

Sport Supply Group, Inc.
Quarter Ended June 30, 2004
Financial Statements

The accompanying financial statements were prepared by management and reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation. Management has prepared these financial statements to be in conformity with accounting principles generally accepted in the United States of America. The accompanying financial statements have not been audited nor reviewed by the Company's Independent Auditors.

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SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>June 30,</u> 2004	<u>March 26,</u> 2004
	(unaudited)	
CURRENT ASSETS :		
Cash and equivalents	\$ 437,259	\$ 1,156,211
Accounts receivable:		
Trade, less allowance for doubtful accounts of \$404,000 and \$487,000, respectively	11,837,037	12,831,024
Other	162,986	308,922
Inventories, net	15,730,969	16,952,587
Other current assets	316,279	404,590
Deferred tax assets	1,343,189	1,343,189
Total current assets	<u>29,827,719</u>	<u>32,996,523</u>
DEFERRED CATALOG EXPENSES, NET	1,077,530	1,695,119
PROPERTY, PLANT AND EQUIPMENT :		
Land	8,663	8,663
Buildings	1,605,102	1,605,102
Computer Equipment & Software	11,121,744	11,047,960
Machinery and equipment	6,028,532	6,020,794
Furniture and fixtures	1,313,023	1,310,748
Leasehold improvements	2,507,523	2,485,285
	<u>22,584,587</u>	<u>22,478,552</u>
Less -- Accumulated depreciation and amortization	(16,137,738)	(15,768,700)
	<u>6,446,849</u>	<u>6,709,852</u>
DEFERRED TAX ASSETS	2,043,672	2,043,672
TRADEMARKS		
net of accumulated amortization of \$1,136,000 at June 30, 2004 and \$1,100,000 at March 26, 2004	2,788,826	2,821,171
OTHER ASSETS		
net of accumulated amortization of \$707,000 at June 30, 2004 and \$695,000 at March 26, 2004	390,500	425,834
	<u>42,575,096</u>	<u>46,692,171</u>
CURRENT LIABILITIES :		
Accounts payable	\$ 5,988,635	\$ 8,068,079
Other accrued liabilities	1,966,427	2,559,190
Accrued customer deposits	2,515,843	2,467,682
Notes payable and capital lease obligations, current portion	25,202	48,378
Net liabilities of discontinued operations	223,741	193,316
Total current liabilities	<u>10,719,848</u>	<u>13,336,645</u>
NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS, net of current portion	4,201,019	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	(16,739,444)	(18,035,868)
Treasury stock, at cost, 445,153 shares	(3,801,282)	(3,801,282)
Total stockholders' equity	<u>27,654,229</u>	<u>26,357,805</u>
	<u>\$ 42,575,096</u>	<u>\$ 46,692,171</u>

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

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

(Unaudited)

	-----For the Three Months Ended-----	
	June 30, 2004	June 27, 2003
Net revenues	\$ 25,104,352	\$ 22,534,075
Cost of sales	17,624,662	16,364,600
Gross profit	7,479,690	6,169,475
Selling, general and administrative expense	6,124,558	5,836,445
Operating income	1,355,132	333,030
Interest expense	(60,020)	(148,239)
Other income, net	1,312	3,880
Net income before tax	1,296,424	188,671
Provision for income tax	-	(68,979)
Income from continuing operations	1,296,424	119,692
Loss from discontinued operations, net of taxes	-	(4,649)
Net income	\$ 1,296,424	\$ 115,043

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

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

	For the Three Months Ended	
	June 30, 2004	June 27, 2003
CASH FLOWS FROM OPERATING ACTIVITIES :		
Income from continuing operations	\$ 1,296,424	\$ 119,692
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	442,689	479,056
Provision for allowances for accounts receivable	104,568	87,611
Deferred tax provision		68,979
Changes in assets and liabilities (net of discontinued operations):		
Decrease in accounts receivable	1,715,625	3,808,080
Decrease (increase) in inventories	1,221,618	(241,115)
Decrease in deferred catalog expenses and other current assets	705,900	351,778
Decrease in accounts payable	(2,759,714)	(6,291,398)
Decrease in accrued liabilities	(544,602)	(535,195)
Decrease in other assets	11,959	705
Operating cash flow provided by (used in) continuing operations	2,194,467	(2,151,807)
Operating cash flow provided by discontinued operations	30,425	2,525,438
Net cash provided by operating activities	2,224,892	373,631
CASH FLOWS FROM INVESTING ACTIVITIES :		
Acquisitions of property, plant & equipment	(123,966)	(43,360)
Net cash used in investing activities by continuing operations	(123,966)	(43,360)
Other investing activities - discontinued operations	-	(2,834)
Net cash used in investing activities	(123,966)	(46,194)
CASH FLOWS FROM FINANCING ACTIVITIES :		
Proceeds from issuances of notes payable	24,950,277	33,330,126
Payments of notes payable and capital lease obligations	(27,770,155)	(34,870,335)
Net cash used in financing activities	(2,819,878)	(1,540,209)
NET DECREASE IN CASH AND EQUIVALENTS	(718,952)	(1,212,772)
Cash and equivalents, beginning of period	1,156,211	2,142,302
Cash and equivalents, end of period	\$ 437,259	\$ 929,530
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION :		
Cash paid during the period for interest	\$ 89,551	\$ 168,632

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

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004

Note 1 - Basis of Presentation

These consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to fairly present, in accordance with accounting principles generally accepted in the United States, Sport Supply Group, Inc.'s ("SSG") consolidated financial position as of June 30, 2004 and the results of its operations for the three month periods ended June 30, 2004 and June 27, 2003.

The consolidated financial statements include the accounts of SSG and its wholly-owned subsidiary, Sport Supply Group Asia Limited, a Hong Kong corporation. All significant intercompany accounts and transactions have been eliminated in consolidation. Effective March 2001, Sport Supply Group, Inc. became a majority-owned subsidiary of Emerson Radio Corp.

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"). Collectively, we refer to these as "Discontinued Operations" and, accordingly, the accompanying financial statements reflect these as discontinued operations.

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 the provisions for and the disclosure of contingent assets and liabilities. Actual results could materially differ from those estimates. Certain financial information for previous fiscal years has been reclassified to conform to the fiscal 2005 presentation. Please refer to our audited financial statements for the year ended March 26, 2004 for more information.

Note 2 - Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the average cost method. As of June 30, 2004 and March 26, 2004, inventories consisted of the following:

	<u>June 30, 2004</u>	<u>March 26, 2004</u>
Raw materials	\$ 1,196,311	\$ 1,137,928
Work-in-process	81,130	66,330
Finished and purchased goods	<u>16,125,470</u>	<u>17,317,036</u>
	17,402,911	18,521,294
Allowance for obsolete and slow moving items	<u>(1,671,942)</u>	<u>(1,568,707)</u>
Inventory, net	<u>\$15,730,969</u>	<u>\$16,952,587</u>

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

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004

Note 3 - Notes Payable and Capital Lease Obligations

As of June 30, 2004 and March 26, 2004, notes payable and capital lease obligations consisted of the following:

	June 30, 2004	March 26, 2004
Note payable under revolving line of credit, Interest ranging from prime (4.00% at June 30, 2004 and March 26, 2004) minus 0.25% to prime plus 1.0% and LIBOR (3.41% at June 30, 2004) due Oct. 31, 2007 and collateralized by substantially all assets.	\$4,201,019	\$6,972,519
Capital lease obligation, interest at 9%, payable in annual installments of principal and interest through August 2005.	25,202	73,580
Total	4,226,221	7,046,099
Less – current portion	(25,202)	(48,378)
Long-term debt and capital lease obligations, net	<u>\$4,201,019</u>	<u>\$6,997,721</u>

Borrowings under our revolving line of credit are subject to the terms of our amended Loan and Security Agreement with Congress Financial Corporation which is available 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 June 30, 2004 we were in compliance with this requirement. As of June 30, 2004, we had total available borrowings under our senior credit facility of approximately \$16.1 million of which approximately \$4.2 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.

Maturities of our capital lease obligations and borrowings under the senior credit facility as of June 30, 2004, by fiscal year and in the aggregate, are as follows:

2006	\$ 25,202
2007	--
2008	4,201,019
Total	<u>\$ 4,226,221</u>

As of June 30, 2004 and March 26, 2004 the carrying value of our 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
June 30, 2004

Note 4 - Stock-based Compensation

We have stock option plans under which certain officers and employees have been granted options. All the options have been granted at 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 income 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.

	For the Three Months Ended	
	<u>June 30, 2004</u>	<u>June 27, 2003</u>
Net income, as reported	\$1,296,424	\$115,043
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards	\$ (1,156)	\$ (356)
Proforma net income	<u>\$1,295,268</u>	<u>\$114,687</u>

Note 5 - Income Taxes

We have a net operating loss carryforward that can be used to offset future taxable income and can be carried forward for 15 to 20 years. As of June 30, 2004 we have deferred tax assets of approximately \$3.4 million, net of a \$7.5 million valuation allowance. We believe the net deferred tax assets will be realized through tax planning strategies available in future periods and future profitable operating results. Although realization is not assured, we believe it is more likely than not that our remaining net deferred tax assets will be realized. 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
June 30, 2004

Note 6 – 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	<u>798,375</u>
Total	<u><u>\$5,037,134</u></u>

Note 7 - 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.

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.

SPORT SUPPLY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004

Note 8 - 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 \$10.5 million. This sale resulted in a gain of \$3.8 million (net of tax of \$2.2 million). 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 and income tax benefits.

	For the Three Months Ended	
	<u>June 30, 2004</u>	<u>June 27, 2003</u>
Net revenues – ATEC	\$ --	\$2,289,814
Net revenues – Team Dealers	<u> --</u>	<u>1,392,908</u>
Total net revenues from discontinued operations	<u>\$ --</u>	<u>\$3,682,722</u>
Income from operations – ATEC	--	116,070
Loss from operations – Team Dealers	<u> --</u>	<u>(120,719)</u>
Total loss from discontinued operations	<u>\$ --</u>	<u>\$ (4,649)</u>