

# Sport Supply Group, Inc.

Consolidated Financial Statements  
Fiscal Year Ended June 30, 2006

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**Report of Independent Certified Public Accountants**

Board of Directors of Sport Supply Group, Inc.:

We have audited the accompanying consolidated balance sheet of Sport Supply Group, Inc. and its subsidiary as of June 30, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended June 30, 2006. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 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 financial position of Sport Supply Group, Inc. and its subsidiary as of June 30, 2006 and 2005, and the results of their operations and their cash flows for the year ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Dallas, Texas  
September 15, 2006

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS**

	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,435,053	\$ 863,887
Accounts receivable, net of allowance for doubtful accounts of \$337,839 and \$302,826, respectively	9,983,985	10,826,894
Inventories	18,083,466	16,299,531
Current portion of deferred income taxes	1,692,199	1,257,052
Prepaid expenses and other current assets	454,377	349,568
Deferred catalog expenses	1,085,533	879,255
Total current assets	32,734,613	30,476,187
 PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$18,299,127 and \$17,401,300, respectively	 4,599,071	 5,518,374
INTANGIBLE ASSETS, net of accumulated amortization of \$1,437,550 and \$1,326,353, respectively	2,609,306	2,717,385
DEFERRED INCOME TAXES	1,639,533	2,129,809
OTHER ASSETS, net	237,842	287,521
Total assets	\$ 41,820,365	\$ 41,129,276
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 5,698,030	\$ 6,345,241
Accrued liabilities	1,851,757	1,545,334
Accrued customer deposits	668,054	1,308,122
Current portion of long-term debt	--	25,202
Total current liabilities	8,217,841	9,223,899
 NOTES PAYABLE AND OTHER LONG-TERM DEBT	 --	 2,866,901
COMMITMENTS AND CONTINGENCIES		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value, 100,000 shares authorized, no shares issued	--	--
Common stock, \$0.01 par value, 20,000,000 shares authorized; 9,414,864 and 9,362,364 shares issued and 8,963,991 and 8,917,211 shares outstanding, respectively	94,149	93,624
Additional paid-in capital	48,220,686	48,101,331
Accumulated deficit	(10,883,573)	(15,355,197)
Treasury stock at cost, 450,873 and 445,153 shares, respectively	(3,828,738)	(3,801,282)
Total stockholders' equity	33,602,524	29,038,476
Total liabilities and stockholders' equity	\$ 41,820,365	\$ 41,129,276

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

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF OPERATIONS**

For the Fiscal Year  
Ended June 30, 2006

Net sales	\$	92,179,062
Cost of sales		<u>61,380,495</u>
Gross profit		30,798,567
Selling, general and administrative expenses		<u>25,792,341</u>
Operating profit		<u>5,006,226</u>
Other (income) expense:		
Interest income		(8,277)
Interest expense		292,240
Other expense		34,264
Total other expense		<u>318,227</u>
Income before taxes		4,687,999
Income tax provision		<u>216,375</u>
Net income	\$	<u><u>4,471,624</u></u>
Weighted average number of shares outstanding:		
Basic		8,952,765
Diluted		9,239,279
Net income per share of common stock – basic	\$	<u>0.50</u>
Net income per share of common stock – diluted	\$	<u>0.48</u>

The accompanying notes are an integral part of this consolidated financial statement.

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**For the fiscal year ended June 30, 2006**

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance, July 1, 2005	9,362,364	\$93,624	\$48,101,331	\$(15,355,197)	445,153	\$(3,801,282)	\$29,038,476
Stock based compensation			16,850				16,850
Issuance of common stock	52,500	525	102,505				103,030
Purchase of stock for cash					5,720	(27,456)	(27,456)
Net income				4,471,624			4,471,624
Balance, June 30, 2006	9,414,864	\$94,149	\$48,220,686	\$(10,883,573)	450,873	\$(3,828,738)	\$33,602,524

The accompanying notes are an integral part of this consolidated financial statement.

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CASH FLOWS**

	For the fiscal year ended June 30, 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income	\$ 4,471,624
Adjustments to reconcile net income to cash provided by (used in) operating activities:	
Provision for uncollectible accounts receivable	343,731
Stock-based compensation expense	16,850
Depreciation expense	1,361,148
Amortization expense	162,186
Loss on disposition of property and equipment	29,670
Deferred taxes	55,129
Changes in operating assets and liabilities:	
Accounts receivable	499,178
Inventories	(1,783,935)
Prepaid expenses and other current assets	(431,087)
Accounts payable	(647,211)
Accrued expenses	(333,645)
Taxes payable	120,000
Net cash provided by operating activities:	3,863,638
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchases of property and equipment	(471,515)
Cash paid for trademarks and other assets	(4,428)
Net cash used in investing activities:	(475,943)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Proceeds from bank line of credit	91,991,128
Payments on notes payable and line of credit	(94,883,231)
Cash paid for treasury shares	(27,456)
Proceeds from issuance of common stock	103,030
Net cash used in financing activities:	(2,816,529)
Net change in cash and cash equivalents	571,166
Cash and cash equivalents at beginning of year	863,887
Cash and cash equivalents at end of year	\$ 1,435,053
 <b>Supplemental Cash Flow Disclosures:</b>	
Cash paid for interest	\$ 289,163
Cash paid for income taxes	128,246
Cash refunded for income taxes	\$ (133,930)

The accompanying notes are an integral part of this consolidated financial statement

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. General:**

**Background.** Sport Supply Group, Inc. ("SSG") was incorporated in 1982. Effective July 1, 2005, SSG became a majority-owned subsidiary of Collegiate Pacific Inc. ("CP"), a public company (AMEX:BOO). The accompanying consolidated financial statements do not include the push down of any purchase accounting adjustments resulting from CP's acquisition of SSG. SSG's operations are all within one financial reporting segment: direct marketing of sports related equipment, physical education products and leisure products to institutional customers in the United States. SSG sources most of the products it sells and 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) 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"). SSG and SSGA are generally referred to herein as the "Company." All intercompany accounts and transactions have been eliminated in consolidation.

**Change in Fiscal Year.** In January 2006, SSG changed its financial reporting year-end from a March year-end to a June year-end in order to match CP's fiscal year end.

**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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those 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.

**2. Summary of Significant Accounting Policies:**

**Cash and Cash Equivalents.** The Company includes as cash and cash equivalents all investments with maturities of three months or less at the date of purchase.

**Financial Instruments and Credit Risk Concentrations.** Financial instruments, which are potentially subject to concentrations of credit risk, consist principally of cash and cash equivalents, accounts receivable and accounts payable. The Company places cash deposits with high credit, quality financial institutions to minimize risk. Accounts receivable are unsecured. The carrying value of these financial instruments approximates their fair value due to their short-term nature.

**Accounts Receivable.** The Company's accounts receivable are due primarily from customers in the institutional and sporting goods dealer market. Credit is extended based on evaluation of each customer's financial condition and, generally, collateral is not required. Accounts receivable generally are due within 30 days and are stated in amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than contractual payment terms are considered past due. The Company records allowances by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance in the period the payment is received.

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Changes in the Company's allowance for doubtful accounts for the fiscal year ended June 30, 2006 are as follows:

Balance at beginning of period	\$ 302,826
Provision for uncollectible accounts receivable	343,731
Accounts written off, net of recoveries	<u>(308,718)</u>
Balance at end of period	<u>\$ 337,839</u>

**Inventories.** Inventories are carried at the lower of cost or market using the weighted-average cost method for items purchased for resale and the standard cost method (which approximates average cost) for manufactured items. Inventory adjustments for estimated obsolescence or diminution in market value are recorded in an amount equal to the difference between the cost of inventories and the estimated market value, based on market conditions from time to time.

As of June 30, 2006 and 2005, inventories consisted of the following:

	<u>2006</u>	<u>2005</u>
Raw materials	\$ 1,491,756	\$ 1,422,302
Work-in-process	38,269	69,208
Finished and purchased goods	<u>17,916,881</u>	<u>16,489,621</u>
	19,446,906	17,981,131
Allowance for obsolete or slow moving items	<u>(1,363,440)</u>	<u>(1,681,600)</u>
Inventories, net	<u>\$ 18,083,466</u>	<u>\$ 16,299,531</u>

The allowance for obsolete or slow moving items is determined based upon SSG's periodic assessment of the net realizable value of its inventories and represents the difference between the cost of the inventories and their estimated fair market value.

**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 year ended June 2006 was approximately \$2,984,000.

**Property and Equipment.** Property and equipment are stated at cost and depreciated over the estimated useful lives of the related assets using the straight-line method. Leasehold improvements, property, and equipment leased under capital lease obligations are amortized over the 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 and equipment is provided by the straight-line method as follows:

Buildings	Thirty to forty years
Warehouse and Manufacturing Equipment	Five to ten years
Computer Equipment and Software	Three to ten years
Furniture and Fixtures	Five years
Leasehold Improvements	Shorter of lease term or the useful lives of the related assets

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Intangible Assets.** Intangible assets consist of trademarks related to costs incurred in connection with the acquisition of licensing agreements for the use of certain trademarks and service marks in conjunction with the sale of SSG's products. Other intangible assets are classified as other assets and consist principally of deposits and capitalized loan and financing fees. Capitalized loan and financing fees are amortized over the term of the related credit agreement.

Amortization of intangible assets is provided by the straight-line method over their estimated useful lives as follows:

Trademarks and service marks	Five to forty years
Patents	Seven to eleven years

**Impairment of Long-Lived Assets.** The Company periodically evaluates the carrying value of depreciable and amortizable long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. If the total of the expected future undiscounted cash flows attributable to those assets is less than the carrying amount of the assets, a loss is recognized in the amount that the carrying value of the assets exceeds their fair value, which is determined based on quoted market prices in active markets, if available, prices of other similar assets, or other valuation techniques. There has been no impairment charge recorded by the Company.

**Revenue Recognition.** The Company recognizes revenue from product sales when title passes and the risks and rewards of ownership have passed to the customer. Title passes generally upon shipment to the customer. Reserves for estimated returns are established based upon historical rates of return experienced by the Company and recorded as reductions of sales.

**Shipping and Handling Costs and Fees.** Shipping and handling costs are included in cost of sales, while amounts billed to customers are included in net sales.

**Stock Based Compensation.** Effective July 1, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), *Share-Based Payments* ("SFAS 123(R)") and selected the modified prospective method to initially report stock-based compensation amounts in the consolidated financial statements. The Company is currently using the Black-Scholes option pricing model to determine the fair value of all option grants. See Note 8 below. Stock-based compensation expenses in the amount of \$16,850 are reflected in net income for fiscal 2006.

**Income Taxes.** The Company utilizes the asset and liability approach in its reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized.

**Income Per Share.** Basic income per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted income per share is computed based on the weighted average number of shares outstanding increased by the effect of stock options and warrants when dilutive.

**Recent Accounting Pronouncements.** In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("Interpretation 48"). Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with the FASB's Statement of Financial Accounting Standards No.109, *Accounting for Income Taxes* ("SFAS 109"). Interpretation 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006. The Company has not determined the impact, if any, of the implementation of Interpretation 48 on its financial position and results of operations.

**3. Property and Equipment:**

Property and equipment at June 30, 2006 and 2005 consisted of the following:

	<b>Estimated Useful Lives (Years)</b>	<b>2006</b>	<b>2005</b>
Land	indefinite	\$ 8,663	\$ 8,663
Buildings	30 - 40	1,605,102	1,605,102
Computer equipment and software	3 - 10	11,274,771	11,028,904
Warehouse and manufacturing equipment	5 - 10	5,925,877	6,038,532
Furniture and fixtures	5	1,156,158	1,310,846
Leasehold improvements	*	2,927,627	2,927,627
Total property and equipment		<u>22,898,198</u>	<u>22,919,674</u>
Less: accumulated depreciation		(18,299,127)	(17,401,300)
Property and equipment, net		<u>\$ 4,599,071</u>	<u>\$ 5,518,374</u>

\* Shorter of useful lives of related assets or lease term

**4. Intangible Assets:**

Intangible assets at June 30, 2006 and 2005 consisted of the following:

	<b>2006</b>	<b>2005</b>
Amortizable intangible assets:		
Trademarks	\$ 3,945,196	\$ 3,942,078
Patents	101,660	101,660
Accumulated amortization	<u>(1,437,550)</u>	<u>(1,326,353)</u>
Intangible assets, net	<u>\$ 2,609,306</u>	<u>\$ 2,717,385</u>

Amortization expense related to intangible assets totaled approximately \$111,000 during the fiscal year ended June 30, 2006. The aggregate estimated amortization expense for intangible assets for each of the years ending June 30 is as follows:

2007	\$ 107,200
2008	106,077
2009	105,789
2010	105,789
2011	103,296
Thereafter	<u>2,081,155</u>
Total	<u>\$ 2,609,306</u>

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. Long-Term Debt and Line of Credit:**

SSG has an amended Loan and Security Agreement with Wachovia Capital Finance (formerly Congress Financial Corporation) ("Line of Credit") 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 June 30, 2006, SSG was in compliance with this requirement. As of June 30, 2006, SSG had total available borrowings under its Line of Credit of approximately \$16.7 million and had no borrowings outstanding. The interest rate on borrowed funds is prime rate or LIBOR plus 2.25%. A 0.25% unused line fee is payable on any unused portion of the Line of Credit up to \$15 million. Amounts outstanding under the Line of Credit are collateralized by substantially all the assets of the Company. 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.

At June 30, 2006, SSG had no amounts due under its Line of Credit.

**6. Income Taxes:**

The Company accounts for income taxes under SFAS No. 109. Deferred income tax assets and liabilities are determined based upon the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows:

	2006	2005
Deferred tax assets:		
Inventories	\$ 953,636	\$ 1,095,094
Intangible assets	916,235	1,085,264
Other accrued liabilities	618,504	182,553
Bad debt allowance	120,059	110,896
Net operating loss carry-forwards	4,850,349	7,409,203
Tax credits	650,928	513,402
Property and equipment	--	331,471
Other	6,103	461,733
	8,115,814	11,189,616
Less valuation allowance	(4,303,865)	(7,802,755)
Total deferred tax assets	3,811,949	3,386,861
Deferred tax liabilities:		
Property and equipment	(480,217)	--
Net deferred taxes	\$ 3,331,732	\$ 3,386,861

The Company has not had a consistent history of earnings and, as a result, has provided a valuation allowance against deferred tax assets not expected to be realized in fiscal 2007 and fiscal 2008.

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Deferred tax assets and liabilities at June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Current deferred tax asset	\$ 1,692,199	\$ 1,388,543
Non-current deferred tax asset	5,943,398	9,801,073
Less valuation allowance	(4,303,865)	(7,802,755)
Balance at end of period	<u>\$ 3,331,732</u>	<u>\$ 3,386,861</u>

The components of the income tax provision for the year ended June 30, 2006 are as follows:

Current federal income taxes	\$ 120,353
State income taxes	22,805
Change in state tax rates	55,129
Other	18,088
Total income tax provision	<u>\$ 216,375</u>

Following is a reconciliation of income taxes at the federal statutory rate to income tax provision for the year ended June 30, 2006:

	<u>2006</u>	<u>Rate</u>
	<u>Provision</u>	
Tax provision at federal statutory rate	\$ 1,640,800	35.00%
State taxes net of federal benefit	243,883	5.20%
Change in valuation allowance, net of operating losses utilized	(1,778,026)	-37.93%
Change in state tax rates	55,129	1.18%
Other	54,589	1.17%
Tax provision and effective tax rate	<u>\$ 216,375</u>	<u>4.62%</u>

The Company has available at June 30, 2006, unused net operating loss carry forwards of approximately \$13.8 million that may be applied against future taxable income. The net operating loss carry forwards expire in various years from 2012 through 2023.

#### **7. Related Party Transactions:**

During the year ended June 30, 2006, the Company provided certain services and leased office space to CP. The Company received approximately \$58,000 in rent from CP for additional office and warehouse storage space in SSG's Dallas, Texas facilities and \$132,000 for other management services. On August 14, 2006, the Company entered into a Services Agreement with CP. Under the terms of the Services Agreement, SSG will provide CP with additional warehouse storage and office space at SSG's Dallas, Texas facilities, as well as provide CP and its wholly-owned subsidiaries with various payroll processing, human resource and risk management services. Prior to August 14, 2006, services provided to CP by the Company were on a month-to-month basis.

#### **8. 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

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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).

For the fiscal year ended June 30, 2006, the Company recorded \$16,850 for stock-based compensation. The Company recorded this amount in selling, general and administrative expenses. The financial statement impact of recording stock-based compensation expense in the fiscal year ended June 30, 2006 is as follows:

Income from continuing operations	\$	16,850
Income before income taxes		16,850
Net income		16,072
Net income per common share – basic		0.00
Net income per common share – diluted		0.00
Cash flows from operating activities		16,850
Cash flows from financing activities		--

A summary of the Company's stock option activity for the fiscal year ended June 30, 2006 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at July 1, 2005	558,867	\$3.02
Granted	9,375	\$4.34
Forfeited	(26,875)	\$7.56
Exercised	(52,500)	\$1.96
Outstanding at June 30, 2006	<u>488,867</u>	<u>\$2.91</u>
Exercisable at June 30, 2006	<u>418,832</u>	<u>\$3.22</u>

At June 30, 2006, there was unrecognized compensation costs of \$14,700 related to unvested stock options remaining to be recognized. There were no excess tax benefits from the exercise of stock options during the twelve months ended June 30, 2006. The total intrinsic value of the options granted in the fiscal year ended June 30, 2006 was \$0. The total intrinsic value of options exercised in the fiscal year ended June 30, 2006 was approximately \$210,000. The fair value of the shares related to the options vested during the fiscal year ended June 30, 2006 was approximately \$249,000. The total intrinsic value of unexercised options at June 30, 2006 was approximately \$1,219,000.

The following table summarizes information about stock options outstanding at June 30, 2006:

	Outstanding			Exercisable		
	Shares	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In Years)
Exercise price						
\$1.05 - \$4.63	364,375	8.1	\$1.13	294,340	\$1.15	8.1
\$7.50	41,992	2.8	\$7.50	41,992	\$7.50	2.8
\$8.38 - \$8.63	<u>82,500</u>	3.1	\$8.39	<u>82,500</u>	\$8.39	3.1
	<u>488,867</u>			<u>418,832</u>		

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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.

The fair value for options granted during the fiscal year ended June 30, 2006 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for the year ended June 30, 2006: (i) risk-free interest rate of 4.43%; (ii) dividend yield of 0%; (iii) expected volatility of 56%; and (iv) weighted average expected life for each option of 5 years. The weighted average fair value of options granted in the fiscal year ended June 30, 2006 was \$1.80 per share.

**9. Leases:**

The Company leases office and warehouse facilities under the terms of operating leases, which expire at various dates through December 2010. Rent expense for the fiscal year ended June 30, 2006 was approximately \$1,112,000.

Future minimum lease commitments on all operating leases with terms in excess of one year are as follows:

<u>Year Ending June 30,</u>	
2007	\$ 1,409,337
2008	1,440,358
2009	1,286,737
2010	1,003,518
2011	508,541
Thereafter	--
Total minimum future lease payments	<u>\$ 5,648,491</u>

**10. Income Per Share:**

The table below outlines the determination of the number of diluted shares of common stock used in the calculation of diluted earnings per share as well as the calculation of diluted earnings per share for the period presented:

<b><u>Determination of diluted number of shares:</u></b>	
Average common shares outstanding	8,952,765
Assumed conversion of dilutive stock options	<u>286,514</u>
Diluted average common shares outstanding (b)	<u>9,239,279</u>
 <b><u>Calculation of diluted earnings per share:</u></b>	
Net income (a)	<u>\$ 4,471,624</u>
Diluted earnings per share (a/b)	<u>\$ 0.48</u>

For the fiscal year ended June 30, 2006, stock options for 124,492 shares were excluded in the computation of diluted income per share because their effect was antidilutive.

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
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**11. Employee Benefit Plan:**

Effective June 1, 1993, SSG established a defined contribution profit sharing plan ("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 allow it to make discretionary contributions during each plan year. There were no employer contributions for the fiscal year ended June 30, 2006. SSG pays all administrative expenses of the 401(k) Plan.

**12. Legal Proceedings:**

On October 5, 2005, two stockholders of the Company, Martin Kleinbart and William Stahl, each filed a separate lawsuit in the Court of Chancery of the State of Delaware in and for New Castle County against the Company, certain former members of the Company's board of directors, and CP's Chairman and Chief Executive Officer, Michael J. Blumenfeld. The plaintiffs filed the lawsuits as a class action on behalf of the public stockholders of the Company in connection with the September 8, 2005, Agreement and Plan of Merger pursuant to which CP was to have acquired the remaining outstanding capital stock of the Company that it did not already own at that time. On November 22, 2005, for reasons unrelated to the pending lawsuit, the Company and CP entered into a Termination Agreement, dated November 22, 2005, which terminated the Agreement and Plan of Merger. The lawsuits alleged the consideration to be paid to the public shareholders of the Company was inadequate and that the defendants breached certain fiduciary duties owed to the Company's public stockholders. On July 2, 2006, the plaintiffs voluntarily dismissed the lawsuits.

On December 15, 2005, a stockholder of the Company, Jeffrey S. Abraham, as Trustee of the Law Offices of Jeffrey S. Abraham Money Purchase Plan, dated December 31, 1999, f/b/o Jeffrey S. Abraham, filed a class action lawsuit in the Court of Chancery of the State of Delaware in and for New Castle County against Emerson Radio Corp., the Company's former majority stockholder, Geoffrey P. Jurick, Arthur J. Coerver, Harvey Rothenberg, and Michael J. Blumenfeld. The plaintiff filed the lawsuit as a derivative claim against CP and defendants Coerver and Rothenberg (members of the Company's Board of Directors and officers of CP) for breach of fiduciary duty and unjust enrichment in connection with the alleged use by CP of the Company's assets without due compensation to the Company. See Note 13 "Subsequent Events."

On July 14, 2006, Costa Brava Partnership III L.P., Greenwood Capital L.P., and Greenwood Investors, L.P., each a stockholder of the Company, filed a lawsuit in the Court of Chancery of the State of Delaware in and for New Castle County, against CP and Geoffrey P. Jurick, Thomas P. Triechler, Peter Bunger, and Terrence Babilla. The lawsuit alleges that the individual defendants breached their fiduciary duties to the Company's stockholders by improperly diverting the Company's interest in a merger transaction with all the Company's stockholders into a separate stock-purchase transaction that only benefited one Company stockholder, Emerson Radio Corp. The lawsuit also alleges that CP knowingly aided and abetted the alleged breaches of fiduciary duty in order to obtain control of the Company.

The Company is a party to various other litigation matters, in most cases involving ordinary and routine claims incidental to the Company's business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending litigation matters. However, we believe, based on our examination of such matters, that our ultimate liability will not have a material adverse effect on our financial position, results of operations or cash flows.

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**13. Subsequent Events (unaudited):**

On September 21, 2006, the Company announced it had entered into an Agreement and Plan of Merger pursuant to which CP will acquire the remaining 26.8% of the capital stock of the Company that it does not already own for approximately \$24 million. Under the terms of the merger agreement, a wholly owned subsidiary of CP will be merged with and into the Company, with the Company as the surviving corporation. Except for shares of the Company's common stock already owned by CP, any subsidiary of CP, or any dissenting shareholder, each issued and outstanding share of the Company's common stock will be converted into the right to receive \$8.80 in cash, without interest.

The merger requires the approval of the stockholders of the Company. CP, which owns 73.2% of the Company's voting power, has agreed to vote its shares of the Company in favor of the merger at the Company's meeting of stockholders. The merger is also conditional, among other things, on CP entering into a new credit facility with its lender to finance the transaction.

On September 21, 2006, a stockholder of the Company, Jeffrey S. Abraham, as Trustee of the Law Offices of Jeffrey S. Abraham Money Purchase Plan, dated December 31, 1999, f/b/o Jeffrey S. Abraham, filed a class action lawsuit in the Court of Chancery of the State of Delaware in and for New Castle County against CP, Arthur J. Coerver, Harvey Rothenberg, Michael J. Blumenfeld, Robert W. Philip, Thomas P. Treichler and the Company for breach of fiduciary duty in connection with the proposed merger described above. The complaint seeks to, among other things, enjoin the proposed merger.