GART SPORTS CO
Form 10-Q
June 19, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of The Securities Exchange Act of 1934

For the Quarterly Period Ended: May 5, 2001

Commission File Number: 000-23515

GART SPORTS COMPANY
(Exact name of registrant as specified in its charter)

Delaware	84-1242802
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1000 Broadway, Denver, Colorado 80203
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (303) 861-1122

Indicate by check mark whether the registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or shorter period that the registrant was required to file such reports).

Yes [X] No [_]

Indicate by check mark whether the registrant has been subject to such filing requirements for the past 90 days.

Yes [X] No [_]

As of June 2, 2001, there were outstanding 7,411,582 shares of the registrant's common stock, $.01 par value, and the aggregate market value of the shares (based upon the closing price on that date of the shares on the NASDAQ National Market) held by non-affiliates was approximately $39,200,000.

GART SPORTS COMPANY

QUARTERLY PERIOD ENDED MAY 5, 2001

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GART SPORTS COMPANY
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Share and Per Share Amounts)

	May 5, 2001 (Unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 7,334
Accounts receivable, net of allowance for doubtful accounts of $845 and $606, respectively	6,327
Note Receivable	185
Inventories	238,407
Prepaid expenses and other assets	7,603
Deferred income taxes	2,033
Total current assets	261,889
Property and equipment, net	61,361
Asset held for sale	1,628
Deferred income taxes	12,821
Other assets, net of accumulated amortization of $3,134 and $2,912, respectively	6,919
Total assets	$ 344,618

LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 99,081
Current portion of capital lease obligations	488
Accrued expenses and other current liabilities	27,313
Total current liabilities	126,882
Long-term debt	118,400
Capital lease obligations, less current portion	1,677
Deferred rent and other long-term assets	7,960
Total liabilities	254,919
Commitments and contingencies	
Stockholders' equity:	
Preferred stock, $.01 par value. 3,000,000 shares authorized; none issued	--
Common stock, $.01 par value. 22,000,000 shares authorized; 7,762,289 and 7,739,203 shares issued and 7,380,150 and 7,357,064 shares outstanding at May 5, 2001 and February 3, 2001, respectively	78
Additional paid-in capital	57,154
Unamortized restricted stock compensation	(1,908)
Accumulated other comprehensive loss	(306)
Retained earnings	37,094
	92,112
Treasury stock, 382,139 common shares, at cost	(2,413)
Total stockholders' equity	89,699
Total liabilities and stockholders' equity	$ 344,618

See accompanying notes to consolidated financial statements.

GART SPORTS COMPANY
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, Dollars in Thousands, Except Share and Per Share Amounts)

	Thirteen weeks ended	
	May 5, 2001	April 29, 2000
Net sales	$ 162,642	$ 165,749
Cost of goods sold, buying, distribution and occupancy	123,316	126,439
Gross profit	39,326	39,310
Operating expenses	36,183	36,159
Operating income	3,143	3,151
Non operating income (expense):		

Interest expense, net	(2,210)	(2,590)
Other income	59	111
Income before income taxes	992	672
Income tax expense	(387)	(262)
Net income	$ 605	$ 410
Earnings per share:		
Basic	$ 0.08	$ 0.05
Diluted	$ 0.08	$ 0.05
Weighted average shares of common stock outstanding:		
Basic	7,365,790	7,477,130
Diluted	7,902,298	7,547,103

See accompanying notes to consolidated financial statements.

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GART SPORTS COMPANY
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, Dollars in Thousands)

	Common stock	Additional paid-in capital	Unamortized restricted stock compensation	Accumulated other comprehensive loss
BALANCES AT FEBRUARY 3, 2001	$ 77	$ 57,014	$ (2,055)	$ (22
Net income	--	--	--	-
Unrealized loss on equity securities	--	--	--	(8
Comprehensive income				
Issuance of common stock	--	12	--	-
Exercise of stock options	1	128	--	-
Amortization of restricted stock	--	--	147	-
BALANCES AT MAY 5, 2001	$ 78	$ 57,154	$ (1,908)	$ (30

	Comprehensive income	Treasury stock	Total Stockholders' equity
BALANCES AT FEBRUARY 3, 2001		$ (2,413)	$ 88,886
Net income	$ 605	--	605
Unrealized loss on equity securities	(80)	--	(80)

Comprehensive income	$ 525		
Issuance of common stock		--	12
Exercise of stock options		--	129
Amortization of restricted stock		--	147
BALANCES AT MAY 5, 2001		$ (2,413)	$ 89,699

See accompanying notes to consolidated financial statements.

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GART SPORTS COMPANY
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, Dollars in Thousands)

	Thirteen weeks end	
	May 5, 2001	April 200
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 605	$
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,714	
Deferred income taxes	387	
Loss on disposition of assets	45	
Increase in deferred rent	389	
Deferred compensation	12	
Changes in operating assets and liabilities:		
Accounts receivable, net	(83)	
Inventories	(7,607)	(1
Prepaid expenses and other assets	(209)	
Other assets	(480)	
Accounts payable	(6,314)	(
Accrued expenses and other current liabilities	(8,368)	(
Net cash used in operating activities	(17,909)	(2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,427)	(
Receipts on notes receivable	44	
Net cash used in investing activities	(5,383)	(
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	66,686	6
Principal payments on long-term debt	(44,186)	(4
Principal payments on capital lease		

obligations	(110)	
Purchase of treasury stock	-	
Proceeds from the sale of common stock under option plans	129	
Net cash provided by financing activities	22,519	2
Increase (decrease) in cash and cash equivalents	(773)	
Cash and cash equivalents at beginning of period	8,107	
Cash and cash equivalents at end of period	$ 7,334	$
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest, net	$ 2,121	$
Cash received during the period for income taxes	$ --	$

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements do not include all information and footnotes necessary for the annual presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America, and should be read in conjunction with the 2000 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the statement of financial position and the results of operations for the interim periods have been included. The results for the thirteen week period May 5, 2001 are not necessarily indicative of the results to be expected for the full year.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

2. EARNINGS PER SHARE

The following table sets forth the computations of basic and diluted earnings per share (in thousands, except share and per share amounts):

	Thirteen
	May 5, 2001
Net income	$ 605
Weighted average shares of common stock outstanding - basic	7,365,790

Basic earnings per share	$ 0.08
Number of shares used for diluted earnings per share:	
Weighted average shares of common stock outstanding - basic	7,365,790
Dilutive securities - stock options and restricted stock	536,508
Weighted average shares of common stock outstanding - diluted	7,902,298
Diluted earnings per share	$ 0.08

3. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Statement, as amended, became effective in the first quarter of fiscal year 2001. The new statement requires that every derivative instrument be recorded on the balance sheet as either an asset or liability, measured at its fair value, and requires that changes in the derivative's fair value be recognized currently in earnings, unless specific hedge accounting criteria are met. The Company adopted this statement on February 4, 2001 and there was not a material impact on results of operations or financial position.

4. CONTINGENCIES

Tax Contingency

Under the terms of the Company's tax sharing agreement with its former parent, the Company is responsible for its share, on a separate return basis, of any tax payments associated with proposed deficiencies or adjustments, and related interest and penalties charged to the controlled group which may arise as a result of an assessment by the IRS.

On July 24, 1997, the IRS proposed adjustments to the Company's and former parent's 1992 and 1993 federal income tax returns in conjunction with the former parent's IRS examination. The proposed adjustments related to the manner in which LIFO inventories were characterized on such returns. The IRS has asserted that this basis difference should have been reflected in taxable income in 1992 and 1993. The Company has taken the position that the inventory acquired in connection with the acquisition of its former parent was appropriately allocated to its inventory pools. The IRS has asserted the inventory was acquired at a bargain purchase price and should be allocated to a separate pool and liquidated as inventory turns. Based on management's discussions with the Company's former parent, the Company believes the potential accelerated tax liability, which could have a negative effect on liquidity in the near term, ranges from approximately $2,500,000 to $9,700,000. The Company recorded approximately $9,700,000 as a long-term net deferred tax liability for the tax effect of the LIFO inventory basis difference. The range of loss from possible assessed interest charges resulting from the proposed adjustments range from approximately $200,000 to $3,300,000. The Company has accrued approximately $1.2 million for estimated interest charges in the consolidated financial statements. No penalties are expected to be assessed relating to this matter. At May 5, 2001, the LIFO

inventory and other associated temporary differences continue to be classified as long-term net deferred tax liabilities since final settlement terms have not been negotiated.

The Company has reviewed the various matters that are under consideration and believes that it has adequately provided for any liability that may result from this matter. In the opinion of management, any additional liability beyond the amounts recorded that may arise as a result of the IRS examination will not have a material adverse effect on the Company's consolidated financial condition, results of operations, or liquidity.

In addition, the Company is currently under examination for the fiscal tax years ended September 1997 and 1998. No adjustments have been proposed at this time.

Legal Proceedings

In June 2000, a former employee of Sportmart brought two class action complaints in California against the Company, alleging certain wage and hour claims in violation of the California Labor Code, California Business and Professional Code section 17200 and other related matters. One complaint alleges that the Company classified certain managers in its California stores as exempt from overtime pay when they would have been classified as non-exempt and paid overtime. The second complaint alleges that the Company failed to pay hourly employees in its California stores for all hours worked. In March 2001, a third class action complaint was filed in the same court in California alleging the same wage and hour violations regarding classification of certain managers as exempt from overtime pay. All the complaints seek compensatory damages, punitive damages and penalties. The amount of damages sought is unspecified. Although the court recently denied motions to dismiss the first two complaints, the Company intends to vigorously defend these matters and at this time, the Company has not ascertained the future liability, if any, as a result of these complaints.

The Company is a party to various other legal proceedings and claims arising in the ordinary course of business. Management believes that the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

5. SUBSEQUENT EVENTS

On June 7, 2001, the Company completed its acquisition of Houston-based Oshman's Sporting Goods, Inc. ("Oshman's"). In separate meetings held in Denver and Houston on June 7, 2001, shareholders of both companies approved the transaction valued at approximately $99 million based on the closing price of Gart Sports common stock on that day. Oshman's shareholders received $7.00 in cash and 0.55 shares of Gart Sports common stock for each share of Oshman's common stock held. Oshman's operated 58 sporting goods specialty stores, including 43 SuperSports USA stores and 15 traditional stores. Oshman's SuperSports USA

stores are located primarily in medium to large metropolitan areas across the United States, offering high quality name brand and private label equipment and sportswear. Oshman's SuperSports USA stores utilize interactional merchandising by offering sports test-play areas, including basketball courts, batting cages, golf simulators and tennis courts. With the addition of the 58 Oshman's stores, Gart Sports now operates 178 stores in 25 states.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto included elsewhere within this report and the 2000 Annual Report on Form 10-K.

The Company is a leading retailer of sporting goods in the Midwest and western United States. Given the economic characteristics of the store formats, the similar nature of the products sold, the type of customer and method of distribution, the operations of the Company are aggregated in one reportable segment.

The Company uses a 52-53 week fiscal reporting year ending on the Saturday closest to the end of January.

RESULTS OF OPERATIONS

The following table sets forth the Company's consolidated statement of operations data as a percentage of net sales and the number of stores open at the end of each period for the periods indicated (dollars rounded to millions):

	Thirteen weeks ended		
	May 5, 2001		
	Dollars	%	Do
Net sales	$ 162.6	100.0 %	$
Cost of goods sold, buying, distribution and occupancy	(123.3)	(75.8)	
Gross profit	39.3	24.2	
Operating expenses	(36.2)	(22.3)	
Operating income	3.1	1.9	
Interest expense, net	(2.2)	(1.4)	
Other income	0.1	0.1	
Income before income taxes	1.0	0.6	
Income tax expense	(0.4)	(0.2)	
Net income	$ 0.6	0.4 %	$
Number of stores at end of period	119		

THIRTEEN WEEKS ENDED MAY 5, 2001 COMPARED TO THIRTEEN WEEKS ENDED APRIL 29, 2000

Net Sales. Net sales for the thirteen weeks ended May 5, 2001 were $162.6 million compared to $165.7 million for the thirteen weeks ended April 29, 2000. Comparable store sales during the quarter were slightly positive versus the prior year's comparable quarter. This comparable sales performance was primarily due to soft sales of in-line skates, bikes and golf as a result of unseasonably

cold and wet weather in the months of February and March. These soft sales were offset by strong sales in these same categories once the weather began to normalize in the month of April.

Gross Profit. Gross profit for the thirteen weeks ended May 5, 2001 was $39.3 million, or 24.2% of net sales, as compared to $39.3 million, or 23.7% of net sales, for the thirteen weeks ended April 29, 2000. The increase as a percent of sales is due primarily to improved buying disciplines and continued progress in enhancing the replenishment and allocation of merchandise to the stores.

Operating Expenses. Operating expenses for the thirteen weeks ended May 5, 2001 were $36.2 million, or 22.3% of net sales, compared to $36.1 million, or 21.8% of net sales, for the period ended April 29, 2000. Operating expense dollars remained relatively flat versus the year ago quarter. As a percentage of sales, operating expenses increased slightly due to increased utility and insurance costs.

Operating Income. As a result of the factors described above, the Company recorded operating income for the thirteen weeks ended May 5, 2001 of $3.1 million compared to operating income of $3.2 million for the thirteen weeks ended April 29, 2000.

Interest Expense, Net. Interest expense, net for the thirteen weeks ended May 5, 2001 decreased to $2.2 million, or 1.4% of net sales, from $2.6 million, or 1.6% of net sales, in the thirteen weeks ended April 29, 2000. The decrease is primarily due to a decrease in average interest bearing debt for the period and a decrease in the effective borrowing rate as a result of lower interest rates over the prior year.

Other Income. Other income was $0.1 million for the thirteen weeks ended May 5, 2001 compared to $0.1 million for the thirteen weeks ended April 29, 2000.

Income Taxes. The Company's income tax expense for the thirteen weeks ended May 5, 2001 was $0.4 million compared to income tax expense of $0.3 million for the thirteen weeks ended April 29, 2000. The Company's estimated effective tax rate remained the same at 39.0% for both periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary capital requirements are for inventory, capital improvements, and pre-opening expenses to support the Company's expansion plans, as well as for various investments in store remodeling, store fixtures and ongoing infrastructure improvements.

Cash Flow Analysis

	Thirteen weeks ended	
	May 5, 2001	April 29, 2000
Cash used in operating activities	$ (17,909)	$ (23,597)
Cash used in investing activities	(5,383)	(2,536)
Cash provided by financing activities	22,519	26,609

Capital expenditures	$ 5,427	$ 2,574
Long-term debt (at end of period)	118,400	132,800
Working capital (at end of period)	135,007	133,466
Current ratio (at end of period)	2.06	1.90
Debt to equity ratio (at end of period)	1.32	2.01

Cash used in operating activities in the first quarter of fiscal 2000 was primarily the result of inventory purchases and payments of accounts payable and accrued expenses. These cash uses were partially offset by cash generated by net income adjusted for non-cash charges in the first quarter of fiscal 2001.

Cash used in investing activities in the first quarter of fiscal 2001 was primarily for capital expenditures. These expenditures were primarily for store remodeling, store fixtures, and the purchase or enhancement of certain information systems.

Cash provided by financing activities in the first quarter of fiscal 2001 primarily represents net proceeds from borrowings on the Company's revolving line of credit and proceeds from the sale of common stock under option plans, slightly offset by payments of capital lease obligations.

The Company's liquidity and capital needs have been met by cash from operations and borrowings under a revolving line of credit with CIT/Business Credit, Inc., as agent, ("CIT"). The long-term debt currently consists of the Credit Agreement, which allows the Company to borrow up to 70% of its eligible inventories (as defined in the Credit Agreement) during the year and up to 75% of its eligible inventories for any consecutive 90 day period in a fiscal year. Borrowings are limited to the lesser of $175 million or the amount calculated in accordance with the borrowing base, and are secured by substantially all inventories, trade receivables and intangible assets. The lenders may not demand repayment of principal absent an occurrence of default under the Credit Agreement prior to January 9, 2003. The Credit Agreement contains certain covenants, including financial covenants that require the Company to maintain a specified minimum level of net worth at all times and restrict the Company's ability to pay dividends. At May 5, 2001, the Company was in compliance with all covenants of the Credit Agreement.

Under the terms of the revolving credit facility, loan interest is payable monthly at Chase Manhattan Bank's prime rate plus a margin rate that cannot exceed 0.25% or, at the option of the Company, at Chase Manhattan Bank's LIBOR rate plus a margin that cannot exceed 1.75%. The margin rates on prime and LIBOR borrowings were reduced to 0.0% and 1.50% during the first quarter of fiscal 2000, as a result of achieving certain earnings levels. There was $39.5 million available for borrowing at May 5, 2001.

The Internal Revenue Service has proposed adjustments to the 1992 and 1993 consolidated federal income tax returns of the Company and its former parent, now Thrifty PayLess Holdings, Inc., a subsidiary of RiteAid Corporation, due to the manner in which LIFO inventories were characterized on such returns. Based on management's discussion with the Company's former parent, the Company believes the potential accelerated tax liability, which could have a negative effect on liquidity in the near term, ranges from approximately $2,500,000 to $9,700,000. See note 4 to the Consolidated Financial Statements.

Capital expenditures, on a stand-alone basis, are projected to be approximately $15 to $17 million in fiscal 2001. These capital expenditures will be for new store openings, store remodeling, store fixtures, information

systems, and distribution center facilities. The Company leases all of its store locations and intends to continue to finance its new stores with long-term operating leases. Based upon historical data, newly constructed superstores require a cash investment of approximately $1.8 million for a 40,000 square foot store and $1.5 million for a 33,000 square foot store. Superstores constructed in existing retail space historically have required additional capital investments of approximately $700,000 in leasehold improvements per location. The level of capital improvements will be affected by the mix of new construction versus renovation of existing retail space.

The Company believes that on a stand alone basis cash generated from operations, combined with funds available under the Credit Agreement, would be sufficient to fund projected capital expenditures and other working capital requirements through fiscal 2001. The Company intends to utilize the Credit Agreement to meet seasonal fluctuations in cash flow requirements.

In conjunction with the acquisition of Oshman's, the Company increased its revolving line of credit from $175 million to $300 million. The CIT Group/Business Credit Inc. is the agent for the four year facility. The Company believes that the available resources under the revised line of credit, combined with cash generated from operations, will be sufficient to fund the combined entity, the costs incurred to integrate Oshman's with the Company as well as non-recurring costs incurred as a result of this transaction.

SEASONALITY AND INFLATION

The fourth quarter has historically been the strongest quarter for the Company. The Company believes that two primary factors contribute to this seasonality. First, increased sales of cold weather sporting goods, including sales of ski and snowboard merchandise during the quarter, which corresponds with much of the ski and snowboard season. Second, holiday sales contribute significantly to the Company's operating results. As a result of these factors, inventory levels, which gradually increase beginning in April, generally reach their peak in November and then decline to their lowest level following the December holiday season. Any decrease in sales for the fourth quarter, whether due to a slow holiday selling season, poor snowfall in ski areas near the Company's markets or otherwise, could have a material adverse effect on the Company's business, financial condition and operating results for the entire fiscal year.

Although the operations of the Company are influenced by general economic conditions, the Company does not believe that inflation has a material impact on the Company's results of operations. The Company believes that it is generally able to pass along any inflationary increases in costs to its customer.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Statement became effective in the first quarter of fiscal year 2001. The new statement requires that every derivative instrument be recorded on the balance sheet as either an asset or liability, measured at its fair value, and requires that changes in the derivative's fair value be recognized currently in earnings, unless specific hedge accounting criteria are met. The Company adopted this statement on February 4, 2001 and there was not a material impact on results of operations or financial position.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's primary interest rate risk exposure results from the Company's long-term debt agreement. The Company's long-term debt bears interest at variable rates that are tied to either the U.S. prime rate or LIBOR at the time of the borrowing. At the end of each 90-day period, the interest rates on the Company's outstanding borrowings are changed to reflect current prime or LIBOR rates. Therefore, the Company's interest expense changes as prime or LIBOR change. Historically, the Company has not relied upon derivative financial instruments to mitigate the risk associated with changes in interest rates.

Based on the Company's overall interest rate exposure at May 5, 2001, a hypothetical instantaneous increase or decrease of one percentage point in interest rates applied to all financial instruments would change the Company's after-tax earnings by approximately $722,000 over a 12-month period.

The Company's exposure to foreign currency exchange rates is limited because the Company does not operate any stores outside of the United States. In connection with the acquisition of Sportmart, the Company acquired one store in Canada, which Sportmart had closed prior to the acquisition. The Company is currently attempting to sell this store. The Company does not consider the market risk exposure relating to foreign currency exchange to be material. Foreign currency fluctuations did not have a material impact on the Company during the first quarter of fiscal 2001 or 2000.

The fair value of the Company's investments in marketable equity securities at May 5, 2001 was $194,000. The fair value of these investments will fluctuate as the quoted market prices of such securities fluctuate. Based on the Company's marketable equity securities portfolio and quoted market prices at May 5, 2001, a 50% increase or decrease in the market price of such securities would result in an increase or decrease of approximately $97,000 in the fair value of the marketable equity securities portfolio. Although changes in quoted market prices may affect the fair value of the marketable equities securities portfolio and cause unrealized gains or losses, such gains or losses would not be realized unless the investments are sold or determined to have a decline in value which is other than temporary.

As of May 5, 2001, the fair value of the Company's investments in marketable equity securities was $306,000 less than the adjusted basis of those investments. Such unrealized holding loss has not been recognized in the Company's consolidated statement of operations, but rather has been recorded as a component of stockholders' equity in other comprehensive loss. The actual gain or loss that the Company will realize when such investments are sold will depend on the fair value of such securities at the time of sale.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The information discussed herein includes "forward-looking statements" within the meaning of the federal securities laws. Although the Company believes that the expectations reflected in such forward looking statements are reasonable, the Company's actual results could differ materially as a result of certain factors, including, but not limited to: the Company's ability to manage its expansion efforts in existing and new markets, availability of suitable new store locations at acceptable terms, general economic conditions, and retail and sporting goods business conditions, specifically, availability of merchandise to meet fluctuating consumer demands, fluctuating sales margins, increasing competition in sporting goods and apparel retailing, as well as other factors described from time to time in the Company's periodic reports, including the Annual Report of the Company on Form 10-K for its year ended February 3, 2001, filed with the Securities and Exchange Commission.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is, from time to time, involved in various legal proceedings incidental to the conduct of its business. The Company believes that the outcome of all such pending legal proceedings to which it is a party will not, in the aggregate, have a material adverse effect on the Company's business, financial condition, or operating results.

As previously disclosed, a former employee of Sportmart brought two class action complaints in California against the Company, alleging certain wage and hour claims in violation of the California Labor Code, California Business and Professional Code section 17200 and other related matters. In March 2001, a third class action complaint was filed in the same court in California alleging the same wage and hour violations regarding classification of certain managers as exempt from overtime pay. All the complaints seek compensatory damages, punitive damages and penalties. The amount of damages sought is unspecified. Although the court recently denied motions to dismiss the first two complaints, the Company intends to vigorously defend these matters and at this time, the Company has not ascertained the future liability, if any, as a result of these complaints.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS.

B. REPORTS ON FORM 8-K

The Company filed a Current Report on Form 8-K with the Commission dated February 22, 2001 to report, under Item 5, that the registrant and Oshman's Sporting Goods, Inc. ("Oshman's") had entered into an Agreement and Plan of Merger dated as of February 21, 2001, by and among Oshman's, Gart Sports and GSC Acquisition Corp., a wholly owned subsidiary of Gart Sports.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on June 19, 2001 on its behalf by the undersigned thereunto duly authorized.

GART SPORTS COMPANY

By: /s/ JOHN DOUGLAS MORTON

John Douglas Morton,
Chairman of the Board of Directors,
President and Chief Executive Officer

By: /s/ THOMAS T. HENDRICKSON

Thomas T. Hendrickson,
Executive Vice President, Chief Financial
Officer and Treasurer