

# Sport Supply Group, Inc.

## Unaudited Consolidated Financial Statements

Three and Nine Months Ended March 31, 2006 and March 31, 2005

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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 Certified Public Accountants.

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

	March 31, 2006	March 31, 2005
	Unaudited	Audited
<b>CURRENT ASSETS</b>		
Cash and equivalents	955,108	1,136,873
Accounts receivable		
Trade, less allowance for doubtful accounts of \$311,000 and \$363,000 respectively	12,843,361	13,715,753
Accounts receivable - other	214,117	76,413
Inventories, net	18,967,220	15,361,035
Other current assets	452,630	447,157
Deferred tax assets	1,431,687	1,257,052
Deferred catalog expenses	1,721,739	1,597,461
Total current assets	36,585,862	33,591,744
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	8,663	8,663
Buildings	1,605,102	1,605,102
Computer equipment & software	11,203,415	11,005,833
Machinery and equipment	6,385,369	6,470,231
Furniture and fixtures	1,263,886	1,310,846
Leasehold improvements	2,452,627	2,442,362
	22,919,062	22,843,037
Less -- accumulated depreciation and amortization	(18,047,939)	(17,073,592)
PROPERTY, PLANT AND EQUIPMENT, net	4,871,123	5,769,445
DEFERRED TAX ASSETS, net	1,955,173	2,129,809
TRADEMARKS		
net of accumulated amortization of \$1,326,000 and \$1,222,000 respectively	2,619,098	2,714,753
OTHER ASSETS	259,273	351,368
Total assets	46,290,529	44,557,119
<b>CURRENT LIABILITIES</b>		
Accounts payable	6,547,879	8,937,953
Other accrued liabilities	2,227,557	2,127,930
Accrued customer deposits	747,750	2,039,233
Capital lease obligations	-	25,202
Total current liabilities	9,523,186	13,130,318
NOTES PAYABLE	4,847,368	3,009,818
COMMITMENTS AND CONTINGENCIES		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$0.01, 100,000 shares authorized, no shares issued or outstanding	-	-
Common stock, par value \$0.01, 20,000,000 shares authorized, 9,411,739 shares issued and 8,960,866 and 8,917,211 shares outstanding, respectively	94,117	93,624
Additional paid-in capital	48,201,561	48,101,331
Accumulated deficit	(12,546,966)	(15,976,690)
Treasury stock, at cost, 450,873 and 445,153 shares, respectively	(3,828,737)	(3,801,282)
Total stockholders' equity	31,919,975	28,416,983
Total liabilities and stockholders' equity	46,290,529	44,557,119

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

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>March 31, 2006</u>	<u>March 31, 2005</u>	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Net revenues	\$ 27,809,168	\$ 27,252,120	\$ 68,170,858	\$ 64,883,434
Cost of sales	18,550,295	19,109,192	45,558,181	45,464,278
Gross profit	<u>9,258,873</u>	<u>8,142,928</u>	<u>22,612,677</u>	<u>19,419,156</u>
Selling, general and administrative expense	<u>6,557,404</u>	<u>6,597,980</u>	<u>19,420,744</u>	<u>18,549,782</u>
Operating income	2,701,469	1,544,948	3,191,933	869,374
Interest expense	(113,091)	(52,625)	(246,289)	(149,803)
Other income (expense), net	<u>(9,358)</u>	<u>6,229</u>	<u>(17,913)</u>	<u>(6,834)</u>
Income before income taxes	2,579,020	1,498,552	2,927,731	712,737
Provision for income taxes	<u>119,500</u>	<u>-</u>	<u>119,500</u>	<u>-</u>
Income from continuing operations	2,459,520	1,498,552	2,808,231	712,737
Income from discontinued operations	<u>-</u>	<u>50,018</u>	<u>-</u>	<u>50,018</u>
Net income	<u>\$ 2,459,520</u>	<u>\$ 1,548,570</u>	<u>\$ 2,808,231</u>	<u>\$ 762,755</u>
Earnings per share				
Basic	<u>\$ 0.27</u>	<u>\$ 0.17</u>	<u>\$ 0.31</u>	<u>\$ 0.09</u>
Diluted	<u>\$ 0.27</u>	<u>\$ 0.17</u>	<u>\$ 0.30</u>	<u>\$ 0.08</u>
Weighted average common shares outstanding				
Basic	8,960,866	8,917,211	8,949,023	8,917,244
Diluted	9,244,868	8,917,509	9,235,101	9,088,303

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

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(Unaudited)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance, June 30, 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	49,375	493	83,380				83,873
Repurchase of treasury stock					5,720	(27,455)	(27,455)
Net income				2,808,231			2,808,231
Balance, March 31, 2006	<u>9,411,739</u>	<u>\$94,117</u>	<u>\$48,201,561</u>	<u>\$ (12,546,966)</u>	<u>450,873</u>	<u>\$(3,828,737)</u>	<u>\$ 31,919,975</u>

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

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

		For The Nine Months Ended March 31, 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$	2,808,231
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Provision for uncollectible accounts receivable		275,101
Stock-based compensation expense		16,850
Depreciation expense		1,001,314
Amortization expense		129,037
Gain/Loss on disposal of property and equipment		29,670
Changes in operating assets and liabilities:		
Accounts receivable		(2,505,685)
Inventories		(2,667,689)
Prepaid expenses and other current assets		(922,915)
Accounts payable		202,636
Accrued expenses		121,852
Taxes payable		(22,630)
Net cash used in operating activities		<u>(1,534,228)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment		(383,732)
Cash paid for other assets		(2,503)
Net cash used in investing activities		<u>(386,235)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from bank line of credit		71,289,210
Payments on notes payable and line of credit		(69,333,944)
Cash paid for treasury shares		(27,455)
Proceeds from issuance of common stock		83,873
Net cash provided by financing activities		<u>2,011,684</u>
Net change in cash		91,221
Cash at beginning of period		863,887
Cash at end of period	\$	<u><u>955,108</u></u>
<b>Supplemental Cash Flow Disclosures</b>		
Cash Paid for Interest	\$	<u>135,278</u>
Cash Paid for Income Taxes	\$	<u>41,459</u>
Cash Refunded for Income Taxes	\$	<u>(133,930)</u>

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

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2006**

**Note 1 - Basis of Presentation**

The accompanying 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 of America, Sport Supply Group, Inc.'s ("SSG" or the "Company") consolidated financial position as of March 31, 2006 and the results of its operations for the nine month periods ended March 31, 2006 and March 31, 2005. 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. SSG recently changed its fiscal year-end from March 31 to June 30 and its tax year-end from October 31 to June 30. Accordingly, these financial statements report the results of the three and nine month periods ended March 31, 2006. Certain financial information for the previous fiscal year has been reclassified to conform to the fiscal 2006 presentation.

On July 1, 2005 Emerson Radio Corp. sold all of its 53.2% position in SSG (4,746,023 shares of common stock) to Collegiate Pacific Inc ("Collegiate Pacific".) Collegiate Pacific is traded on the American Stock Exchange under the symbol BOO. This transaction resulted in a change of control that obligated SSG to make a payment of approximately \$1.1 million in the quarter ended September 2005. Further, on September 8, 2005, SSG entered into an Agreement and Plan of Merger pursuant to which Collegiate Pacific would acquire the remaining 46.8% of the outstanding capital stock of SSG that it does not already own. On November 22, 2005, SSG and Collegiate Pacific terminated the Agreement and Plan of Merger. Pursuant to the Termination Agreement, Collegiate Pacific agreed to reimburse SSG for all fees and expenses reasonably incurred by SSG in connection with the Agreement and Plan of Merger in an amount not to exceed \$350,000. SSG incurred approximately \$100,000 of merger related expenses that in addition to the \$350,000 reimbursement from Collegiate Pacific. SSG believes Collegiate Pacific currently owns approximately 73% of the issued and outstanding shares of SSG.

The preparation of consolidated financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates 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 period. Actual results could differ from those estimates.

**Note 2 - Inventories**

Inventories are stated at the lower of cost or market. Cost is determined using the average cost method. As of March 31, 2006 and June 30, 2005, inventories consisted of the following:

	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Raw materials	\$ 1,514,860	\$ 1,370,457
Work-in-process	52,092	33,094
Finished and purchased goods	18,989,682	15,628,891
	<u>20,556,635</u>	<u>17,032,442</u>
Allowance for obsolete and slow moving items	(1,589,415)	(1,671,407)
Inventories, net	<u>\$ 18,967,230</u>	<u>\$ 15,361,035</u>

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

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2006**

**Note 3 - Notes Payable and Capital Lease Obligations**

As of March 31, 2006 and March 31, 2005, notes payable and capital lease obligations consisted of the following:

	<u>March 31, 2006</u>	<u>March 31, 2005</u>
Note payable under revolving line of credit:		
Interest at prime (7.50% at March 31, 2006 and 5.5% at March 31, 2005) due Oct. 31, 2007 and collateralized by substantially all assets.	\$ 4,847,368	\$ 3,009,818
Capital lease obligation, interest at 9%, payable in annual installments of principal and interest through August 2005		
Total	--	25,202
	<u>4,847,368</u>	<u>3,035,020</u>
Less – current portion	--	(25,202)
Notes payable and capital lease obligations, net	<u>\$ 4,847,368</u>	<u>\$ 3,009,818</u>

Borrowings under SSG's revolving line of credit are subject to the terms of SSG's amended Loan and Security Agreement with Wachovia Capital (formerly Congress Financial Corporation) which is available to finance SSG's 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, 2006 was in compliance with this requirement. As of March 31, 2006 SSG had total available borrowings under its senior credit facility of approximately \$19.9 million, of which approximately \$4.8 million was outstanding. 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 approval.

Maturities of SSG's borrowings under the senior credit facility and capital lease obligations as of March 31, 2006, by fiscal year and in the aggregate, are as follows:

2007	\$ --
2008	4,847,368
2009	--
2010	--
2011	--
Thereafter	--
Total	<u>\$ 4,847,368</u>

As of March 31, 2006 and March 31, 2005 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 SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2006**

**Note 4 - Stock-based Compensation**

Prior to fiscal 2006, the Company accounted for its stock options under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. 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.

The following table represents the effect on net income 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 prior to July 1, 2005.

	For Nine months Ended	
	March 31, 2006	March 31, 2005
Net income, as reported	\$ 2,808,231	\$ 762,755
Add: Stock-based employee compensation expense included in net income	--	--
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards	--	(128,571)
Proforma net income	<u>\$ 2,808,231</u>	<u>\$ 850,103</u>

**Note 5 - 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 \$5.5 million valuation allowance

As of March 31, 2006 and March 31, 2005 the components of the net deferred tax assets and liabilities are as follows:

	March 31, 2006	March 31, 2005
Current deferred tax assets (liabilities):		
Inventories	\$ 1,107,748	\$ 1,049,426
Other accrued liabilities	245,851	93,367
Accounts receivable	117,804	149,130
Other	(39,716)	(34,871)
Total current deferred tax assets	<u>1,431,687</u>	<u>1,257,052</u>
Property, plant and equipment	\$ (595,603)	\$ (1,075,143)
Intangible assets, including goodwill and SAP costs	1,571,952	2,525,848
Tax credit	602,285	489,924
Net operating losses	6,018,486	8,136,277
Other	(88,375)	(144,342)
Total noncurrent deferred tax assets	<u>7,511,745</u>	<u>9,932,564</u>
Valuation allowance for deferred tax assets	(5,556,572)	(7,802,755)
Noncurrent deferred tax assets, net of valuation allowance	<u>\$ 1,955,173</u>	<u>\$ 2,129,809</u>
Total net deferred tax assets	<u>\$ 3,386,860</u>	<u>\$ 3,386,862</u>

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2006**

**Note 5 - Income Taxes (continued)**

SSG has net operating loss carry forwards and other deferred tax benefits in the approximate amount of \$ 23.2 million that can be used to offset future taxable income and can be carried forward for 7 to 17 years until 2023. As of March 31, 2006 SSG has gross deferred tax assets of approximately \$8.9 million, consisting of: 1) current deferred tax assets of approximately \$1.4 million, 2) net long-term deferred tax assets of approximately \$2.0 million, and 3) a valuation allowance of approximately \$5.5 million. The amount of the deferred tax assets considered realizable will be increased by reversing the valuation allowance if the Company continues to generate profitable results in the future. Reversing the valuation allowance would increase deferred tax assets and stockholders' equity on the balance sheet and would also be reflected as a tax benefit on the income statement resulting in an increase in net income. The deferred tax assets also represent significant future cash savings since the deferred tax assets will be utilized to partially offset future income taxes. Although management believes SSG will realize the full benefit of the gross deferred tax assets of \$8.9 million before they expire, the Company has decided not to reverse the \$5.5 million valuation allowance until there is a longer period of consistent profitability.

The provision for income taxes in the accompanying consolidated statements of operations for the nine month periods ended March 31, 2006 and March 31, 2005 differ from the statutory federal rate as follows:

	2006	2005
Income tax at statutory Federal rate	\$ 1,246,778	\$ 703,206
Permanent differences	56,244	14,542
State income taxes, net of Federal benefit	95,019	64,449
Change in valuation allowance	(1,287,410)	(794,855)
Other	8,869	12,658
Income tax expense	<u>\$ 119,500</u>	<u>\$ -</u>

**Note 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 three years. The majority of the leases contain renewal options that extend the leases beyond the current lease terms.

The following table summarizes SSG's future minimum lease payments under noncancelable operating leases for office, warehouse, computer equipment and manufacturing locations at March 31, 2006.

Less than 1 year	\$ 1,582,623
1-3 years	1,722,148
4-5 years	0
Total	<u>\$ 3,304,771</u>

**SPORT SUPPLY GROUP, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2006**

**Note 7 - Product Liability and Other Claims**

Because of the nature of SSG's products and industry, the Company is periodically subject to product liability claims resulting from personal injuries. From time to time the Company 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 the Company. 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 the Company's financial condition or results of operations. However, any claims substantially in excess of SSG's insurance coverage, or any substantial claim not covered by insurance, could have a material adverse effect on the Company's results of operations and financial condition.

On October 5, 2005, two stockholders of SSG, 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 Collegiate Pacific, Inc., including Collegiate Pacific's Chairman and Chief Executive Officer, Michael J. Blumenfeld, SSG, and certain former members of SSG's board of directors. The plaintiffs filed the lawsuits as a class action on behalf of the public stockholders of SSG in connection with the now terminated Agreement and Plan of Merger pursuant to which Collegiate Pacific was to have acquired the remaining outstanding capital stock of SSG that it did not already own at that time. On November 22, 2005, for reasons unrelated to the pending lawsuit, Collegiate Pacific and SSG entered into a Termination Agreement, dated November 22, 2005, which terminated the Agreement and Plan of Merger. The lawsuit alleged the consideration to be paid to the public shareholders of SSG was inadequate and that the defendants breached certain fiduciary duties owed to the SSG public stockholders.

On December 15, 2005, a stockholder of SSG, 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 lawsuit in the Court of Chancery of the State of Delaware in and for New Castle County against Emerson Radio Corp., Geoffrey P. Jurick, Arthur J. Coerver, Harvey Rothenberg, Collegiate Pacific and Michael J. Blumenfeld. The plaintiff also included SSG as a nominal defendant. The plaintiff filed the lawsuit on behalf of plaintiff and as a class action on behalf of the public stockholders of SSG in connection with the now terminated Agreement and Plan of Merger pursuant to which Collegiate Pacific was to have acquired the remaining shares of the outstanding capital stock of SSG that it does not already own and Collegiate Pacific's subsequent acquisition of an additional 1.66 million shares of SSG for approximately \$9.2 million cash from an institutional stockholder. The lawsuit alleges the defendants breached certain fiduciary duties owed to SSG's stockholders and that Collegiate Pacific was unjustly enriched from its use of certain SSG assets.

On January 12, 2006, a stockholder of SSG, Costa Brava Partnership III, L.P., filed a lawsuit in the Court of Chancery of the State of Delaware in and for New Castle County against SSG. The complaint requests the court to compel SSG to make certain books and records available to plaintiff. The complaint states that Costa Brava desires to investigate circumstances surrounding the sale of Emerson Radio's controlling interest in SSG to Collegiate Pacific; collateral transactions that personally benefited SSG's former CEO; the termination of a merger agreement with Collegiate Pacific; and a purchase of SSG shares by Collegiate Pacific from an unidentified SSG stockholder at or about the time the merger agreement was terminated. Plaintiff and SSG entered into an agreement whereby SSG provided certain records to plaintiff.

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