

Sport Supply Group, Inc.

Consolidated Financial Statements
Years Ended March 31, 2005 and March 26, 2004

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Sport Supply Group, Inc. and Subsidiaries as of March 31, 2005 and March 26, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the fiscal years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 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 31, 2005 and March 26, 2004, and the consolidated results of their operations and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.



BDO SEIDMAN, LLP

Dallas, Texas
May 12, 2005

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2005	March 26, 2004
CURRENT ASSETS :		
Cash and equivalents	\$ 1,136,873	\$ 1,156,211
Accounts receivable:		
Trade, less allowance for doubtful accounts of \$363,000 and \$487,000, respectively	13,715,753	12,831,024
Other	76,413	308,922
Inventories, net	15,361,035	16,952,587
Other current assets	447,157	404,590
Deferred tax assets	1,257,052	1,343,189
Total current assets	31,994,283	32,996,523
DEFERRED CATALOG EXPENSES, NET	1,597,461	1,695,119
PROPERTY, PLANT AND EQUIPMENT :		
Land	8,663	8,663
Buildings	1,605,102	1,605,102
Computer equipment & software	11,005,833	11,047,960
Machinery and equipment	6,470,231	6,020,794
Furniture and fixtures	1,310,846	1,310,748
Leasehold improvements	2,442,362	2,485,285
	22,843,037	22,478,552
Less accumulated depreciation and amortization	(17,073,592)	(15,768,700)
	5,769,445	6,709,852
DEFERRED TAX ASSETS	2,129,809	2,043,672
TRADEMARKS		
Less accumulated amortization of \$1,222,000 and \$1,100,000 respectively	2,714,753	2,821,171
OTHER ASSETS		
Less accumulated amortization of \$766,000 and \$687,000 respectively	351,368	425,834
	\$ 44,557,119	\$ 46,692,171
CURRENT LIABILITIES :		
Accounts payable	\$ 8,937,953	\$ 7,572,196
Accrued liabilities	2,127,930	2,559,190
Customer deposits	2,039,233	2,963,565
Notes payable and capital lease obligations, current portion	25,202	48,378
Net liabilities of discontinued operations	-	193,316
Total current liabilities	13,130,318	13,336,645
NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS, net of current portion	3,009,818	6,997,721
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	(15,976,690)	(18,035,868)
Treasury stock, at cost, 445,153 shares	(3,801,282)	(3,801,282)
Total stockholders' equity	28,416,983	26,357,805
	\$ 44,557,119	\$ 46,692,171

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

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years Ended	
	March 31, 2005	March 26, 2004
Net revenues	\$ 89,987,787	\$ 83,866,787
Cost of sales	64,026,953	61,724,830
Gross profit	25,960,834	22,141,957
Selling, general and administrative expense	22,014,991	24,046,159
Depreciation and amortization	1,721,337	1,985,617
Operating Income (Loss)	2,224,506	(3,889,819)
Interest expense	(209,823)	(476,534)
Other income (expense), net	(5,523)	17,243
Income (loss) from continuing operations	2,009,160	(4,349,110)
Income from discontinued operations, net of taxes	50,018	2,661,388
Net Income (Loss)	\$ 2,059,178	\$ (1,687,722)
Basic earnings (loss) per share:		
Continuing operations	\$ 0.225	\$ (0.487)
Discontinued operations	0.006	0.298
Basic earnings (loss) per share	\$ 0.231	\$ (0.189)
Diluted earnings (loss) per share:		
Continuing operations	\$ 0.222	\$ (0.487)
Discontinued operations	0.005	0.298
Diluted income (loss) per share	\$ 0.227	\$ (0.189)
Weighted average common shares outstanding:		
Basic	8,917,244	8,917,244
Diluted	9,054,855	8,917,244

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

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance, March 28, 2003	9,362,397	\$ 93,624	\$ 48,101,331	\$ (16,348,146)	445,153	\$ (3,801,282)	\$ 28,045,527
Net loss				(1,687,722)			(1,687,722)
Balance, March 26, 2004	9,362,397	\$ 93,624	\$ 48,101,331	\$ (18,035,868)	445,153	\$ (3,801,282)	\$ 26,357,805
Net Income				2,059,178			2,059,178
Balance, March 31, 2005	9,362,397	\$ 93,624	\$ 48,101,331	\$ (15,976,690)	445,153	\$ (3,801,282)	\$ 28,416,983

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

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended	
	March 31, 2005	March 26, 2004
CASH FLOWS FROM OPERATING ACTIVITIES :		
Income (Loss) from continuing operations	\$ 2,009,160	\$ (4,349,110)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,721,337	1,985,617
Provision for doubtful accounts receivable	287,502	486,553
Changes in assets and liabilities (net of discontinued operations):		
(Increase) decrease in accounts receivable	(939,721)	1,802,273
(Increase) decrease in inventories	1,591,552	(2,792,017)
Decrease in deferred catalog expenses and other current assets	55,090	319,347
Increase (decrease) in accounts payable	1,365,757	(2,186,690)
Increase (decrease) in customer deposits	(924,332)	(495,883)
Increase (decrease) in accrued liabilities	(431,259)	2,234,488
Increase in other assets	(19,897)	(14,411)
Operating cash flow provided by (used in) continuing operations	4,715,189	(3,009,833)
Operating cash flow (used in) provided by discontinued operations	(143,298)	2,393,988
Net cash provided by (used in) operating activities	4,571,891	(615,845)
 CASH FLOWS FROM INVESTING ACTIVITIES :		
Acquisitions of property, plant & equipment	(580,150)	(284,602)
Net cash used in investing activities by continuing operations	(580,150)	(284,602)
Net cash provided by discontinued operations	-	10,517,000
Net cash (used in) provided by investing activities	(580,150)	10,232,398
 CASH FLOWS FROM FINANCING ACTIVITIES :		
Proceeds from issuances of notes payable	87,145,815	102,254,851
Payments of notes payable and capital lease obligations	(91,156,894)	(112,857,495)
Net cash used in financing activities	(4,011,079)	(10,602,644)
 NET DECREASE IN CASH AND EQUIVALENTS		
Cash and equivalents, beginning of period	1,156,211	2,142,302
Cash and equivalents, end of period	\$ 1,136,873	\$ 1,156,211
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION :		
Cash paid during the period for interest	\$ 237,841	\$ 527,932
Cash paid during the period for income taxes	\$ 199,576	\$ 78,697

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

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005

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 (Emerson), a public company (AMEX:MSN). Given the extent of ownership by Emerson (53.2%), the accompanying financial statements do not include the push down of any purchase accounting adjustments resulting from Emerson's acquisition of SSG. SSG's operations are all within one financial reporting segment: direct marketing of sports related equipment and leisure products to institutional customers in the United States. SSG is a direct marketer of sports related equipment, physical education products and recreational products to institutional customers in the United States. SSG sources most of the products it sells and also manufactures some of the products it sells. 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 field bleachers; 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 its 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 management that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses, and provisions for and the disclosure of contingent assets and liabilities. Actual results could materially differ from those estimates.

From July 2003 through October 2003 SSG's team dealers located in Little Rock, Arkansas, Enid, Oklahoma and Wichita, Kansas were discontinued. In November 2003, SSG sold all of the issued and outstanding capital stock of its wholly-owned subsidiary, Athletic Training Equipment Company, Inc. ("ATEC"). The accompanying financial statements reflect these components of SSG as discontinued operations. (See Note 8 – Discontinued Operations.)

Certain financial information for previous fiscal years has been reclassified to conform to the fiscal 2005 presentation.

Change in Fiscal Year

In April 2004, SSG changed its financial reporting year-end from a 52/53 week fiscal period to a 12 month calendar period. Accordingly, the fiscal year ended March 31, 2005 has three more business days than the year ended March 26, 2004.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses. Actual results may differ from such estimates. SSG reviews all significant estimates affecting the financial statements on a recurring basis and records the effect of any necessary adjustments prior to their issuance.

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005

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

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 SSG 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. There were no individual customers that accounted for more than 10% of outstanding accounts receivable as of March 31, 2005 or March 26, 2004. SSG does not generally charge interest on past due amounts. The majority of SSG's sales are to publicly funded institutional customers. SSG extends credit based upon evaluations of a customer's financial condition and provides for any anticipated credit losses in its financial statements based upon management's estimates and ongoing reviews of recorded allowances. These estimates are based on the consideration of 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 \$363,000 and \$487,000 as of March 31, 2005 and March 26, 2004, respectively.

Based on the information available to it, SSG believes its 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 31, 2005 and March 26, 2004, inventories consisted of the following:

	March 31, 2005	March 26, 2004
Raw materials	\$ 1,370,457	\$ 1,137,928
Work-in-process	33,094	66,330
Finished and purchased goods	<u>15,628,891</u>	<u>17,317,036</u>
Inventory, Gross	17,032,442	18,521,294
Less inventory allowance for obsolete or slow moving items	<u>(1,671,407)</u>	<u>(1,568,707)</u>
Inventory, net	<u>\$ 15,361,035</u>	<u>\$ 16,952,587</u>

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

Advertising and Deferred Catalog Expenses

SSG expenses 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 SSG's customers. Production and distribution costs, primarily printing and postage, associated with catalogs are initially capitalized and then amortized over twelve months which approximates customer usage of the catalogs produced. SSG's catalog amortization for the fiscal years ended March 31, 2005 and March 26, 2004 was approximately \$2,864,000 and \$2,828,000, respectively.

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

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

Internet Expenses

SSG expenses the operating and development costs of its Internet websites as incurred. Hardware and related software modules that interface with its 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 initial term 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.

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

SSG periodically reviews 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 SSG's 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 over their estimated lives as follows:

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

SSG periodically assesses the recoverability of the carrying value of intangible assets in relation to projected undiscounted cash flows. Based on SSG's assessment, investments in intangible assets have not been impaired as of March 31, 2005. The cost of intangible assets and related accumulated amortization are removed from SSG's accounts during the year in which they become fully amortized.

Future estimated annual amortization of intangible assets is as follows:

2006	\$ 112,463
2007	107,239
2008	106,089
2009	105,458
2010	105,458
Total	<u>\$ 536,707</u>

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005

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

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 a valuation allowance which reflects the extent to which management believes it is more likely than not that such assets will be realized. (See Note 5).

Customer Deposits

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

Revenue Recognition

SSG's policy is to recognize revenue upon shipment of inventory, net of an estimate for possible returns based upon its historical return rate. Subject to certain limitations, customers have the right to return product within 60 days if they are not completely satisfied. Revenues include amounts billed to a customer related to shipping and handling.

Stock-based Compensation

SSG has a stock option plan 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. 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 summarizes the impact on reported results if SSG 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 Years Ended</u>	
	<u>March 31,</u>	<u>March 26,</u>
	<u>2005</u>	<u>2004</u>
Net Income (loss), as reported	\$ 2,059,178	\$ (1,687,722)
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	<u>(128,571)</u>	<u>(8,482)</u>
Pro forma net income (loss)	<u>\$ 1,930,607</u>	<u>\$ (1,696,204)</u>
Proforma basic earning per share	<u>\$ 0.217</u>	<u>\$ (0.190)</u>
Proforma diluted earning per share	<u>\$ 0.213</u>	<u>\$ (0.190)</u>

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2005

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

In December 2004, the FASB issued Statement No. 123R, a revision to SFAS No. 123. SFAS No. 123R eliminates the alternative to use the Accounting Principles Board Opinion 25's (Opinion 25) intrinsic value method of accounting that was provided in SFAS No. 123 as originally issued. SFAS No. 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service, in exchange for the award – the requisite service period (usually the vesting period). As of the required effective date, companies that used the fair-value-based method for either recognition or disclosure under SFAS No. 123 will apply SFAS No. 123R using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under SFAS No. 123 for either recognition or pro forma disclosure. SFAS No. 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. SSG expects to adopt this pronouncement as of the beginning of the 2nd quarter of fiscal 2006. The impact of adopting this statement for the previous two fiscal years would have been approximately equivalent to the SFAS 123 proforma adjustments to net income noted above. The impact on future periods is dependent upon the number and the terms of future option grants.

2. INCOME (LOSS) PER COMMON SHARE:

Basic income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share reflects the potential dilution that could occur if securities convertible or exercisable into shares of common stock were converted or exercised into common stock.

The following table sets forth the computation of basic and diluted income (loss) per share:

	For the Twelve Months Ended	
	<u>March 31, 2005</u>	<u>March 26, 2004</u>
Numerator:		
Net income (loss)	<u>\$ 2,059,178</u>	<u>\$ (1,687,722)</u>
Denominator:		
Weighted average common shares – basic	<u>8,917,244</u>	<u>8,917,244</u>
Effect of dilutive securities:		
Employee stock options	<u>137,611</u>	<u>-</u>
Weighted average common shares – diluted (1)	<u>9,054,855</u>	<u>8,917,244</u>
Per Share Calculations:		
Net income (loss) – basic	<u>\$ 0.231</u>	<u>\$ (0.189)</u>
Net income (loss) – diluted (1)	<u>\$ 0.227</u>	<u>\$ (0.189)</u>

(1) For the year ended March 26, 2004, 9,375 in-the-money shares related to outstanding stock options were not included in the calculation of fully diluted earnings per share because the inclusion would have been anti-dilutive due to a net loss for that period. The number of stock options that were considered out-of-the-money for the purposes of the diluted earnings per share calculation for the twelve months ended March 31, 2005 and March 26, 2004 was 154,992 and 225,775 respectively.

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005

3. STOCKHOLDERS' EQUITY:

Stock Options

SSG maintains 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 the Board of Directors (or a Stock Option Committee comprised of members of SSG's Board of Directors).

The following table contains transactional data for SSG's stock option plan:

	Shares	Weighted Average Exercise Price
Outstanding at March 28, 2003	308,442	\$6.70
Granted	11,250	\$1.73
Forfeited	(77,875)	\$6.38
Outstanding at March 26, 2004	241,817	\$6.57
Granted	391,250	\$1.08
Forfeited	(71,825)	\$4.33
Outstanding at March 31, 2005	561,242	\$3.02

The following table summarizes information about stock options outstanding at March 31, 2005:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Amount Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Amount Exercisable	Weighted Average Exercise Price
\$0.95 - \$2.75	406,250	9.16	\$1.13	297,917	\$1.15
\$6.13 - \$7.50	57,617	3.81	\$7.19	57,617	\$7.19
\$7.13 - \$9.44	97,375	4.23	\$8.41	97,375	\$8.41
	561,242	7.75	\$3.02	452,909	\$3.48

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

As of March 31, 2005 and March 26, 2004 respectively, 452,909 and 235,150 of the total options were fully vested.

Pro forma information regarding net income (loss) has been determined as if SSG 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 4.00% for fiscal years 2005 and 2004; (ii.) dividend yield of 0% for both years; (iii.) expected volatility of 54% and 36% for fiscal years 2005 and 2004 respectively; and (iv.) weighted average expected life for each option of 5 years. The weighted average fair value of employee stock options granted in 2005 and 2004 are \$1.08, and \$0.57, respectively. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period.

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005

4. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS:

As of March 31, 2005 and March 26, 2004, notes payable and capital lease obligations consisted of the following:

	2005	2004
Note payable under revolving line of credit, Interest ranging from prime minus 0.25% to prime plus 1.0% (5.5% at March 31, 2005 and 4.00% at March 26, 2004) and LIBOR (5.07% at March 31, 2005) due October 31, 2007 and collateralized by substantially all assets.	\$ 3,009,818	\$ 6,972,519
Capital lease obligation, interest at 9%, payable in installments of principal and interest through August 2005.	25,202	73,580
Total	\$ 3,035,020	\$ 7,046,099
Less – current portion	(25,202)	(48,378)
Long-term debt and capital lease obligations, net	\$ 3,009,818	\$ 6,997,721

Credit Facilities

SSG has an amended Loan and Security Agreement with Congress Financial Corporation to finance its 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. SSG is required to maintain certain net worth levels and as of March 31, 2005 SSG was in compliance with this requirement. As of March 31, 2005, SSG had total available borrowings under its senior credit facility of approximately \$13.5 million of which approximately \$3.0 million were outstanding. A 0.25% commitment fee is payable on any unused portion of the credit facility up to \$15 million. Amounts outstanding under the senior credit facility are secured by substantially all the assets of SSG. Pursuant to the Loan and Security Agreement, SSG is restricted from, among other things, paying cash dividends and entering into certain transactions without the lender’s prior consent.

Maturities of SSG’s capital lease obligations and borrowings under the senior credit facility as of March 31, 2005, by fiscal year and in the aggregate, are as follows:

2006	\$	25,202
2007		--
2008		3,009,818
Total	\$	3,035,020

As of March 31, 2005 and March 26, 2004 the carrying value of SSG’s long-term debt approximates its fair value due to the variable nature of interest rates charged.

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005

5. INCOME TAXES:

As of March 31, 2005 and March 26, 2004 the components of the net deferred tax assets and liabilities are as follows:

	2005	2004
<u>Deferred tax assets:</u>		
Inventories	\$ 1,042,184	\$ 1,205,271
Intangible assets	863,883	1,059,740
Accrued liabilities	103,273	369,214
Bad debt allowance	137,604	237,675
Net operating loss carryforwards	7,214,386	7,637,529
Tax credit carryforwards	486,236	486,236
Total deferred tax assets	9,847,566	10,995,665
Valuation allowance for deferred tax assets	(5,385,562)	(6,180,417)
Deferred tax assets, net of valuation allowance	4,462,004	4,815,248
<u>Deferred tax liabilities:</u>		
Depreciation expense	(1,075,143)	(1,428,387)
Total deferred tax liabilities	(1,075,143)	(1,428,387)
Total net deferred tax assets	\$ 3,386,861	\$ 3,386,861

SSG has net operating loss carryforwards of approximately \$19.8 million that can be used to offset future taxable income, can be carried forward for 15 to 20 years and begin 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.

The provision for income taxes in the accompanying statements of operations for the fiscal years ended March 31, 2005 and March 26, 2004 differ from the statutory federal rate as follows:

	2005	2004
Income tax (benefit) at Statutory federal rate	\$ 703,206	\$ (1,487,697)
Permanent differences	14,542	18,140
State income taxes, net of Federal effect	64,449	23,229
Change in valuation reserve	(794,855)	1,446,328
Other	12,658	-
Income tax expense	\$ -	\$ -

For the fiscal year ended March 26, 2004 a provision for income taxes was recorded related to the gain on the sale of ATEC and is therefore included as a component of income from discontinued operations in the accompanying statements of operations. (See Note 8 – Discontinued Operations.)

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6. COMMITMENTS AND CONTINGENCIES:

Leases

SSG leases a significant portion of its office, warehouse, distribution, fulfillment, computer equipment and manufacturing locations under noncancelable operating leases with terms ranging from one to five years. The majority of these 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:

2006	\$	1,640,203
2007		1,184,998
2008		862,074
Total	\$	<u>3,687,275</u>

Rent expense was approximately \$1,727,000 and \$1,979,000 for the fiscal years ended March 31, 2005 and March 26, 2004, respectively.

Product Liability and Other Claims

Because of the nature of its products and industry, SSG is periodically subject to product liability claims resulting from personal injuries. From time to time SSG may become involved in various lawsuits incidental to its 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.

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

7. EMPLOYEES' SAVINGS PLAN:

Effective June 1, 1993, SSG established a defined contribution profit sharing plan (SSG "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 the 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.

SSG's 401(k) Plan contains provisions that allows it to make discretionary contributions during each plan year. There have been no employer contributions for the fiscal years ended March 31, 2005 or March 26, 2004. SSG pays all administrative expenses of the 401(k) Plan.

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8. DISCONTINUED OPERATIONS:

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

On November 18, 2003, SSG 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>	
	<u>March 31, 2005</u>	<u>March 26, 2005</u>
Net revenues – ATEC	\$ -	\$ 6,184,029
Net revenues – Team Dealers	-	3,042,747
Income from operations – ATEC	-	477,600
Loss from operations – Team Dealers	-	(724,253)
Loss on sale of Team Dealers	-	(884,341)
Gain on sale of ATEC, net of tax	50,018	3,792,382
Total discontinued operations, net	<u>\$ 50,018</u>	<u>\$ 2,661,388</u>

9. 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 which in management's estimation reflect arms length terms. For the fiscal years ended March 31, 2005 and March 26, 2004 SSG billed Emerson pursuant to the management services agreement fees of approximately \$354,000 and \$635,000, respectively, while Emerson billed SSG management service agreement fees of approximately \$148,000 and \$307,000, respectively.