EQUITY: (Continued)

Pro forma information regarding net income has been determined as if we had accounted for employee stock options subsequent to December 31, 1995 under the fair value method. The fair value for those options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: (i.) risk-free interest rates of 4.10% for both fiscal years 2004 and 2003; (ii.) dividend yield of 0% for both years; (iii.) expected volatility of 36% for both years; and (iv.) weighted average expected life for each option of 3 years. The weighted average fair value of employee stock options granted in 2004 and 2003 are \$0.57, and \$0.49, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period; therefore, our pro forma effect will not be fully realized until the completion of one full vesting cycle.

3. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS:

As of March 26, 2004 and March 28, 2003, notes payable and capital lease obligations consisted of the following:

	2004	2003
Note payable under revolving line of credit, Interest ranging from prime minus 0.25% to prime plus 1.0% (4.00% at March 26, 2004 and 4.25% at March 28, 2003) and LIBOR (3.76% at March 28, 2003) due October 31, 2007 and collateralized by substantially all assets.	\$6,972,519	\$17,521,601
Capital lease obligation, interest at 9%, payable in annual installments of principal and interest Totaling \$55,000 through August 2005.	73,580	117,963
Other	--	43,271
Total	7,046,099	17,682,835
Less – current portion	(48,378)	(71,082)
Long-term debt and capital lease obligations, net	\$6,997,721	\$17,611,753

Credit Facilities

We have an amended Loan and Security Agreement with Congress Financial Corporation to finance our working capital requirements through October 31, 2007. This agreement provides for revolving loans and letters of credit which, in the aggregate, cannot exceed the lesser of \$20 million or a "Borrowing Base" amount based on specified percentages of eligible accounts receivable and inventories. We are required to maintain certain net worth levels and as of March 26, 2004 we were in compliance with this requirement. As of March 26, 2004, we had total available borrowings under our senior credit facility of approximately \$19.7 million of which approximately \$7.0 million were outstanding. Amounts outstanding under the senior credit facility are secured by substantially all the assets of the Sport Supply Group, Inc. Pursuant to the Loan and Security Agreement, we are restricted from, among other things, paying cash dividends and entering into certain transactions without the lender's prior consent.

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 26, 2004

3. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS: (Continued)

Maturities of our capital lease obligations and borrowings under the senior credit facility as of March 26, 2004, by fiscal year and in the aggregate, are as follows:

2005	\$	48,378
2006		25,202
2007		--
2008		6,972,519
Total		\$ 7,046,099

As of March 26, 2004 and March 28, 2003 the carrying value of our long-term debt approximates its fair value due to the variable nature of interest rates charged.

4. INCOME TAXES:

As of March 26, 2004 and March 28, 2003 the components of the net deferred tax assets and liabilities are as follows:

	2004	2003
<u>Deferred Tax Assets:</u>		
Allowances for doubtful accounts	\$ 237,896	\$ 189,800
Inventory reserves	735,735	933,697
Net operating loss carryforwards	9,759,445	9,560,691
Tax credit carryforwards	486,236	486,236
Other accrued liabilities	369,558	401,975
Total deferred tax assets	11,588,870	11,572,399
Valuation allowance for deferred tax assets	(7,542,548)	(5,561,674)
Net deferred tax assets	4,046,322	6,010,725
<u>Deferred Tax Liabilities:</u>		
Depreciation expense	(122,741)	(95,745)
Intangible assets, including goodwill and SAP costs	(536,720)	(414,755)
Total deferred tax liabilities	(659,461)	(510,500)
Total net deferred tax assets, net of valuation allowance	\$3,386,861	\$ 5,500,225

We have a net operating loss carryforwards of \$25.5 million that can be used to offset future taxable income and can be carried forward for 15 to 20 years and begins expiring in 2012. Management believes it is more likely than not that the net deferred tax assets will be realized through tax planning strategies available in future periods and future profitable operating results. The amount of the deferred tax asset considered realizable, however, could be reduced or eliminated in the near term if certain tax planning strategies are not successfully executed or estimates of future taxable income during the carryforward period are reduced.

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 26, 2004

4. INCOME TAXES: (Continued)

The provision for income taxes in the accompanying statements of operations for the fiscal years ended March 26, 2004 and March 28, 2003 differ from the statutory federal rate as follows:

	2004	2003
Income tax benefit at		
Statutory federal rate	\$ (1,487,697)	\$(3,061,153)
Permanent differences	18,140	37,683
State income taxes, net of		
Federal effect	23,229	(352,145)
Increase in valuation reserve	1,437,328	3,375,615
Income tax expense	\$ --	\$ --

For the fiscal year ended March 26, 2004 a provision for income taxes was generated by the gain on the sale of ATEC and is therefore a component of discontinued operations in the accompanying statements of operations. (See Note 7 – Discontinued Operations)

5. COMMITMENTS AND CONTINGENCIES:

Leases

We lease a significant portion of our office, warehouse, distribution, fulfillment, computer equipment and manufacturing locations under noncancelable operating leases with terms ranging from one to five years. The majority of our leases contain renewal options that extend the leases beyond the current lease terms.

Future minimum lease payments under noncancelable operating leases for office, warehouse, computer equipment and manufacturing locations, with remaining terms in excess of one year are as follows:

2005	1,627,006
2006	1,540,303
2007	1,071,450
2008	798,375
Total	\$5,037,134

Rent expense from continuing operations was approximately \$1,979,000 and \$1,850,000 for the fiscal years ended March 26, 2004 and March 28, 2003, respectively.

Product Liability and Other Claims

Because of the nature of our products and industry, we are periodically subject to product liability claims resulting from personal injuries. From time to time we may become involved in various lawsuits incidental to our business, some of which may relate to injuries allegedly resulting in substantial permanent paralysis. Significantly increased product liability claims continue to be asserted successfully against manufacturers throughout the United States resulting in general uncertainty as to the nature and extent of manufacturers' and distributors' liability for personal injuries.

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
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March 26, 2004

5. COMMITMENTS AND CONTINGENCIES: (Continued)

There can be no assurance that our general product liability insurance will be sufficient to cover any successful claim made against us. In our opinion, any ultimate liability arising out of currently pending product liability and other claims will not have a material adverse effect on our financial condition or results of operations. However, any claims substantially in excess of our insurance coverage, or any substantial claim not covered by insurance, could have a material adverse effect on our results of operations and financial condition.

6. EMPLOYEES' SAVINGS PLAN:

Effective June 1, 1993, we established a defined contribution profit sharing plan (our "401(k) Plan") for the benefit of eligible employees. All employees with 90 days of service and who have attained the age of 21 are eligible to participate in our 401(k) Plan. Employees may contribute up to 20% of their compensation, subject to certain limitations, which qualifies under the compensation deferral provisions of Section 401(k) of the United States Internal Revenue Code.

Our 401(k) Plan contains provisions that allow us to make discretionary contributions during each plan year. There have been no employer contributions for the fiscal years ended March 26, 2004 or March 28, 2003. We pay all administrative expenses of our 401(k) Plan.

7. DISCONTINUED OPERATIONS:

In July 2003, we discontinued operations at our team dealer located in Little Rock, Arkansas. In October 2003, we sold substantially all of the assets at that location (other than cash and accounts receivable). In October 2003, we discontinued operations at our team dealer located in Enid, Oklahoma, and in November 2003, we sold substantially all the assets (other than cash and accounts receivable) of our team dealer located in Wichita, Kansas.

On November 18, 2003, we sold all of the issued and outstanding capital stock of ATEC for \$10,517,000. This sale resulted in a gain of \$3,792,382 (net of deferred taxes of \$2,220,963). The proceeds received from the sale were used to pay down outstanding debt.

The following table represents the results of these discontinued operations, net of related income taxes.

	<u>Fiscal Year Ended</u>	
	March 26, 2004	March 28, 2003
Net revenues – ATEC	\$6,184,029	\$10,188,557
Net revenues – Team Dealers	3,042,747	7,279,646
Income from operations – ATEC	477,600	1,630,421
Loss from operations – Team Dealers	(724,253)	(789,695)
Loss on sale of Team Dealers	(884,341)	--
Gain on sale of ATEC, net of tax	<u>3,792,382</u>	--
Total discontinued operations, net	<u>\$2,661,388</u>	<u>\$ 840,726</u>

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
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March 26, 2004

7. DISCONTINUED OPERATIONS: (Continued)

	<u>March 28, 2003</u>
Current assets	10,605,574
Total assets	11,031,866
Current liabilities	2,741,760
Total liabilities	2,758,332
Total shareholders equity	8,273,534

8. RELATED PARTY TRANSACTIONS:

Effective March 1997, SSG entered into a Management Services Agreement with Emerson, under which each company provides various managerial and administrative services to the other company for fees at terms which reflect arms length transaction. For the fiscal years 2004 and 2003 SSG billed Emerson pursuant to the management services agreement fees of approximately \$626,000 and \$627,000, respectively, while Emerson billed SSG management service agreement fees of \$307,000 and \$320,000, respectively.