

SPORTS AUTHORITY INC /DE/
Form 10-K
March 23, 2006

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended January 28, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____
Commission file number 001-31746

THE SPORTS AUTHORITY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

84-1242802
(I.R.S. Employer Identification No.)

1050 West Hampden Avenue
Englewood, Colorado
(Address of principal executive office)

80110
(Zip Code)

(303) 200-5050

(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$.01 per share
(title of class)

New York Stock Exchange
(name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. Yes No

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Indicate by check mark whether the registrant: (1) 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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the last sale price of registrant's common stock on July 30, 2005, as reported by the New York Stock Exchange, was approximately \$734,000,000. In determining the market value of non-affiliate voting stock, shares of registrant's common stock beneficially owned by each executive officer and Director have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 26,441,484 Shares of Common Stock outstanding as of March 14, 2006.

Documents Incorporated by Reference

Part III of this Form 10-K is incorporated by reference from the Registrant's 2006 definitive proxy statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year.

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Forward-Looking Statements

We caution that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Annual Report on Form 10-K or made by our management involve risks and uncertainties and are subject to change based on various important factors, many of which may be beyond our control. Accordingly, our future performance and financial results may differ materially from those expressed or implied in any such forward-looking statements. Accordingly, investors should not place undue reliance on forward-looking statements as a prediction of actual results. You can identify these statements as those that may predict, forecast, indicate or imply future results, performance or advancements and by forward-looking words such as "believe," "anticipate," "expect," "estimate," "predict," "intend," "plan," "project," "will," "will be," "will continue," "will result," "could," "may," "might" or any variations of such words or other words with similar meanings. Forward-looking statements address, among other things, our expectations, our growth strategies, including our plans to open new stores, our efforts to increase profit margins and return on invested capital, projections of our future profitability, results of operations, capital expenditures or our financial condition or other "forward-looking" information and includes statements about revenues, earnings, spending, margins, liquidity, store openings and operations, inventory, private label products, our actions, plans or strategies.

The following factors, among others, in some cases have affected and in the future could affect our financial performance and actual results and could cause actual results for 2006 and beyond to differ materially from those expressed or implied in any forward-looking statements included in this report or otherwise made by our management: rapidly changing accounting rules and regulations and interpretations of existing rules; the intense competition in the sporting goods industry and actions by our competitors; our ability to manage our growth, open new stores on a timely basis and expand successfully in new and existing markets; the availability of retail store sites on terms acceptable to us; the cost of real estate and other items related to our stores; changes in consumer demand; risks relating to product liability claims and the availability of sufficient insurance coverage relating to those claims; our relationships with our suppliers, distributors or manufacturers and their ability to provide us with sufficient quantities of products; any serious disruption at our distribution or return facility; the seasonality of our business; the potential impact of natural disasters or national and international security concerns on us or the retail environment; risks related to the economic impact or the effect on the U.S. retail environment relating to instability and conflict in the Middle East or elsewhere; risks relating to the regulation of the products we sell, such as firearms; risks associated with relying on foreign sources of production; risks relating to our pursuit of strategic acquisitions; our ability to meet our labor needs; changes in general economic and business conditions and in the specialty retail or sporting goods industry in particular; delays and other obstacles associated with the pending merger; and other factors discussed elsewhere in this report in further detail under the caption "Risk Factors" as well as other reports or filings filed by us with the Securities and Exchange Commission.

In addition, we operate in a highly competitive and rapidly changing environment; therefore, new risk factors can arise, and it is not possible for management to predict all such risk factors, nor to assess the impact of all such risk factors on our business or the extent to which any individual risk factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. We do not assume any obligation and do not intend to update any forward-looking statements.

PART I

ITEM 1. Business

General

We are one of the nation's largest publicly traded full-line sporting goods retailers with sales of approximately \$2.5 billion for fiscal 2005 and operating 398 stores in 45 states as of January 28, 2006. On August 4, 2003, a wholly-owned subsidiary of Gart Sports Company completed a merger with The Sports Authority, Inc. The merger was accounted for under the purchase method of accounting with Gart Sports Company as the acquirer, and accordingly, our financial information includes The Sports Authority, Inc., or "TSA" since the date of the merger. Financial information for the first 26 weeks of the 52 weeks ended January 31, 2004 and for other periods prior to the merger reflect the former Gart Sports Company on a stand-alone basis.

In connection with the merger, The Sports Authority, Inc. became a wholly-owned subsidiary of Gart Sports Company. Gart Sports Company was then renamed The Sports Authority, Inc. and the former The Sports Authority, Inc. was renamed TSA Stores, Inc. ("TSA Stores"). Except as otherwise indicated herein, the words "we," "us," "our," and "Company" refer to The Sports Authority, Inc. (formerly Gart Sports Company), and its direct and indirect subsidiaries, references to "Gart Sports" or to the "Sports Authority" refer to the stores operated under those brand names by certain of our wholly-owned subsidiaries and the "TSA merger" means the Gart Sports Company/The Sports Authority, Inc. merger described above. At the time of the merger, TSA Stores operated 205 Sports Authority stores. In addition, Mega Sports Co., Ltd. owned by TSA Stores and AEON Co., Ltd. operates Sports Authority stores in Japan under a licensing agreement.

We currently operate our stores under three principal brand names: Sports Authority, Gart Sports and Sportmart. We completed a major stage in the rebranding of our Oshman's, Sportmart and Gart Sports stores to the Sports Authority nameplate with approximately 75% of our stores under the Sports Authority nameplate as of the end of fiscal 2005. By the end of the second quarter of fiscal 2006, we intend to rebrand the balance of our stores to the Sports Authority name to create one consistent brand which will enable us to recognize additional synergies from the TSA merger. Gart Sports' business was established in 1928. In January 1998, Gart Sports acquired 59 Sportmart stores, doubling its store base and expanding its geographic presence to eight additional states. In June 2001, Gart Sports acquired 58 Oshman's stores, increasing its store base by nearly 50% and expanding its geographic presence to nine additional states. Finally, the TSA merger in August 2003 more than doubled the Company's store base and expanded its presence to 20 additional states.

Proposed Going Private Transaction. On January 22, 2006, the Company entered into a definitive agreement ("merger agreement") to be acquired by an investor group led by Green Equity Investors IV, L.P., an affiliate of Leonard Green & Partners, L.P. and including members of Sports Authority's senior management team for \$37.25 per share in cash. The board of directors of Sports Authority (excluding J. Douglas Morton and Jonathan D. Sokoloff, each of whom recused himself), on the recommendation of a special committee of disinterested directors, has unanimously approved the merger agreement and recommends that Sports Authority's stockholders adopt the merger agreement. The total transaction value, including assumed debt, is approximately \$1.4 billion. The transaction is expected to close in the second fiscal quarter of 2006, and is subject to Sports Authority's stockholder approval, as well as other customary closing conditions, including the receipt of financing and regulatory approvals. In connection with the proposed transaction, a definitive proxy statement of Sports Authority and other materials will be filed with the Securities and Exchange Commission. Investors will be able to obtain free copies of the definitive proxy statement (when available) as well as other filed documents containing information about Sports Authority at <http://www.sec.gov>, the SEC's free internet site.

Our corporate headquarters are located at 1050 West Hampden Avenue, Englewood, Colorado 80110, and our telephone number is (303) 200-5050. Our website is located at www.sportsauthority.com. We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission.

Industry Overview, Competition

The sporting goods retail sector is highly fragmented and intensely competitive. This sector is comprised of five principal categories of retailers: large format sporting goods stores, traditional sporting goods stores, specialty sporting goods stores, mass merchandisers and catalog and internet based retailers. In addition, a variety of other retailers sell various types of sporting goods, principally athletic footwear and apparel.

Large Format Sporting Goods Stores. Large format full line sporting goods retailers, like us, generally range in size from 20,000 to 100,000 square feet, offer a broad selection of brand name sporting goods and tend to be either anchor stores in strip or enclosed malls or in free-standing locations. Examples of these retailers include our stores, Dick's Sporting Goods, Sport Chalet, GI Joe's, Academy Sports and Outdoors, and Dunham's Sports.

Traditional Sporting Goods Stores. Traditional sporting goods retailers tend to have relatively small stores, generally range in size from 5,000 to 20,000 square feet and are frequently located in malls or strip centers. Examples of these retailers are Modell's Sporting Goods, Big 5 Sporting Goods and Hibbett Sporting Goods, as well as local independent sporting goods retailers. These retailers typically carry limited quantities of each item in their assortment and generally offer a more limited selection than full line sporting goods retailers.

Specialty Sporting Goods Stores. Specialty sporting goods retailers have both relatively small stores and larger format stores, generally ranging in size from 5,000 to 200,000 square feet and tend to be either anchor stores in strip or enclosed malls or in free-standing locations. Examples of these retailers include Edwin Watts Golf Shops, Golfsmith, Golf Galaxy, Nevada Bob's, Champs, Bass Pro Shops, Gander Mountain, The Finish Line, West Marine, Cabela's and REI. These retailers also include pro shops that often are single store operations. Specialty sporting goods retailers typically carry a wide assortment of one specific product category, such as athletic shoes or golf, tennis, camping or outdoor equipment and generally have higher prices than full line sporting goods retailers.

Mass Merchandisers. Mass merchandisers' stores generally range in size from 50,000 to 200,000 square feet, feature sporting goods as part of their overall assortment and are located primarily in strip centers, free-standing locations or shopping malls. Stores in this category include discount retailers such as Wal-Mart, Target and Kmart, warehouse clubs such as Costco, and department stores such as Sears. These retailers usually have limited selection and fewer brand names and typically do not offer the customer service offered by specialty and full line sporting goods retailers.

Catalog and Internet Based Retailers. We compete with catalog and internet retailers such as L.L. Bean, Eastbay, Land's End and Cabela's, and other sporting goods websites.

We believe that we will continue to face competition from retailers in each of these categories. The principal competitive factors include store location and image, product selection, quality, price, and customer service. Increased competition in markets in which we have stores, the adoption by competitors of innovative store formats and retail sales methods, the entry of new competitors in our markets or the expansion of operations by existing competitors in our markets could have a material adverse effect on our business, financial condition and operating results. In addition, some of our

competitors have substantially greater resources than us. We believe that the principal strengths with which we compete are our broad selection and competitive prices combined with a high level of customer service and brand names typically available only in specialty stores and pro shops.

Business Strategy

Our business strategy is to provide our customers with an extensive selection of high quality, brand name merchandise at competitive prices with a high level of customer service. The key elements of our business strategy are the following:

Broad Assortment of Quality, Brand Name Products. We carry an average of approximately 51,000 Stock Keeping Units (SKUs) in each of our stores, including popular brands like Nike, Adidas, BowFlex Coleman, Columbia, Easton, FootJoy, K2, New Balance, Rawlings, Reebok, Rollerblade, Rossignol, Russell, Salomon, Spalding, Speedo, The North Face, Under Armour and Wilson. Our customer service, expert technicians and specialty store presentation enable us to purchase directly from manufacturers the full product lines typically available only in specialty stores and pro shops, such as Under Armour, Cleveland, Taylor Made, and Titleist golf accessories, Schwinn Fitness, Diamondback bikes, Volkl ski equipment and Burton snowboards.

Attractive Shopping Environment. We seek to offer an attractive shopping environment that showcases the breadth of our product offerings and reinforces our distinctive brand image. Our brightly-lit stores are designed to project a clean, upscale atmosphere, with a user-friendly layout featuring wide aisles, well-organized merchandise displays and clearly defined departments arranged in a logical and convenient floor plan.

Customer Service. Our objective is to provide a high level of customer service generally associated with specialty sporting goods stores and pro shops. We use a commission program to increase the level of customer service in our resort stores and offer additional monetary incentives in technical areas such as bikes, fitness, ski, and golf. We use an independent professional service to monitor customer shopping experiences in our stores. In addition, we offer our customers special services including special order capability, equipment rental, on-site repair centers, ski lift tickets and hunting and fishing licenses. We strive to provide a high level of technical service for products, including skis and snowboards, bikes, exercise equipment and hunting products.

Customized Merchandise Mix. We tailor our product mix to market to specific demographic groups and lifestyles. Purchasing decisions are made on a regional, and sometimes a store by store basis, and field personnel work directly with our buyers to achieve the appropriate product mix in each store. Various factors typically influence the product mix in a particular market, like disposable income, professional and amateur sports activities and specific regional and seasonal activities.

Promotional Advertising and Marketing. We use a promotional pricing and advertising strategy focused on the creation of "events" to drive traffic and sales in our stores. Each event is based upon either a key shopping period, such as the winter holiday season, Father's Day or Back-to-School, or a specific sales or promotional event, including the annual Sniagrab® ("bargains" spelled backwards) sale, which we believe is the largest pre-season ski and snowboard sale in the United States. Our strategy of clustering stores in major markets enables us to employ an aggressive advertising strategy on a cost-effective basis, utilizing primarily newspaper inserts and, to a lesser degree, radio and television.

E-Commerce. Under license and e-commerce agreements with GSI Commerce, Inc. ("GSI"), GSI operates our sporting goods retail website at www.thesportsauthority.com. Under these agreements, GSI owns certain content and technology related to the website, purchases and owns the merchandise sold on the website, and hosts, maintains, fulfills orders and furnishes all other "back-end" operations

required to operate the website. GSI Commerce receives all revenue generated from the website and pays us a royalty based on sales from this site.

Merchandising

We offer our customers an average of approximately 51,000 SKUs of high quality, brand name sporting goods and apparel in each of our stores. New brands and products are continuously introduced and featured in our stores and our advertising. Our merchandise is broadly classified into one of two major categories, hardlines or softlines. Hardlines include items like skis, golf equipment, bicycles, exercise equipment and outdoor gear, including camping, hunting and fishing. Softlines consist primarily of apparel, footwear and outerwear.

The following table sets forth our percentage of total net merchandise sales for each major product category for the periods indicated:

| | Fiscal Years | | |
|------------|--------------|--------|--------|
| | 2005 | 2004 | 2003 |
| Hardlines | 49.3% | 50.7% | 51.4% |
| Softlines: | | | |
| Apparel | 29.4 | 27.5 | 26.1 |
| Footwear | 21.3 | 21.8 | 22.5 |
| Subtotal | 50.7 | 49.3 | 48.6 |
| Total | 100.0% | 100.0% | 100.0% |

Winter Equipment and Apparel

We believe that our stores offer the best selection of ski and snowboard merchandise in the United States. Our extensive selection consists of winter sports apparel, accessories and equipment for general use and for skiing, snowboarding and snowshoeing at all levels, active families to expert.

We are a leader in winter sports retailing offering a wide range of products, including snowboards, skis, boots, bindings, apparel and accessories. We offer products from a wide variety of well-known premium winter sports equipment and apparel suppliers, including The North Face, Columbia, Burton, Volkl, K2, Salomon, Rossignol, Nordica, Ride, Flow, Scott, Swany, Giro, and Oakley.

Many of our stores offer winter sports equipment rentals, including skis, snowboards, boots, snowshoes and poles. The rental equipment ranges from entry-level products designed for beginners to advanced products for more accomplished skiers and snowboarders. Other services offered in these stores include youth ski and snowboard lease programs, demo ski programs, custom boot fitting, ski mounting, complete ski and snowboard repair services and the convenience of in-store lift ticket sales to area resorts.

Ongoing improvements to our winter sports departments includes the addition of specially designed fixtures for displaying ski and snowboard packages, poles and bindings, enhanced premier brand presence in signing and graphics, and cold weather accessory fixtures that highlight various accessories such as socks, goggles, gloves, mittens, hats and helmets.

Apparel and Footwear

Our stores carry a full line of athletic footwear, sportswear and apparel designed for a wide variety of activities and performance levels. Footwear is available for diverse activities like basketball, baseball, football, soccer, tennis, golf, aerobics, running, walking, cycling, hiking, cross-training, wrestling and snowshoeing. We are also a major retailer of in-line and ice hockey skates and skateboards. In fiscal

2004, we introduced "Footwear Statement Walls" which have been constructed in approximately 265 stores as of January 28, 2006. These footwear statement walls display a full line of footwear and allow us to gain access to premier products from Nike. Our broad assortment of footwear vendors includes Nike, Adidas, Asics, Reebok, New Balance, Timberland, K-Swiss, Saucony, Vans, K2 and Rollerblade. Our wide variety of apparel includes athletic basics and sports-specific collections, as well as swimwear, outdoor apparel and casual apparel. We offer men's, women's and children's styles in all categories. In addition, we carry a broad selection of licensed apparel for professional and college teams that is tailored to each specific market. Our extensive variety of well-known apparel vendors includes Nike, Under Armour, Adidas, The North Face, Burton, Ride, Columbia, Salomon, Champion and Russell.

Team Sports and Exercise

We offer a broad range of brand name equipment for traditional team sports, including football, baseball, softball, basketball, hockey, volleyball, lacrosse and soccer. We also carry a variety of fitness equipment, including treadmills, stationary bicycles, home gyms, elliptical trainers, weight machines and free weights and equipment for recreational activities including table tennis, foosball, air hockey, darts, volleyball, croquet and horseshoes. In addition, we offer home delivery and in-home set up of exercise equipment and outdoor equipment (such as basketball hoops and trampolines). Our stores carry brands such as, Reebok, Bowflex, Hoist, New Balance, Schwinn, Proform, Gold's Gym, Horizon, Nike Equipment, Easton, Louisville Slugger, Lifetime Products, Rawlings, Wilson, Spalding, and CCM.

Golf and Tennis

We maintain a wide assortment of golf and tennis apparel and equipment to cater to every type of customer, ranging from the recreational athlete to the most avid sports enthusiast. Most of our stores have a tennis stringing and re-gripping center and several stores offer demo rackets. Many stores feature indoor putting greens and driving cages, enabling customers to try out equipment prior to purchase. We have access to products from a wide variety of well-known golf and racquet sports equipment and apparel suppliers, including Taylor Made, Callaway, Nike Golf, Cleveland, Armour Golf, Titleist, Wilson, Prince and Head. In fiscal 2003, we began implementing a new golf department prototype called "Golf Day" which is a specialty store-within-a-store concept designed to create a more convenient, customer-friendly shopping environment. We have the "Golf Day" concept in over 130 stores as of the end of fiscal 2005, and we intend to implement the concept in approximately 45 additional stores in fiscal 2006.

Other Outdoor Sports

Cycling. In most of our stores, we offer a selection of bicycles, including mountain bikes, BMX bikes and youth bikes, from manufacturers like Diamondback, Columbia, K2, and Ironhorse. Our stores carry cycling apparel, accessories and components from suppliers like Bell, Canari, Giro and Thule. Most of our stores have their own bicycle repair facility where work can be performed on most makes and models of bicycles, including those purchased from other retailers.

Water Sports. We carry a broad selection of products designed for a variety of water sports, including recreational and competitive swimming, water skiing, canoeing, knee boarding, wake boarding, body boarding, surfing and a variety of pool toys. Suppliers of these products include Body Glove, HO, O'Brien and Pelican Boats. Swimsuits and accessories are available from Nike, OP, Speedo, Tyr, and Island Soul. In addition, we carry snorkeling equipment and wet suits.

Hunting. In select stores, we carry a variety of hunting equipment and accessories, including eye and ear protection, gun cabinets and safes. These stores provide a selection of sporting firearms, scopes, clothing and hunting licenses. We carry top brand names like Remington, Beretta, Browning,

Winchester and Ruger. In most stores we carry a wide selection of paintball markers, air guns and related accessories from brand names such as Brass Eagle, Tippman, Soft Air, Crossman and Daisy.

Fishing. Our stores offer a broad range of freshwater and salt water fishing equipment, accessories and fishing licenses. We sell equipment and accessories from widely known fishing equipment and accessory manufacturers including Penn, Shimano, Shakespeare, Berkley, Scientific Angler, Zebco and Daiwa.

Camping. Our stores typically carry a wide selection of outdoor products for most types of camping, backpacking, canoeing, kayaking and other outdoor activities. In most markets, we offer products from a broad range of manufacturers, including Coleman, The North Face, Columbia and Jansport.

Private Label Program. In 2001, we purchased the "Alpine Design" trademark in an effort to expand our private label program with a recognized and established national brand. Following the TSA merger, we were able to expand our private label offerings to include several private brands that were being sold in Sports Authority stores. As a result of the TSA merger, we also acquired the rights to market certain "Head" merchandise under licenses and we acquired use of the "Golf Day" brand name. We source outdoor, snowsports and lifestyle apparel, footwear, and hardline products, primarily camping and fishing products, under our private label program. This program allows us to provide the customer enhanced value through quality and lower pricing. Control of product advertising and market positioning of products are additional strategic benefits of our private label program. The following private brands were being sold in our stores as of January 28, 2006: Alpine Design®, The Sports Authority®, Estero®, Parkside®, ProV2®, Aspire®, and Body Fit®. Sales of the private label merchandise represented approximately 8% of total net merchandise sales in fiscal 2005.

Our Stores

We create a dynamic shopping atmosphere that appeals broadly to both the casual sporting goods customer and the sports enthusiast. Based on more than 75 years of experience in the sporting goods retail industry, we have developed a superstore prototype designed to feature the quality and variety of brand name merchandise offered in our stores. The majority of our stores are superstores, which typically range in size from 30,000 to 45,000 square feet. In select markets, we will open superstores ranging from 45,000 to 50,000 square feet. Generally, 80% of store space is dedicated to selling while 20% is used for office and non-retail functions. We have determined that the superstore format provides the best opportunity for growth and is the primary prototype for future store openings.

We also have a limited number of smaller format stores, ranging from 15,000 to 25,000 square feet. These stores include mall, freestanding and strip center stores which more closely resemble traditional sporting goods stores and stores in enclosed shopping malls, which carry a selection of merchandise intended to appeal to the mall-oriented shopper, focusing on apparel and footwear.

Our prototypical store layout features a racetrack configuration with apparel and specialty brand shops in the middle of the store and the specialty hardlines departments along the outside of the racetrack. The lighting, flooring and color scheme is designed to enhance the presentation of the merchandise and avoid a warehouse-type atmosphere. We capitalize on consumers' awareness of our brands through custom, full-color graphic packages, designed to be compatible with standard fixtures.

Since the TSA merger, our store remodeling program has been significantly expanded. Under this comprehensive program, the majority of all Sports Authority stores have received over the past thirty months, or will receive over the next year, some degree of remodeling, ranging from new apparel fixtures and signage to major store refurbishment. The program is designed to improve the look and feel of the stores and to align the merchandising layout and overall visual presentation of stores. As such, the program incorporates a number of initiatives implemented in the last few years, including

updated merchandising standards and fixture programs for increased capacity and visibility of hardlines merchandise and implementation of floor layout "models" by format and market, which ensures consistency in merchandising from store to store.

Our fixture package utilizes a set of apparel fixtures, accessories, signage and graphics that clearly define the product categories and sub-categories to create a more customer friendly environment. We negotiate with apparel vendors on an ongoing basis to use these same fixtures in developing vendor shop areas. This coordinated effort produces a completely integrated, flexible apparel fixture program.

Store Rebranding Efforts

Over the past two years, we have rebranded over 80 stores to the Sports Authority name. During fiscal 2006, all remaining Gart Sports, Sportmart and Oshman's stores will be rebranded to the Sports Authority logo. Once the rebranding is completed, we will be in a position to promote our stores in national media thus strengthening the brand identity of the company.

Operations, Customer Service and Training

Typically, our large format stores have 30 to 60 full and part time associates and technicians, while our smaller stores employ a staff of approximately 20 to 25. Additional seasonal support is hired during Father's Day, Back-to-School, the winter holiday season and the annual Sniagrab® pre-season ski sale.

We are committed to providing our customers with a satisfying shopping experience. To achieve this, we constantly strive to provide friendly and knowledgeable sales associates to deliver a level of service generally associated with specialty sporting goods stores and pro shops. We continue to commit significant resources to the training of sales associates through the use of our web based Learning Management System. Various modules, which teach both technical and salesmanship skills covering a broad range of sporting goods categories, have been created for associate use. In addition, we conduct regional vendor clinics that provide specific training for some of the more technical products in our assortments. Incentive plans have been developed that are intended to keep our sales associates focused on serving customers. We also continue to employ outside shopping services to provide us with an independent assessment of both general customer service and cashier customer service levels at each of our stores. In addition to these outside shopping services, we solicit feedback directly from our customers through an interactive voice response system.

Our stores are typically open seven days a week adjusted as required by law in individual markets. Additionally, our stores are open on most holidays and for extended hours during key selling periods or special events.

Site Selection and Location

In new store locations, we consider the demographic and lifestyle characteristics of a market, including, among other factors, levels of disposable income; trade area; local buying patterns; enthusiasm for outdoor recreation; popularity of collegiate and professional sports teams; and regional sports activities.

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The following table sets forth the location, by state, of our stores, as of January 28, 2006:

| State | Number of Stores |
|----------------|---------------------|
| California | 59 |
| Florida | 44 |
| Illinois | 32 |
| Texas | 30 |
| Colorado | 25 |
| New Jersey | 17 |
| New York | 17 |
| Arizona | 15 |
| Georgia | 12 |
| Maryland | 11 |
| Utah | 11 |
| Washington | 11 |
| Minnesota | 10 |
| Virginia | 10 |
| Connecticut | 7 |
| Massachusetts | 7 |
| Pennsylvania | 7 |
| Idaho | 6 |
| Michigan | 6 |
| Missouri | 6 |
| North Carolina | 5 |
| New Mexico | 4 |
| Nevada | 4 |
| Wyoming | 4 |
| South Carolina | 3 |
| Louisiana | 3 |
| Hawaii | 3 |
| Ohio | 3 |
| Oregon | 3 |
| Wisconsin | 2 |
| Tennessee | 2 |
| Arkansas | 2 |
| Kansas | 2 |
| Montana | 2 |
| New Hampshire | 2 |
| Oklahoma | 2 |
| Alabama | 1 |
| Alaska | 1 |
| Delaware | 1 |
| Indiana | 1 |
| Iowa | 1 |
| Maine | 1 |
| Mississippi | 1 |
| Nebraska | 1 |
| Rhode Island | 1 |
| Total | 398 |

We plan to open new stores primarily in existing and adjacent markets to further leverage our existing distribution systems, advertising programs and management structure. We opened 13 new stores and relocated four stores in fiscal 2005 and intend to open approximately 12 to 15 new or relocating stores in fiscal 2006.

In conjunction with the TSA merger, we identified 29 Sports Authority locations including the TSA Corporate office for closure or relocation. The decision to close the stores was based on substandard performance prior to the merger, or because such stores overlapped with existing Gart Sports, Sportmart or Oshman's stores. As of January 28, 2006, we have closed or relocated 28 of the 29 remaining locations, terminated 17 of the related underlying lease obligations and sold two locations.

Management Information Systems

In fiscal 2005, we devoted MIS resources to TSA's supply chain initiatives, management reporting and analysis tools, information security, and merchandise planning tools. The supply chain and merchandise planning initiatives expanded tools and processes for managing inventory through the supply chain resulting in better supply cycle times and in-stock positions. The investment in management reporting and analysis tools added capability for more sophisticated monitoring of company performance. TSA is implementing advanced planogram and floor planning capabilities using JDA's retail software. This will integrate with other software systems currently used at TSA and begin operation in fiscal 2006. TSA is subject to compliance requirements from the Payment Card Industry (PCI). TSA is investing in information security processes and tools to safeguard customer information and to meet these PCI standards.

We operate sophisticated management information systems that use the JDA retail software system operating on multiple iSeries and open system platforms. We utilize both IBM 4690 and NCR 7453 point-of-sale systems that incorporate scanning, price look-up and store level access to our merchandise information systems. Our fully integrated management information systems track purchasing, sales and inventory transfers down to the SKU level and have allowed us to improve overall inventory management by identifying individual SKU activity and projecting trends and replenishment needs on a timely basis. We utilize a fully integrated merchandise planning and allocation system that facilitates optimal distribution of most products to the stores through the integration of historical sales data and forecasted data at an individual store and item level.

A state-of-the-art data warehouse application provides current inventory, sales, margin and payroll information for a variety of users. This tool allows our merchandising staff to analyze product and pricing strategies, our operations staff to optimize its investments in store labor and our executive staff to monitor key business performance indicators on a daily basis. Store operations personnel in every location have online access to e-mail, product signage, standard operating procedures, store level financial performance reports and advertising information through our corporate intranet. Additionally, we utilize radio frequency scanning for receiving and price look-up functions at all of our stores and distribution centers. This technology allows us to streamline our merchandise handling and inventory management, and results in lower overall cost of inventory ownership and improved accuracy in forecasting merchandise needs.

Marketing and Advertising

Our comprehensive marketing program is designed to promote our extensive selection of brand names, our private label products, and a wide variety of merchandise and services for our customers at competitive prices.

An extensive and aggressive advertising newspaper insert program, supplemented with newspaper, television and radio advertising, anchors the core-marketing program. The strategy of the advertising insert program utilizes different page and insert formats to best promote product and pricing. Additional strategic focus on key events, such as Father's Day, Back-To-School and winter holiday season, round out the advertising program. Specific sales and event promotions, such as the annual Sniagrab® Ski and Snowboard Sale, are supplemental to the core program and are also supported by additional media formats, such as television, radio and billboards. Sponsorships with professional sporting associations include the New York Yankees, New York Mets, Chicago Cubs and Boston Red Sox. An in-house staff administers our advertising and marketing program.

The focus of the Sports Authority's advertising and promotion has traditionally encouraged consumers to "Get Out and Play"®. We encourage increased participation in, or attendance at, almost any level of sports, whether a serious sports enthusiast or a recreational athlete, as a meaningful part of today's lifestyle.

By the end of the second quarter of fiscal 2006, we intend to complete rebranding of all our stores to the Sports Authority name to create one consistent brand and to recognize advertising cost savings.

Our goal is to be one of the principal sporting goods advertisers in each of our major markets. We have enhanced our presence and image in all our major markets with increased and consistent placement of a weekly, full-color promotional insert in major newspapers as well as regional newspapers with circulation near our stores.

Purchasing and Distribution

Our Merchandise Purchasing Department manages all aspects of merchandise procurement and also determines initial pricing, develops product marketing plans and works with the allocation and

replenishment groups to establish stock levels and product mix. The buying staff regularly communicates with store operations to monitor shifts in consumer tastes and market trends.

Our Planning, Allocation, Replenishment and Merchandise Control Department ("PAR Department") is responsible for merchandise distribution, inventory control, distribution center backstock and the E-3 Replenishment Purchasing and Allocation System. This group acts as the central processing intermediary between the buying staff and our stores.

The PAR Department also coordinates the inventory levels necessary for each advertising promotion with the buying staff and advertising department and tracks the effectiveness of certain ads to allow the buying staff and advertising department to determine the relative success of the promotional program. The department's other duties include implementation of price changes, creation of all merchandise purchase orders, and determination of the inventory levels for each store.

We purchase merchandise from over 1,000 vendors and have no long-term purchase commitments. During fiscal 2005, Nike, our largest vendor, represented approximately 15.1% of our purchases. No other vendor represented more than 10.0% of our purchases.

We generally utilize a "hub and spoke" distribution system in which vendors ship directly to one of our regional distribution centers. We believe that this distribution system has the following advantages compared to direct store delivery (i.e., drop shipping): reduced individual store inventory investment; more timely replenishment of store inventory needs; better use of store floor space; reduced transportation costs and easier returns to vendors.

We are improving the productivity by which vendors ship merchandise to our distribution centers by increasing the level of pre-packed merchandise by store (Store Destination Quantities "SDQ") and "Musical" size runs by store. The SDQ's make the supply chain process more efficient resulting in cost savings. Musicals require vendors to ship product pre-packed, by store and size runs for footwear and apparel which further reduces distribution expenses.

We have six regional distribution centers in Colorado, California, Illinois, Texas, Georgia, and New Jersey. In addition to the six regional distribution centers, we periodically lease warehouse space in markets where the regional distribution centers are located. These warehouses are used primarily to store back-stock quantities of large inventory items such as treadmills, weight sets and table-games. Inventory arriving at the distribution centers is allocated directly to the stores or to the warehouses. The E-3 automated reorder system regularly replenishes the stores by allocating merchandise through the distribution centers based on store sales.

We operate tractor trailers for delivering merchandise from our Denver distribution center to our Colorado stores, and contract with common carriers to deliver merchandise to our stores outside a 150-mile radius from Denver. Common carriers are also used to deliver merchandise received at our other distribution centers.

Associates

At January 28, 2006, we employed approximately 14,300 associates, 52% of whom were employed on a full-time basis and 48% of whom were employed on a part-time basis, or less than 32 hours per week. Due to the seasonal nature of our business, total employment fluctuates during the year. We consider our associate relations to be good. None of our associates are covered by a collective bargaining agreement.

Trademarks and Tradenames

We primarily use The Sports Authority®, Gart Sports®, Sportmart®, Sniagrab®, Get Out And Play®, Alpine Design®, ProV2®, Estero®, Parkside®, Aspire®, and Body Fit® trademarks and trade

names, which have been registered with the U.S. Patent and Trademark Office. Other service marks, trademarks and trade names referred to in this report are the property of their respective owners.

We also own and use numerous other trademarks and servicemarks which involve the manufacturing of soft goods, advertising slogans, promotional event names and store names used in our business. Many of these names are registered, or are the subject of pending applications, with the U.S. Patent and Trademark Office and other applicable offices around the world. Marks registered in the United States in the "Authority" family include "Authority," "Sports Authority," "The Ski Authority," "Golf Authority," "Tennis Authority" and "Team Sports Authority," among others. Marks used in the "Play" family include "Get Out and Play" and "Come In and Play," among others. We vigorously protect our trademarks, service marks and trade names from infringement throughout the world by strategic registration and enforcement efforts.

Government Regulation

We must comply with federal, state and local regulations, including the federal Brady Handgun Violence Prevention Act, which require us, as a federal firearms licensee, to perform a pre-sale background check of purchasers of firearms. This background check is performed using either the FBI-managed National Instant Criminal Background Check System ("NICS"), or a state government-managed system that relies on NICS and any additional information collected by the state. These background check systems either confirm that a sale can be made, deny the sale, or require that the sale be delayed for further review. We are also provided with a transaction number for the proposed sale, which we are required to record on Form 4473 of the Bureau of Alcohol, Tobacco and Firearms and retain a copy for our records for 20 years for auditing purposes for each approved, denied or delayed sale. We complete the sale after all of the approval procedures are complete.

In addition, many of our imported products are subject to existing or potential duties, tariffs or quotas that may limit the quantity of products that we may import into the U.S. and other countries or impact the cost of such products. To date, quotas in the operation of our business have not restricted us, and customs duties have not comprised a material portion of the total cost of our products.

Executive Officers

See "Executive Officers" in Item 10 for information concerning our executive officers.

ITEM 1A. Risk Factors

Business uncertainties and contractual restrictions while the proposed merger is pending

Uncertainty about the effect of the merger on employees, suppliers, partners and customers may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the merger is consummated, and could cause suppliers, customers and others that deal with us to defer purchases or other decisions concerning us, or seek to change existing business relationships with us. Employee retention may be particularly challenging while the merger is pending, as employees may experience uncertainty about their future roles with the post-merger entity. In addition, the merger agreement restricts us from taking specified actions without the buyer's approval. These restrictions could prevent us from pursuing attractive business opportunities that may arise prior to the completion of the merger.

Failure to complete the proposed merger could negatively impact stock price, future business and financial results

Although our board of directors will, subject to fiduciary exceptions, recommend that our stockholders approve and adopt the merger agreement, there is no assurance that the merger agreement and the merger will be approved, and there is no assurance that the other conditions to the completion of the merger will be satisfied. If the merger is not completed, we will be subject to several risks, including the following:

under certain circumstances, if the merger is not completed, we may be required to pay the buyer a termination fee of \$30 million or reimburse the buyer for its out-of-pocket expenses in connection with the merger, up to \$5 million, subject to possible increase (although any termination fee payable would be net of reimbursed expenses);

the current market price of our common stock may reflect a market assumption that the merger will occur, and a failure to complete the merger could result in a negative perception by the stock market of us generally and a decline in the market price of our common stock;

certain costs relating to the merger, such as legal, accounting and financial advisory fees, are payable by us whether or not the merger is completed;

there may be substantial disruption to our business and a distraction of its management and employees from day-to-day operations, because matters related to the merger may require substantial commitments of time and resources, which could otherwise have been devoted to other opportunities that could have been beneficial to us;

our business could be adversely affected if it is unable to retain key employees or attract replacements; and

we would continue to face the risks that we currently face as an independent company.

Intense competition in the sporting goods industry could limit our growth and reduce our profitability.

The sporting goods retail market is highly fragmented and intensely competitive. Our current and prospective competitors include many large companies that have substantially greater market presence, name recognition, financial, marketing and other resources than we do. We compete directly or indirectly with the following categories of companies:

large format full-line sporting goods retailers;

traditional sporting goods stores and chains;

specialty sporting goods retailers and pro shops;

mass merchandisers, warehouse clubs, discount stores and department stores; and

catalog and internet-based sporting goods retailers.

Increased competition in markets in which we have stores, the adoption by competitors of innovative store formats, pricing strategies and retail sale methods, the entry of new competitors in our markets or the expansion of operations by existing competitors in our markets could cause us to lose market share, limit our growth and reduce our profitability.

If we are unable to predict or react to changes in consumer demand, our sales may decline and we may be required to take significant markdowns in inventory.

Our success depends on our ability to anticipate and respond in a timely manner to changing consumer demand and preferences regarding sporting goods. Our products must appeal to a broad

range of consumers whose preferences cannot be predicted with certainty and are subject to change. Additionally, we often make commitments to purchase products from our vendors several months in advance of the proposed delivery. If we misjudge the market for our merchandise, we may lose sales or we may overstock unpopular products, which may require us to take significant inventory markdowns. In either case, our revenues and profit margins could significantly decline and our business and financial results may suffer.

We sell products that expose us to a greater risk of product liability and infringement claims, and our insurance may not be sufficient to cover damages related to those claims.

We may be subject to lawsuits resulting from injuries associated with the use of sporting goods equipment that we sell or rent. Among other things, we sell long guns, handguns and air pistols, which are products that are associated with an increased risk of injury and related lawsuits. We may incur losses relating to these claims or the defense of these claims. We may also incur losses due to lawsuits relating to our performance of background checks on firearm purchasers as mandated by state and federal law or the improper use of firearms sold by us, including lawsuits by municipalities or other organizations attempting to recover costs from firearm manufacturers and retailers relating to the misuse of firearms. In addition, in the future there may be increased federal, state or local regulation, including taxation, of the sale of firearms in our current markets as well as future markets in which we may operate. Commencement of these lawsuits against us or the establishment of new regulations could reduce our sales and decrease our profitability.

There is a risk that claims or liabilities with respect to lawsuits will exceed our insurance coverage. Additionally, we may be unable to purchase adequate liability insurance in the future. Although we have entered into product and infringement liability indemnity agreements with many of our vendors, we cannot assure you that we will be able to collect payments sufficient to offset product liability losses. Furthermore, we are subject to regulation by the Consumer Product Safety Commission and similar state regulatory agencies. If we fail to comply with government and industry safety standards, we may be subject to claims, lawsuits, fines and adverse publicity that could have a material adverse effect on our business and results of operations.

If our suppliers and distributors do not provide us with sufficient quantities of products, or if conditions in any of the foreign countries where they source merchandise adversely change, we may not be able to offer competitively priced merchandise or the quantities or assortment that our customers demand.

We purchase merchandise from over 1,000 vendors. In fiscal 2005, purchases from Nike represented approximately 15.1% of our total purchases. Although purchases from no other vendor represented more than 10.0% of our total purchases, our dependence on our principal suppliers involves risk. We do not have long-term agreements with our suppliers and cannot guarantee that we will be able to maintain our relationships with them. If there is a disruption in supply from a principal supplier or distributor, we may be unable to obtain the merchandise that we desire to sell and that consumers desire to purchase. Moreover, many of our suppliers provide us with incentives, such as return privileges, volume purchasing discounts, rebates and cooperative advertising allowances. A decline or discontinuation of these incentives could reduce our profits.

We believe that a significant portion of the products that we purchase, including those purchased from domestic suppliers, is manufactured abroad in countries such as China, Taiwan and South Korea. In addition, we believe much of our private label merchandise is manufactured abroad. Foreign imports subject us to the risks of changes in import duties, quotas, loss of "most favored nation" or MFN status with the United States for a particular foreign country, work stoppages, delays in shipment, freight cost increases and economic uncertainties (including the United States imposing antidumping or countervailing duty orders, safeguards, remedies or compensation and retaliation due to illegal foreign trade practices). If any of these or other factors were to cause a disruption of trade from the countries

in which the suppliers of our vendors are located, our inventory levels may be reduced or the cost of our products may increase. In addition, to the extent that any foreign manufacturers from whom we purchase products directly or indirectly utilize labor and other practices that vary from those commonly accepted in the United States, we could be hurt by any resulting negative publicity or, in some cases, face potential liability. To date, we have not experienced any difficulties of this nature.

Historically, instability in the political and economic environments of the countries in which our vendors or we obtain our products has not had a material adverse effect on our operations. However, we cannot predict the effect that future changes in economic or political conditions in such foreign countries may have on our operations. In the event of disruptions or delays in supply due to economic or political conditions in foreign countries, such disruptions or delays could adversely affect our results of operations unless and until alternative supply arrangements could be made. In addition, merchandise purchased from alternative sources may be of lesser quality or more expensive than the merchandise we currently purchase abroad.

Countries from which our vendors obtain these new products may, from time to time, impose new or adjust prevailing quotas or other restrictions on exported products, and the United States may impose new duties, quotas and other restrictions on imported products. The United States Congress periodically considers other restrictions on the importation of products obtained by our vendors and us. The cost of such products may increase for us if applicable duties are raised, or import quotas with respect to such products are imposed or made more restrictive.

Our comparable store sales will fluctuate and may not be a meaningful indicator of future performance.

Changes in our comparable store sales results could affect the price of our common stock. A number of factors have historically affected, and will continue to affect, our comparable store sales results, including:

competition;

our new store openings or in existing markets and remodeling;

general regional and national economic conditions;

actions taken by our competitors;

consumer trends and preferences;

changes in the other tenants in the shopping centers in which we are located;

new product introductions and changes in our product mix;

timing and effectiveness of promotional events;

lack of new product introductions to spur growth in the sale of various kinds of sports equipment; and

weather.

Our comparable store sales may vary from quarter to quarter, and an unanticipated decline in revenues or comparable store sales may cause the price of our common stock to fluctuate significantly.

Our business is seasonal, and our annual results are highly dependent on the success of our holiday selling season.

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Our business is highly seasonal in nature. Our highest sales and operating profitability historically occur during the fourth fiscal quarter, which is due, in part, to the holiday selling season and, in part, to our strong sales of fitness equipment, apparel and accessories, and cold weather sporting goods and

apparel. Any decrease in our fourth quarter sales, whether because of a slow holiday selling season, poor snowfall in ski areas near our markets, or otherwise, could have a material adverse effect on our business, financial condition and operating results for the entire fiscal year.

A downturn in the economy could significantly reduce our revenues.

Sales of sporting goods historically depend on consumers' discretionary spending. An economic downturn in any of our major markets, or in general, could reduce consumer spending on discretionary items that could adversely impact our revenues and cause our business and financial results to suffer.

General economic conditions and other factors that affect discretionary spending are beyond our control and are affected by:

an economic recession;

unemployment trends;

interest rates and inflation;

consumer and commercial credit availability;

consumer debt levels;

geopolitical uncertainty;

tax rates and tax policy;

natural disasters; and

other factors that influence consumer confidence and spending.

Increasing volatility in financial markets may cause the above factors to change with an even greater degree of frequency and magnitude.

We have a significant amount of debt that could adversely affect our business and growth prospects.

Our existing credit facility provides for loans of up to \$640 million. As of January 28, 2006, we had approximately \$236.1 million of long-term debt outstanding. This debt could have significant adverse effects on our business. This debt:

makes it more difficult for us to obtain additional financing on favorable terms;

requires us to dedicate a substantial portion of our cash flows from operations to the repayment of our debt and the interest on our debt;

limits our ability to capitalize on significant business opportunities; and

makes us more vulnerable to economic downturns.

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If we are unable to generate sufficient cash flows from operations in the future, we may have to refinance all or a portion of our debt and/or obtain additional financing. We cannot assure you that refinancing or additional financing on favorable terms could be obtained or that we will be able to operate at a profit.

Additionally, our credit facility imposes operating and financial restrictions that may impair our ability to respond to changing business and economic conditions or to grow our business.

Our business depends on our ability to satisfy our labor needs.

Many of our employees are in entry-level or part-time positions that historically have high rates of turnover. We may be unable to satisfy our labor needs and control our costs due to external factors

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such as unemployment levels, minimum wage legislation and wage inflation. If general economic conditions improve, it may be more difficult to attract and retain quality employees. As a result, our business may suffer.

Terrorist attacks or acts of war may seriously harm our business.

Terrorist attacks or acts of war may cause damage or disruption to us and our employees, facilities, information systems, vendors and customers, which could significantly impact our net sales, costs and expenses and financial condition. The potential for future terrorist attacks, the national and international responses to terrorist attacks and other acts of war or hostility may cause greater uncertainty and cause our business to suffer in ways that we currently cannot predict. Additionally, events such as those referred to above could cause or contribute to a general decline in consumer spending and equity valuations, which in turn could reduce the market value of your investment in us.

Anti-takeover provisions may prevent stockholders from realizing a premium return.

Anti-takeover provisions in our certificate of incorporation and bylaws may deter unfriendly offers or other efforts to obtain control over us. These anti-takeover provisions, among other things:

allow our board of directors to issue "blank check" preferred stock without stockholder approval, and establish the rights, including voting rights, preferences and limitations of the preferred stock;

establish advance notice requirements for stockholder nominations to the board of directors or for stockholder proxy proposals;

permit the board of directors to increase its own size and fill the resulting vacancies through a majority vote of directors, even if less than a quorum; and

require that mergers and other business combinations with certain interested stockholders, including any holder of 10% or more of our common stock, be approved by a supermajority of the holders of our common stock that are not interested in the transaction.

Section 203 of the Delaware General Corporate Law also imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our common stock.

These measures could make us less attractive to a potential acquirer and deprive stockholders of the opportunity to sell their common stock at a premium price.

Our quarterly operating results may fluctuate substantially, which may adversely affect our business and the market price of our common stock, particularly if our quarterly results fall below the expectations of securities analysts.

Our sales and results of operations have fluctuated in the past and may vary from quarter to quarter in the future. These fluctuations may adversely affect our business, financial condition and the market price of our common stock, particularly if our quarterly results fall below the expectations of securities analysts. A number of factors, many of which are outside our control, may cause variations in our quarterly net sales and operating results, including:

changes in consumer demand for the products that we offer in our stores;

lockouts or strikes involving professional sports teams;

adverse weather conditions;

pre-opening costs associated with new stores;

costs related to the closures of existing stores;

litigation;

changes in merchandise mix;

pricing and promotional events sponsored by our competitors; and

general economic conditions.

Our stock price has been volatile in the past and may remain volatile in the future. The value of our common stock may decline as a result of this volatility.

The market price of our common stock has been in the past, and may in the future be, subject to wide fluctuations in response to factors such as:

fluctuations in quarterly operating results;

announcements, by us or our competitors, of actual or expected financial results, significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

changes in recommendations or financial estimates by securities analysts;

conditions and trends in the sporting goods industry; and

general conditions in the economy or the financial markets.

Additionally, in recent years, the stock market has experienced significant price and volume fluctuations that are often unrelated to the performance or condition of particular companies. Such broad market fluctuations could adversely affect the market price of our common stock. Following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against a company. We are currently defending four securities class actions related to the proposed merger with an affiliate of Leonard Green & Partners.

The loss of key executives could have a material adverse effect on our business.

Our future success depends on the continued services of our senior management, particularly John Douglas Morton, our chairman of the board and chief executive officer. Any loss or interruption of the services of our senior management could significantly reduce our ability to effectively manage our operations and implement our key initiatives because we may not be able to find appropriate replacements for our senior management should the need arise. If we were to lose any key senior management, our business could be materially adversely affected.

We rely on our information systems to operate our business, and if our information systems fail to adequately perform these functions, our business and financial results could be adversely affected.

The efficient operation of our business is dependent on the successful integration and operation of our information systems. In particular, we rely on our information systems to manage effectively our sales, warehousing, distribution, merchandise planning and replenishment and to optimize our overall inventory levels. Most of our information systems are centrally located at our headquarters, with offsite backup at other locations. We continue to focus on enhancements to the inventory management systems and store point-of-sale systems. Systems enhancement issues are complex, time-consuming and expensive. Their failure to perform as we anticipate could disrupt our business, lead to unanticipated costs, adversely affect our revenues and cause our business and financial results to suffer.

A disruption in the operation of our distribution centers would affect our ability to deliver merchandise to our stores, which could impact adversely our revenues and harm our business and financial results.

Most of our merchandise is shipped by our vendors to a limited number of distribution centers. Our distribution centers receive and allocate merchandise to our stores. Events such as fire or other catastrophic events, any malfunction or disruption of our centralized information systems or shipping problems may result in delays or disruptions in the timely distribution of merchandise to our stores, which could adversely impact our revenues and our business and financial results.

Lack of available retail store sites on terms acceptable to us, rising real estate prices and other costs and risks relating to new store openings could severely limit our growth opportunities.

Our strategy includes opening stores in new and existing markets. We must successfully choose store sites, execute favorable real estate transactions on terms that are acceptable to us, hire competent personnel and effectively open and operate these new stores. Our plans to increase the number of our retail stores will depend in part on the availability of existing retail stores or store sites. We may not have stores or sites available to us for purchase or lease, or available on terms acceptable to us. If additional retail store sites are unavailable on acceptable terms, we may not be able to carry out a significant part of our growth strategy. Rising real estate costs and acquisition, construction and development costs could also inhibit our ability to grow. If we fail to locate desirable sites, obtain lease rights to these sites on terms acceptable to us, hire adequate personnel and open and effectively operate these new stores, our financial performance could be adversely affected.

We may pursue strategic acquisitions, which could have an adverse impact on our business.

We may from time to time acquire complementary companies or businesses. Acquisitions may result in difficulties in assimilating acquired companies, and may result in the diversion of our capital and our management's attention from other business issues and opportunities. We may not be able to successfully integrate operations that we acquire, including their personnel, financial systems, distribution, operations and general store operating procedures. If we fail to successfully integrate acquisitions, our business could suffer. In addition, the integration of any acquired business, and their financial results, into ours may adversely affect our operating results.

ITEM 1B. Unresolved Staff Comments

None

ITEM 2. Properties

We currently lease substantially all of our store locations. We also operate two owned locations and own one closed location. Store leases typically provide for an initial term of 10 to 20 years, with multiple five-year renewal options. Most leases provide for the payment of minimum annual rent subject to periodic adjustments, plus other charges, including a proportionate share of real estate taxes, insurance and common area maintenance expenses. As current leases expire, we regularly evaluate whether to renew the leases or to strategically relocate stores to a better location. Leases for our stores expire at varying dates between 2006 and 2023. During 2006, 12 leases will expire, eight of which are subject to renewal or renegotiation and four of which will be closed. We anticipate that all of our 2006 store openings will be completed under long-term operating leases.

We lease one store and the Houston distribution center from partnerships or trusts, the partners and trust accounts of which are affiliated with Ms. Oshman, a former director, and her family members. For fiscal 2005, rent expense under these leases was in the aggregate approximately \$1.3 million.

We also lease our six regional distribution centers. The lease for the 225,000 square foot distribution center in Denver, Colorado, expires in 2014. The lease for the 617,000 square foot distribution center in Fontana, California expires in 2024, assuming all options are exercised. The lease for the 259,000 square foot distribution center in Romeoville, Illinois expires in 2018, assuming all options are exercised. The leases for the 228,000 square foot distribution center in Houston, Texas will expire in 2006 and we expect to extend the term on a short-term basis. The lease for the 298,000 square foot distribution center near McDonough, Georgia expires in 2023, assuming all options are exercised. The lease for the 416,000 square foot distribution center in Burlington, New Jersey expires in March 2023, assuming all options are exercised. In addition, we periodically lease warehouse space on a short term basis.

The lease for our 200,000 square foot corporate office in Englewood, Colorado expires in 2027, assuming all options are exercised. In fiscal 2005 we terminated the lease on the former TSA corporate headquarters in Ft. Lauderdale, Florida.

We believe our properties are sufficient to support our operations.

ITEM 3. Legal Proceedings

We are, from time to time, involved in various legal proceedings and claims arising in the ordinary course of business. We believe that the ultimate disposition of these matters will not have a material adverse effect on our consolidated business, financial condition, operating results or liquidity.

We are a member of a class action lawsuit against Visa/MasterCard and expect to participate in the \$3 billion antitrust litigation settlement. The amount and timing of the payment are not certain at this time and, accordingly, no amount has been recorded at January 28, 2006.

Between January 23 and January 25, 2006, four putative class action complaints were filed on behalf of public stockholders of Sports Authority in the Court of Chancery of the State of Delaware in and for New Castle County, naming, among others, Sports Authority and members of Sports Authority's board of directors. The complaints allege, among other things, that the directors of Sports Authority breached their fiduciary duties in connection with the proposed going private transaction by failing to maximize stockholder value and by approving a transaction that purportedly benefits Sports Authority senior management at the expense of Sports Authority's public stockholders. Among other things, the complaints seek to enjoin Sports Authority and its directors from proceeding with or consummating the merger. Based on the facts known to date, Sports Authority believes that the claims asserted in these actions are without merit and intends to defend these suits vigorously.

On March 16, 2006, we became aware that a former store associate at a California store filed a purported class action against The Sports Authority, Inc., in Los Angeles County Superior Court alleging that we failed to properly calculate the regular rate of pay of hourly associates, and thus deprived them of overtime compensation due to them under state law. Furthermore, the action alleges that we failed to provide store associates the appropriate meal and rest periods under state law. This action is similar to numerous suits filed against retailers and others with operations in California. The putative class members seek recovery in an unstated dollar amount of unpaid wages, interest, statutory penalties, and attorneys' fees and costs. The action is at a very preliminary state and we have not received formal service of process. Accordingly, it is too early to evaluate the probable outcome of the case. We intend to vigorously defend this action.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were put to a vote of security holders during the fourth quarter of fiscal 2005.

PART II

ITEM 5. Market Price of Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on the New York Stock Exchange under the symbol "TSA". As of March 14, 2006, there were 2,028 holders of record. The number of holders of our common stock does not include beneficial owners whose shares are held in the name of banks, brokers, nominees or other fiduciaries. The table below sets forth the reported high and low closing prices on the New York Stock Exchange during fiscal 2005 and 2004:

| | <u>High</u> | <u>Low</u> |
|------------------|-------------|------------|
| Fiscal Year 2005 | | |
| First quarter | \$ 28.73 | \$ 23.73 |
| Second quarter | 33.54 | 26.40 |
| Third quarter | 34.20 | 26.42 |
| Fourth quarter | 36.70 | 27.84 |
| Fiscal Year 2004 | | |
| First quarter | \$ 44.08 | \$ 36.81 |
| Second quarter | 39.10 | 24.01 |
| Third quarter | 25.50 | 20.10 |
| Fourth quarter | 29.73 | 23.50 |

We have never declared or paid any dividends on our common stock. We plan to retain earnings to finance future growth and have no current plans to pay cash dividends. The payment of any future cash dividends will be at the sole discretion of our board of directors and will depend upon, among other things, future earnings, capital requirements, and our general financial condition. Our ability to declare or pay dividends on our common stock and to repurchase shares of our common stock is limited to \$25 million per year under our revolving line of credit. Until consummation of the merger or termination of the merger agreement by which we will be acquired by an investor group led by Green Equity Investors IV, L.P., we are prohibited from paying dividends other than ordinary course dividends by a wholly owned subsidiary of Sports Authority to the parent corporation. The merger agreement also prohibits the repurchase of shares of our common stock other than in the ordinary course of our operations.

See Item 12 of this annual report for information on securities authorized for issuance under equity compensation plans.

ITEM 6. Selected Consolidated Financial Data

The selected consolidated financial data presented below under the caption "Statement of Income Data" for each of the fiscal years in the three-year period ended January 28, 2006, and the "Balance Sheet Data" as of January 28, 2006 and January 29, 2005 are derived from our audited consolidated financial statements included in this Form 10-K. This data should be read in conjunction with our consolidated financial statements, the accompanying notes and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." The "Statement of Income Data" for each of the fiscal years in the two-year period ended February 1, 2003, and the "Balance Sheet Data" as of January 31, 2004, February 1, 2003 and February 2, 2002 are derived from audited consolidated financial statements not included in this Form 10-K.

Fiscal 2005 began on January 30, 2005 and ended on January 28, 2006 and included 52 weeks of operations. Fiscal 2004 began on February 1, 2004 and ended on January 29, 2005 and included 52 weeks of operations. Fiscal 2003 began on February 2, 2003 and ended on January 31, 2004 and included 52 weeks of operations. Fiscal 2002 began on February 3, 2002 and ended on February 1, 2003 and included 52 weeks of operations. Fiscal 2001 began on February 4, 2001 and ended on February 2, 2002 and included 52 weeks of operations.

The results for fiscal year 2005, 2004 and 2003 are not comparable to the prior periods presented and the results for fiscal year 2005 and 2004 are not comparable to 2003 due to the inclusion of Sports Authority results of operations since August 4, 2003, the date of the TSA merger.

| | Fiscal Years | | | | |
|--|--------------|--------------|---------------|--------------|--------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| (In thousands, except share and per share amounts) | | | | | |
| STATEMENT OF INCOME DATA: | | | | | |
| Net sales | \$ 2,509,330 | \$ 2,435,863 | \$ 1,760,450 | \$ 1,051,244 | \$ 935,717 |
| Cost of goods sold, buying, distribution and occupancy | (1,802,123) | (1,756,879) | (1,274,465) | (776,386) | (696,513) |
| Gross profit | 707,207 | 678,984 | 485,985 | 274,858 | 239,204 |
| Operating expenses | (593,797) | (579,776) | (407,527) | (227,812) | (203,625) |
| Merger integration costs | | (21,750) | (43,807) | | (12,490) |
| Pre-opening expenses | (2,636) | (4,012) | (1,923) | (1,385) | (1,025) |
| Operating income | 110,774 | 73,446 | 32,728 | 45,661 | 22,064 |
| Interest expense | (22,368) | (20,103) | (12,327) | (9,166) | (10,981) |
| Other income, net | 3,122 | 1,396 | 3,514 | 1,043 | 2,030 |
| Income before income taxes | 91,528 | 54,739 | 23,915 | 37,538 | 13,113 |
| Income tax expense | (36,111) | (21,272) | (7,653) | (14,531) | (5,116) |
| Net income | \$ 55,417 | \$ 33,467(1) | \$ 16,262(2) | \$ 23,007 | \$ 7,997(4) |
| Basic earnings per share | \$ 2.12 | \$ 1.30(1) | \$ 0.89(2) | \$ 1.96 | \$ 0.83(4) |
| Weighted average shares of common stock outstanding | 26,165,203 | 25,691,176 | 18,309,174(3) | 11,766,983 | 9,598,553(5) |
| Diluted earnings per share | \$ 2.06 | \$ 1.27(1) | \$ 0.83(2) | \$ 1.85 | \$ 0.78(4) |
| Weighted average shares of common stock and common stock equivalents outstanding | 26,869,823 | 26,412,279 | 19,479,695 | 12,427,086 | 10,315,785 |

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Fiscal Years

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|--------------|--------------|--------------|------------|------------|
| (Dollars in thousands) | | | | | |
| OTHER DATA: | | | | | |
| Number of stores at beginning of period | 392 | 384 | 181 | 179 | 120 |
| Number of stores opened or acquired | 13 | 22 | 219 (8) | 9 | 64 (10) |
| Number of stores closed | (7)(6) | (14)(7) | (16)(9) | (7) | (5)(11) |
| Number of stores at end of period | 398 | 392 | 384 | 181 | 179 |
| Total gross square feet at end of period | 16,827,713 | 16,493,970 | 16,262,863 | 7,468,628 | 7,215,591 |
| Comparable store sales increase (decrease)(12) | 1.5% | (2.0)% | (0.7)% | 0.0% | (0.9)% |
| Depreciation and amortization | \$ 69,283 | \$ 60,439 | \$ 39,238 | \$ 23,677 | \$ 20,548 |
| BALANCE SHEET DATA (at end of period): | | | | | |
| Working capital | \$ 348,710 | \$ 355,518 | \$ 378,909 | \$ 171,799 | \$ 142,563 |
| Total assets | \$ 1,403,782 | \$ 1,449,938 | \$ 1,365,171 | \$ 554,441 | \$ 546,670 |
| Long-term debt and capital leases, less current portion | \$ 236,323 | \$ 305,892 | \$ 318,158 | \$ 122,286 | \$ 160,295 |
| Stockholders' equity | \$ 554,797 | \$ 485,009 | \$ 437,297 | \$ 196,716 | \$ 133,805 |

- (1) Amount includes the effect of \$13.3 million, net of tax, or \$0.50 per diluted share, of merger integration costs associated with the TSA merger.
- (2) Amount includes the effect of: \$26.7 million, net of tax, or \$1.37 per diluted share, of merger integration costs associated with the TSA merger; non-recurring interest income of \$1.3 million, net of tax, or \$0.07 per diluted share, and a non-recurring tax benefit of \$1.7 million, or \$0.09 per diluted share, both related to the settlement of a tax dispute involving our former parent; and a non-recurring expense of \$0.9 million, net of tax, or \$0.05 per diluted share, including attorneys' fees and expenses, related to the settlement of wage and hour class action lawsuits in California.
- (3) We issued 12.4 million shares of our common stock in connection with the TSA merger, which was completed on August 4, 2003.
- (4) Amount includes the effect of \$7.6 million, net of tax, or \$0.74 per diluted share of merger integration costs associated with the acquisition of Oshman's.
- (5) We issued 3.4 million shares of our common stock in connection with the Oshman's merger, which was completed on June 7, 2001.
- (6) Includes two Sports Authority stores closed as a result of the merger integration process.
- (7) Includes 12 Sports Authority stores closed and two Gart stores closed as a result of the merger integration process.
- (8) Includes 205 Sports Authority stores acquired in the TSA merger on August 4, 2003.
- (9)

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Includes 11 Sports Authority stores closed and one Gart store closed as a result of the merger integration process.

- (10) Includes 58 Oshman's stores acquired on June 7, 2001.
- (11) Includes four Oshman's stores closed after the acquisition on June 7, 2001.
- (12) New stores enter the comparable store sales base at the beginning of their 14th full month of operation. The Oshman's stores were included in the comparable store sales base beginning August 2, 2002, the beginning of the 14th full month of operations from the acquisition date. The Sports Authority stores that met the criteria above were included in the comparable store sales base beginning August 4, 2003, the merger date.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with "Selected Consolidated Financial Data" and our consolidated financial statements and accompanying notes included elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors.

Overview

We are one of the nation's largest publicly traded full-line sporting goods retailers, with a presence in most major markets across the United States. At January 28, 2006, we operated 398 stores in 45 states under three principal brands: Sports Authority, Gart Sports and Sportmart. We also have a licensing agreement with Mega Sports Co. Ltd. We own 19.9% of the common stock of Mega Sports Co. Ltd., which operates stores in Japan under the Sports Authority name.

On August 4, 2003, a wholly-owned subsidiary of Gart Sports Company completed a merger with The Sports Authority, Inc., and Gart Sports Company was renamed The Sports Authority, Inc. The references made to the entities herein refer to The Sports Authority, Inc. (formerly Gart Sports Company which includes "Sports Authority" or "Company" or "we" or "our" or "us") and its subsidiaries. "TSA" refers to TSA Stores Inc. (formerly known as The Sports Authority, Inc.). The merger was accounted for under the purchase method of accounting with Gart Sports Company as the acquirer. Accordingly, the results of operations below for fiscal 2003 include the results of TSA since the date of the merger. The combined company is headquartered in Englewood, Colorado and is listed on the New York Stock Exchange under the ticker symbol "TSA."

In 2005, our major initiatives included the continuation of our store remodeling program and rebranding of our stores to the Sports Authority name, new store openings and continued improvements in our merchandise assortment and supply chain.

We completed a major stage in the rebranding of our Oshman's, Sportmart and Gart Sports stores to the Sports Authority name with approximately 75% of our stores operating under the Sports Authority name as of the end of fiscal 2005. Our goal is to have all stores rebranded to the Sports Authority name by the end of the second quarter of fiscal 2006. The rebranding will allow us to increase consumer awareness and drive loyalty to our Sports Authority brand on a national level and allow us to realize advertising cost savings that result from eliminating redundant advertising to support multiple brands in a single market.

We continue to refine our merchandise assortments with higher-end merchandise in our golf, footwear, active sportswear and fitness categories and we are improving the quality of our merchandise assortments in most categories by refining the overall number of SKU's offered and providing a deeper, more focused offering of high quality top brand products that more precisely meet the needs of our targeted customers. We continue to focus on improving our supply chain by reducing both the time it takes to get inventory to the store and the time it takes to get inventory to the sales floor. Our backstock program, which ensures quicker replenishment on specific items, was expanded to include additional inventory items during the year, increasing the benefits of the program. Additionally, we continued to grow our SDQ initiative in which product is pre-ticketed and pre-packed by store by the vendor. These initiatives, as well as strategic sales of aged product, contributed to our reduction in overall inventory levels and long-term debt levels of \$58.7 million and \$69.2 million, respectively, compared to fiscal 2004.

We completed 56 remodels during fiscal 2005. In addition, we have completed 65 "Golf Day" shops for a total of approximately 130 company-wide and now have our full service "Footwear Statement Walls" in approximately 265 stores company-wide. These Footwear Statement Walls provide a full service environment for higher priced performance footwear and allow us to gain access to premier footwear products from Nike.

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During fiscal 2005 we opened 13 new stores, closed 7 stores and relocated four stores. Our comparable store sales for fiscal 2005 increased 1.5%. In fiscal 2005, our comparable store sales were driven by strong performances in fitness equipment, active sportswear and outdoor apparel categories. These gains were partially offset by declines in outdoor hardlines, bike and skate categories.

Given the economic characteristics of our store formats, the similar nature of the products sold, the type of customer and method of distribution, our operations are aggregated in one reportable segment as defined by Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information."

Proposed Merger

On January 22, 2006, we entered into a definitive merger agreement to be acquired by an investor group led by Green Equity Investors IV, L.P., an affiliate of Leonard Green & Partners, L.P. ("the buyer") and including members of our senior management team for \$37.25 per share in cash. The transaction is subject to approval of our stockholders and other customary terms and conditions. A definitive proxy statement will be filed with the Securities and Exchange Commission and a special meeting of our stockholders will be held to vote on the merger. We filed our notice of the merger with the United States Department of Justice and the Federal Trade Commission on March 8, 2006 and on March 17, 2006, the Federal Trade Commission granted early termination of the Hart-Scott-Rodino Antitrust Improvements Act waiting period.

The merger agreement provides that until the effective time of the merger, we will conduct our business in the ordinary and usual course consistent with past practice, subject to certain conditions and restrictions as set forth in the merger agreement. In addition, we have agreed not to authorize any capital expenditures in excess of \$5 million in the aggregate in excess of the capital expenditures provided for in our 2006 budget. The merger agreement contains certain termination rights, and, under certain circumstances, if the merger is not completed, we may be required to pay the buyer a termination fee of \$30 million and/or reimburse the buyer for its out-of-pocket expenses in connection with the merger up to \$5 million, subject to possible increase. Any termination fee would be net of expenses reimbursed.

Results of Operations

The following table sets forth for the periods indicated, certain income and expense items expressed as a percentage of net sales and the number of stores open at the end of each period (dollars rounded to millions):

| | Fiscal 2005(1) | | Fiscal 2004(1) | | Fiscal 2003(1) | |
|--|----------------|--------|----------------|--------|----------------|--------|
| | Dollars | % | Dollars | % | Dollars | % |
| Net sales | \$ 2,509.3 | 100.0% | \$ 2,435.9 | 100.0% | \$ 1,760.5 | 100.0% |
| Cost of goods sold, buying, distribution and occupancy | 1,802.1 | 71.8 | 1,756.9 | 72.1 | 1,274.5 | 72.4 |
| Gross profit | 707.2 | 28.2 | 679.0 | 27.9 | 486.0 | 27.6 |
| Operating expenses | 593.8 | 23.7 | 579.8 | 23.8 | 407.5 | 23.1 |
| Merger integration costs(2) | | | 21.8 | 0.9 | 43.8 | 2.5 |
| Pre-opening expenses | 2.6 | 0.1 | 4.0 | 0.2 | 1.9 | 0.1 |
| Operating income | 110.8 | 4.4 | 73.4 | 3.0 | 32.7 | 1.9 |
| Interest expense | (22.4) | (0.9) | (20.1) | (0.8) | (12.3) | (0.7) |
| Other income, net | 3.1 | 0.1 | 1.4 | 0.1 | 3.5 | 0.2 |
| Income before income taxes | 91.5 | 3.6 | 54.8 | 2.2 | 24.0 | 1.4 |
| Income tax expense | (36.1) | (1.4) | (21.3) | (0.9) | (7.7) | (0.4) |
| Net income | \$ 55.4 | 2.2% | \$ 33.5 | 1.4% | \$ 16.3 | 0.9% |
| Number of stores at end of period | 398 | | 392 | | 384 | |

(1) Columns may not add due to rounding.

(2)

Represents merger integration costs associated with the TSA merger.

We consider cost of goods sold to include the direct cost of merchandise, plus certain costs associated with procurement, warehousing, handling and distribution. In addition to the full cost of inventory, cost of goods sold includes related store occupancy costs and amortization and depreciation of leasehold improvements and rental equipment.

Operating expenses include store and non-store expenses (except occupancy), and depreciation and amortization not included in cost of goods sold.

Fiscal 2005 as compared to Fiscal 2004

Net Sales. Net sales increased \$73.4 million, or 3.0%, to \$2,509.3 million in fiscal 2005, compared to \$2,435.9 million in fiscal 2004. The increase is attributable primarily to higher comparable store sales and sales from new store openings of \$86.1 million, offset by \$33.4 million of sales decreases from store closures. Comparable store sales for fiscal 2005 were up 1.5%. The increase in comparable store sales was primarily due to strong performances in the active sportswear, fitness equipment and outdoor apparel categories. These improvements were driven primarily by our ability to consistently maintain in stock positions of high demand products in each of these categories. In aggregate, these categories produced a \$61.5 million, or a 2.7% increase, in comparable store sales. Offsetting these gains were declines in the outdoor hardlines, bike and skate categories aggregating \$37.1 million, or a 1.6% decrease, in comparable store sales.

Gross Profit. Gross profit for fiscal 2005 was \$707.2 million, or 28.2% of net sales, as compared to \$679.0 million, or 27.9% of net sales, for fiscal 2004, or an improvement of 30 basis points. This improvement was due to an increase in gross profit as a result of improved merchandise margins resulting primarily from the reduction of several one-time coupon events and promotional footwear offerings and higher margin merchandise in our active sportswear, footwear and fitness categories. These increases in gross profit were partially offset by higher store occupancy and transportation fuel costs as a percent of sales.

Operating Expenses. Operating expenses in fiscal 2005 were \$593.8 million, or 23.7% of net sales, as compared to \$579.8 million, or 23.8% of net sales, for fiscal 2004. Operating expenses as a percentage of sales decreased by 0.1% compared to fiscal 2004 primarily due to a decrease in insurance costs of 0.3% offset by an increase in overall payroll costs of 0.2%.

Merger Integration Costs. There were no merger integration costs for fiscal 2005, compared to \$21.8 million, or 0.9% of net sales, for fiscal 2004. Integration costs include only non-recurring, incremental costs arising as a direct result of integrating the two companies following the TSA merger. For fiscal 2004, these costs consisted primarily of \$10.2 million of severance, recruitment fees and duplicative payroll and benefits, \$7.0 million for consulting fees related to integrating the two companies, \$2.0 million in relocation and travel expenses, \$1.3 million related to closing the operations of the former TSA corporate office and closure of a Gart distribution center, and \$1.0 million in advertising expense.

Pre-opening expenses. Pre-opening expenses in fiscal 2005 were \$2.6 million or 0.1% of net sales, as compared to \$4.0 million, or 0.2% of net sales for fiscal 2004. Pre-opening expenses in fiscal 2005 were for the addition of 13 new stores and four relocations compared to 22 new stores and two relocations in fiscal 2004.

Operating Income. As a result of the factors described above, operating income for fiscal 2005 was \$110.8 million, or 4.4% of net sales, compared to \$73.4 million, or 3.0% of net sales, in fiscal 2004.

Interest Expense. Interest expense for fiscal 2005 increased to \$22.4 million, or 0.9% of net sales, from \$20.1 million, or 0.8% of net sales, in the prior year. Higher interest expense is due to an increase in average interest rates offset by decreases in average debt compared to fiscal 2004.

Other Income. Other income was \$3.1 million for fiscal 2005 compared to \$1.4 million for fiscal 2004. The increase in other income is primarily related to a \$1.0 million gain from the sale of a non-operating property and \$0.7 million of other income received from the early payoff by the debtor of a mortgage note receivable that we held.

Income Taxes. Our income tax expense for fiscal 2005 was \$36.1 million compared to \$21.3 million in fiscal 2004. Our effective rate was approximately 39.5% for fiscal 2005 compared to approximately 39% for fiscal 2004.

Fiscal 2004 as compared to Fiscal 2003

Net Sales. Net sales increased \$675.4 million, or 38.4%, to \$2,435.9 million in fiscal 2004, compared to \$1,760.5 million in fiscal 2003. Of the \$675.4 million increase, \$642.7 million is due to the inclusion of sales from TSA stores acquired in the merger in the first twenty-six weeks of fiscal 2004 versus results for Gart Sports on a stand-alone basis for the first twenty-six weeks of fiscal 2003. The remaining increase of \$32.7 million is attributable primarily to sales from new store openings of \$98.2 million, offset by \$37.5 million of sales decreases from store closures and lower comparable store sales. Comparable store sales for fiscal 2004 were down 2.0%. However, we had positive performance in the outdoor apparel and ski categories primarily due to our expansion of winter sports products into certain TSA markets. In aggregate, these categories produced a \$30.6 million, or a 1.3% increase, in comparable store sales. Additionally, we have experienced strong sales trends in our remodeled TSA stores. Offsetting these gains were declines in the fitness, team sports, outdoor and skate categories aggregating \$52.1 million, or a 2.2% decrease, in comparable store sales. During the second fiscal quarter of 2004 we reassigned responsibilities within the merchandising group, which resulted in some short-term disruption in placement and allocation of product orders, which negatively impacted the sales in several categories. In the third fiscal quarter of 2004, we experienced a decline in comparable store sales partially as a result of the hurricanes that impacted the southeastern United States.

Gross Profit. Gross profit for fiscal 2004 was \$679.0 million, or 27.9% of net sales, as compared to \$486.0 million, or 27.6% of net sales, for fiscal 2003, or an improvement of 30 basis points. This improvement was due to an increase in gross profit of 117 basis points as a result of improved merchandise margins resulting primarily from lower inventory costs due to the increased buying power of the combined company and improved shrink performance. The application of EITF 02-16 produced an increase in gross profit of \$4.4 million, or 15 basis points, for vendor entitlements recognized as a reduction of cost of goods sold which would historically have been treated as a reduction of advertising expense. These increases in gross profit were partially offset by higher store occupancy and distribution center costs as a percent of sales.

Operating Expenses. Operating expenses in fiscal 2004 were \$579.8 million, or 23.8% of net sales, as compared to \$407.5 million, or 23.1% of net sales, for fiscal 2003. These increases are primarily due to the operating costs associated with the acquired TSA stores and as a result of the application of EITF 02-16 which resulted in the additional recharacterization of \$4.2 million, or 0.2% of net sales, in vendor entitlements from a reduction of advertising expense to a reduction of cost of inventory purchased in 2004. Additionally, operating expenses increased as a percentage of sales due to the decrease in comparable store sales.

Merger Integration Costs. Merger integration costs for fiscal 2004 were \$21.8 million, or 0.9% of net sales, compared to \$43.8 million, or 2.5% of net sales, for fiscal 2003. Integration costs include only non-recurring, incremental costs arising as a direct result of integrating the two companies following the TSA merger. For fiscal 2004, these costs consisted primarily of \$10.2 million of severance, recruitment fees and duplicative payroll and benefits, \$7.0 million for consulting fees related to integrating the two companies, \$2.0 million in relocation and travel expenses, \$1.3 million related to closing the operations of the former TSA corporate office and closure of a Gart distribution center, and \$1.0 million in advertising expense related to rebranding. For fiscal 2003, these costs consisted of \$17.7 million of

duplicative payroll, benefits and retention payments, \$8.4 million of severance costs, \$6.7 million of consulting fees, \$6.0 million of expense related to closing the operations of the former TSA corporate office in Ft. Lauderdale and closing a Gart store in an overlapping market, \$3.0 million for relocation and travel, and \$2.0 million of advertising.

Pre-opening expenses. Pre-opening expenses in fiscal 2004 were \$4.0 million or 0.2% of net sales, as compared to \$1.9 million, or 0.1% of net sales for fiscal 2003. Pre-opening expenses in fiscal 2004 were for the addition of 22 new stores and two relocations compared to 14 new stores and three relocations in fiscal 2003.

Operating Income. As a result of the factors described above, operating income for fiscal 2004 was \$73.4 million, or 3.0% of net sales, compared to \$32.7 million, or 1.9% of net sales, in fiscal 2003.

Interest Expense. Interest expense for fiscal 2004 increased to \$20.1 million, or 0.8% of net sales, from \$12.3 million, or 0.7% of net sales, in the prior year. The increase in interest expense is primarily related to increased debt levels due to the assumption of TSA debt upon completion of the merger, funding of merger and integration costs, and financing increased inventory levels due to the replacement of TSA inventory identified as clearance and non-go-forward at the time of the merger, negative comparable store sales, and our investment in the remodeling of acquired TSA stores. We also paid interest at higher rates in fiscal 2004 versus the prior year as a result of higher 90-day LIBOR rates.

Other Income. Other income was \$1.4 million for fiscal 2004 compared to \$3.5 million for fiscal 2003. The prior year included \$1.9 million in interest income associated with the settlement of a tax dispute involving Gart's former parent.

Income Taxes. Our income tax expense for fiscal 2004 was \$21.3 million compared to \$7.7 million in fiscal 2003. The prior year included a tax benefit of \$1.7 million related to the settlement of the tax dispute discussed above. This one-time benefit had the effect of reducing the effective tax rate, which would otherwise have been approximately 39%, compared to approximately 39% for fiscal 2004.

Liquidity and Capital Resources

Our primary capital requirements are for inventory and other seasonal working capital needs, capital improvements, including investments in store remodeling, store fixtures and ongoing infrastructure improvements, and pre-opening expenses to support our expansion plans.

Cash Flow Analysis

The following table presents changes in cash and cash equivalents for the periods presented:

| | Fiscal 2005 | | Fiscal 2004 | | Fiscal 2003 |
|---|---------------------------------------|----|----------------|----|----------------|
| | (dollars in thousands, except ratios) | | | | |
| Cash provided by operating activities | \$ 165,589 | \$ | 81,902 | \$ | 54,835 |
| Cash used in investing activities | (101,597) | | (78,138) | | (113,841) |
| Cash provided by (used in) financing activities | (63,535) | | (6,935) | | 76,859 |
| Capital expenditures | \$ 107,643 | \$ | 111,502 | \$ | 76,498 |
| Long-term debt (at end of period) | 236,138 | | 305,383 | | 317,321 |
| Working capital (at end of period) | 348,710 | | 355,518 | | 378,909 |
| Long-term debt to equity ratio (at end of period) | 0.43 | | 0.63 | | 0.73 |

Cash provided by operating activities increased \$83.7 million in fiscal 2005 compared to fiscal 2004. This increase was primarily due to an increase in net income adjusted for non-cash expenditures for deferred taxes and depreciation and amortization, totaling \$43.9 million, as well as a reduction of

inventory net of payables of \$30.0 million. Cash provided by operating activities increased \$27.1 million in fiscal 2004 compared to fiscal 2003. Net income adjusted for deferred taxes and depreciation and amortization increased by \$49.5 million which was offset by an increase in cash used for inventories net of accounts payable of \$34.3 million. Additionally, the change in accounts receivable during fiscal 2004 resulted in a \$11.5 million increase in operating cash flows compared to fiscal 2003.

Cash used in investing activities increased \$23.5 million in fiscal 2005 compared to fiscal 2004 as cash received from the sale of property was \$27.9 million lower in fiscal 2005. Total net capital expenditures in 2005 including a change in accrued property and equipment of \$4.1 million and a \$21.7 million inflow of tenant improvement allowances from landlords classified as operating cash flows is \$90.0 million. This \$90.0 million of net capital expenditures was used to fund various capital improvements, including: \$45.7 million for store remodels, new fixtures and miscellaneous store improvements; \$13.2 million for thirteen new store openings and four relocations; \$15.3 million for upgrades at our distribution centers and information systems; and \$4.5 million for rebranding signage. In fiscal 2004, cash used in investing activities decreased \$35.7 million. This decrease in cash outflows is primarily due to an increase in cash received from the sale of property and equipment and mortgage notes of \$27.8 million and the absence of any direct TSA merger costs which totaled \$42.8 million in fiscal 2003, offset by an increase in capital expenditures of \$35.0 million in fiscal 2004.

Cash used in financing activities, which consists principally of net borrowings or payments under our revolving credit facility, increased \$56.6 million in fiscal 2005 compared to fiscal 2004. This increase reflects net paydowns to reduce our long-term debt by \$69.2 million in fiscal 2005 compared to net paydowns of \$11.9 million in fiscal 2004. In fiscal 2004, cash used in financing activities increased \$83.8 million. This increase in cash outflows reflects net paydown of \$11.9 million in fiscal 2004 compared to net borrowings of \$73.2 million in fiscal 2003.

Our liquidity and capital needs have principally been met by operating cash flows and by borrowings under a revolving credit facility with CIT/Business Credit, Inc. ("CIT"), as agent. Under our revolving credit facility (the "Credit Agreement") the Company may borrow up to \$600 million, generally limited to an amount equal to 70% of eligible inventory or 85% of the appraised net orderly liquidation value of eligible inventory (as defined in the agreement), but with seasonal increases in the advance rate permitted. On September 15, 2004, the Company entered into an Amended and Restated Financing Agreement with CIT that modified the terms of the Credit Agreement by providing for an additional \$40 million term loan and extending the maturity date of our existing revolving credit line to August 4, 2008. The term loan was drawn in full on September 15, 2004. The Company paid one-time fees of approximately \$1.2 million in fiscal 2004 to secure the Amended and Restated Financing Agreement, and is amortizing that amount over the life of the agreement on the effective interest method. Borrowings are secured by substantially all present and future accounts (as defined in the Amended and Restated Financing Agreement), equipment, inventory, the common stock of its subsidiaries, documents of title and intangible assets.

On April 11, 2005, the Company entered into Amendment One to the Amended and Restated Financing Agreement. This amendment extends the maturity date of the revolving credit line to August 4, 2009 and modifies the method of calculating the margin spread above the applicable interest rates available to us. The pricing grids for both the term loan and the revolving credit line in the loan agreement were also modified to allow us to earn a lower spread if certain financial targets are achieved which is more favorable than the spread in the Amended and Restated Financing Agreement. The Company paid one-time fees of approximately \$0.4 million to secure Amendment One to the Amended and Restated Financing Agreement. At January 28, 2006, borrowings under the credit agreement were \$230.3 million and \$226.5 million was available for borrowing. On February 17, 2006, we paid off the outstanding balance of our term loan. In accordance with the Credit Agreement our maximum availability on our revolving credit facility increased from \$600 million to \$640 million at the time the term loan was paid off.

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Loan interest is payable monthly at Chase Manhattan Bank's prime rate plus a margin rate or, at the option of the Company, at Chase Manhattan Bank's LIBOR rate plus a margin rate. The applicable margin rates during the relevant time periods vary based on the Company's EBITDA levels and are summarized in the table below:

| | Revolving Credit Line | | Term Loan | |
|--|-----------------------|-------------|-------------|-------------|
| | Prime Rate | Margin Rate | Prime Rate | Margin Rate |
| August 4, 2003 Financing Agreement | | 0%-0.50% | | N/A |
| September 15, 2004 Amended and Restated Financing Agreement | | 0%-0.50% | | 5.50%-6.00% |
| April 11, 2005 Amendment No. 1 to Amended and Restated Financing Agreement | | 0% | 1.50%-2.25% | 3.00%-4.00% |

Capital expenditures, net of tenant improvement allowances, are projected to be approximately \$70 to \$75 million in fiscal 2006, primarily for the opening of new or relocating stores, store remodels, miscellaneous store improvements, rebranding signage, and information system upgrades and enhancements.

We believe that cash generated from operations, combined with funds available under the revolving credit facility, will be sufficient to fund projected capital expenditures, future common share purchases, if any, and other working capital requirements for at least the next 12 months as well as the foreseeable future. We intend to utilize the revolving credit facility to meet seasonal fluctuations in cash flow requirements.

Contractual obligations and commercial commitments

The following table summarizes our contractual obligations and commercial commitments in effect at January 28, 2006:

| | Payments due by period | | | | |
|---|------------------------|-------------------|-------------------|-------------------|-------------------|
| | Total | Within 1 year | 2-3 years | 4-5 years | After 5 years |
| (in thousands) | | | | | |
| Contractual obligations: | | | | | |
| Long-term debt and note payable(1) | \$ 288,770 | \$ 15,013 | \$ 68,532 | \$ 197,387 | \$ 7,838 |
| Capital lease obligations(2) | 606 | 367 | 239 | | |
| Operating leases, net(3) | 1,904,550 | 217,629 | 423,834 | 383,195 | 879,892 |
| Total contractual cash obligations | \$ 2,193,926 | \$ 233,009 | \$ 492,605 | \$ 580,582 | \$ 887,730 |

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Amount of commitment expiration per period

| | Amount of commitment expiration per period | | | | |
|--|--|------------------|--------------|--------------|------------------|
| | Total | Within 1 year | 2-3 years | 4-5 years | After 5 years |
| | (in thousands) | | | | |
| Other commercial commitments: | | | | | |
| Purchase commitments | \$ 5,535 | \$ 5,535 | \$ | \$ | \$ |
| Standby letters of credit | 14,028 | 14,028 | | | |
| Total commercial commitments(4) | \$ 19,563 | \$ 19,563 | \$ | \$ | \$ |

- (1) Amounts include estimated contractual interest payments using interest rates as of January 28, 2006.
- (2) Capital lease obligations include interest of \$0.1 million.
- (3) These amounts include future minimum rent payments, net of \$19.3 million of non-cancelable sublease payments, and exclude the associated operating costs of our operating leases. In addition to minimum rent payments, our leases typically provide for the payment of associated operating costs, primarily common area maintenance, insurance and real estate taxes. For the year ended January 28, 2006, these associated operating costs for our leases were approximately \$58.4 million.
- (4) We have routine commitments under merchandise inventory purchase orders, which vary in amount from month to month depending on seasonality and other factors. Such purchase orders are cancelable by us without payment. In addition, we have entered into employment agreements with certain employees, primarily those at the vice president level and above. Payments under these employment agreements are dependent on these employees providing future services and certain payments are required to be made upon termination of employment by us without cause, as defined in the employment agreements. These items have not been included in the amounts in the above table.

Off balance sheet arrangements. We have noncancelable operating leases primarily for stores, distribution facilities, and our corporate offices. Future obligations under these leases are shown in the contractual obligations table above.

Interest Rate and Foreign Currency Risk Management

We entered into an interest rate swap agreement on June 23, 2004 for a notional amount of \$75 million, beginning July 7, 2004, and expiring on June 30, 2007, to minimize the risks and costs associated with our financing activities in general and to minimize its exposure to variable cash flows in particular. On April 8, 2005, we entered into an additional interest rate swap agreement effective June 1, 2005 and expiring May 31, 2010 with a notional amount of \$50 million. Under the swap agreements, we pay fixed rate interest and receive variable LIBOR interest rate payments periodically over the life of the agreement. The total notional interest rate swap amount is \$125 million, which is used to measure interest to be paid or received and does not represent the exposure due to credit loss.

Our interest rate swaps are each designated as a cash flow hedge and are considered highly effective, as defined by FASB Statement No. 133. There is no charge to earnings for changes in the fair value of the swap agreements. Cash settlements on the swap agreements are recorded as interest expense. At January 28, 2006 and January 29, 2005, the fair value of the swaps were a gain of \$937,000 and a loss of \$250,000, respectively, net of the related income tax effects. The unrealized gain and loss from these interest rate swaps are included in accumulated other comprehensive income and are shown as a component of stockholders' equity.

Our exposure to foreign currency risk is not material.

Seasonality and Inflation

The following table sets forth our unaudited consolidated quarterly results of operations for each of the quarters in fiscal 2005 and 2004. This information is unaudited, but is prepared on the same basis as the annual financial information and, in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information for the periods presented. The results of operations for any quarter are not necessarily indicative of the results for any future period.

| Fiscal 2005 | | | | |
|--------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| (dollars in millions) | | | | |
| Net sales | \$ 591.2 | \$ 617.0 | \$ 560.0 | \$ 741.1 |
| % of full year net sales | 23.6% | 24.6% | 22.3% | 29.5% |
| Operating income | \$ 18.0 | \$ 28.6 | \$ 10.8 | \$ 53.4 |

| Fiscal 2004 | | | | |
|--------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| (dollars in millions) | | | | |
| Net sales | \$ 572.0 | \$ 605.0 | \$ 545.0 | \$ 713.8 |
| % of full year net sales | 23.5% | 24.8% | 22.4% | 29.3% |
| Operating income | \$ 10.6 | \$ 15.5 | \$ 0.7 | \$ 46.6 |

The fourth quarter has historically been our strongest quarter. We believe that two primary factors contribute to this seasonality: first, sales of cold weather sporting goods and ski and snowboard merchandise during the fourth quarter are generally strong in anticipation of the ski and snowboard season; and second, holiday sales contribute significantly to our 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 our markets or otherwise, could have a material adverse effect on our business, financial condition and operating results for the entire fiscal year.

Although our operations are influenced by general economic conditions, we do not believe that inflation has a material impact on our results of operations. We believe that we are generally able to pass along inflationary increases in costs to our customers.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the results of operations and financial condition as reflected in our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to inventory valuation, vendor allowances, the recoverability of long-lived assets including intangible assets, store closing reserves, income taxes, self insured reserves and the estimates used to apply the purchase method of accounting to our mergers and acquisitions. Management bases its estimates and judgments on its historical experience and other relevant factors, which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. See

Note 2 to the consolidated financial statements for a complete listing of our significant accounting policies.

Valuation of Inventory

We value our inventory at the lower of last-in, first-out ("LIFO") cost or market. Cost is determined using the average cost of items purchased and applying the dollar value LIFO inventory method. Our dollar value LIFO pools are computed using the Inventory Price Index Computation ("IPIC") method. LIFO cost of our inventories is then compared to estimated market value. This assessment of estimated market value is based on the quality and age of merchandise, the rate of sale of merchandise, the quantities on hand, and our assessment of the market conditions. Estimates and judgments are required in the determination of the market value of our inventory and future events, such as changes in customer merchandise preferences or unseasonable weather patterns, could impact the market value of our inventory.

Inventory shrinkage is accrued as a percentage of merchandise sales based on historical inventory shrinkage trends. We perform physical inventories at stores and distribution centers throughout the year. The reserve for inventory shrinkage represents an estimate for inventory shrinkage for each location since the last physical inventory date through the reporting date. These estimates are impacted by internal and external factors and may vary from actual results.

Vendor Allowances

We receive certain allowances from our vendors, which include rebates, discounts and cooperative advertising funds. These amounts are negotiated with vendors typically on an annual basis and are, at times, dependent on projected purchase volumes and advertising plans. The amounts are subject to changes in market conditions or marketing strategies of our vendors, and changes in our product purchases. We record an estimate of earned allowances based on the latest information available with respect to purchase volumes, advertising plans and status of our negotiation with vendors.

Impairment of Assets

We review long-lived tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Future events could cause management to conclude that impairment indicators exist and that the value of long-lived tangible and intangible assets are impaired.

Store Closing Reserves

Prior to December 31, 2002 and the adoption of SFAS No. 146, "Accounting for Costs associated with Exit or Disposal Activities" ("SFAS No. 146"), we recorded a provision for store closing costs when the decision was made by management to close a store. In accordance with SFAS No. 146, for store closing activities initiated after December 31, 2002, the related liability is recorded at fair value when a liability is incurred rather than when the decision to close a store is made. This will change the timing of recognition for certain exit costs, so that certain exit costs will be recognized over the period in which the exit activities occur. We also record store exit reserves arising from our various mergers and acquisitions pursuant to SFAS No. 141, "Business Combinations" and EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" ("EITF 95-3"). Under EITF 95-3, the costs of a plan to exit an activity of the acquired company are recognized as

liabilities assumed in the business combination. As such, reserves are recorded in purchase accounting for the net present value of projected costs to be incurred after the store closing date. The costs incurred in connection with store closings primarily consist of post-closing future net lease obligations, utilities, property taxes, and employee costs directly related to the store closing.

Deferred Taxes

Deferred tax assets and liabilities are recognized based on differences between the financial statement carrying amount and the tax bases of assets and liabilities. Deferred tax assets are reviewed for recoverability based on projections of future operating results, which dictate our ability to realize the tax assets. We record a valuation allowance to reduce the carrying value of our deferred tax assets when this amount exceeds the amount more likely than not to be realized. As of January 28, 2006, we had no valuation allowance on our deferred tax assets.

We file our tax returns based on our best understanding of the appropriate tax rules and regulations. However, complexities in the rules and our operations, as well as positions taken publicly by the taxing authorities may lead us to conclude that accruals for uncertain tax positions are required. We generally maintain accruals for uncertain tax positions until examination of the tax year is completed by the taxing authority, available review periods expire, or additional facts and circumstances cause us to change our assessment of the appropriate accrual amount. The Financial Accounting Standards Board has been evaluating the accounting for uncertain tax positions and is likely to issue guidance during 2006 for all companies to follow. We believe our current processes are consistent with accounting principles generally accepted in the United States of America.

Self-Insured Reserves

We are self-insured for our workers' compensation, general liability and employee medical plans up to a self-insured retention amount. We record a reserve for the estimated cost of both reported and incurred but not reported ("IBNR") claims. The estimate of our current claim obligation requires significant judgment and is based on specific loss estimates for reported claims, and on loss triangulation estimates of future claims payments, including IBNR claims. Reserves are regularly evaluated for adequacy based on the most current available information, including historical claims experience and expected future claims costs.

Acquisitions and Mergers Accounting

Our acquisitions and mergers are accounted for under the purchase method of accounting. Accordingly, the total costs of such transactions are allocated to the tangible and intangible assets acquired and liabilities assumed based on their respective fair values. The determination of fair values involves the use of estimates and assumptions, which are subject to adjustment in the future. While we believe that the historical experience and other factors considered provide a meaningful basis for the accounting policies applied in the preparation of the consolidated financial statements, we cannot guarantee that our estimates and assumptions will be accurate, and will not require adjustment in future periods.

Impact of Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 clarifies that inventory costs that are "abnormal" are required to be charged to expense as incurred as opposed to being capitalized into inventory as a product cost. SFAS 151 provides examples of "abnormal" costs to include costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage).

SFAS 151 is effective for the fiscal year beginning after June 15, 2005. Upon adoption of SFAS 151, there was no impact to our consolidated financial statements.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, ("SFAS 123(R)"). This Statement requires companies to expense the estimated fair value of stock options and similar equity instruments issued to employees. Currently, companies are required to calculate the estimated fair value of these share-based payments and can elect to either include the estimated cost in earnings or disclose the pro forma effect in the footnotes to their consolidated financial statements. We have chosen to disclose the pro forma effect in our consolidated financial statements. The fair value concepts were not changed significantly in SFAS 123(R); however, in adopting this Standard, companies must choose among alternative valuation models and amortization assumptions. On April 14, 2005, the U.S. Securities and Exchange Commission announced a deferral of the effective date of SFAS 123(R). SFAS 123(R) is effective for the first fiscal year that begins after June 15, 2005, which for us is fiscal 2006, a 53 week year beginning January 29, 2006. We will adopt the provisions of SFAS 123(R) in the first quarter of fiscal 2006 using the modified prospective method. Under the modified prospective method, we will record compensation expense for the fair value of equity awards issued after January 28, 2006 on a straight-line basis over the requisite service period for the entire award. We will also record compensation expense over the remaining service periods for previously-issued, unvested stock options that are outstanding as of January 28, 2006. We will continue to utilize the Black Scholes model in calculating estimated fair value of stock options. The complete impact of the adoption of SFAS 123(R) on future grants cannot be predicted at this time because it will depend on levels of share-based payments granted in the future, as well as the assumptions and the fair value model used to value them, and the market value of our common stock. For grants made prior to the adoption of SFAS 123(R), the impact of expensing unvested stock options that previously had no expense associated with them under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations is currently estimated to be approximately \$0.03 per diluted share in fiscal 2006.

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 47, *Accounting for Conditional Asset Retirement Obligations*. FIN 47 clarifies the term "conditional" as used in SFAS 143, *Accounting for Asset Retirement Obligations*. This interpretation refers to a legal obligation to perform an asset retirement activity even if the timing and/or settlement is conditional on a future event that may or may not be within the control of an entity. Accordingly, the entity must record a liability for the conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. We adopted FIN 47 in the fourth quarter of fiscal 2005, the impact is immaterial to our financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" a replacement of APB Opinion No. 20 and FASB Statement No. 3 ("SFAS 154"). This Statement replaces APB Opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. It requires retrospective application to prior-period financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Although we have no current application for this statement, the adoption of this statement may impact our future results of operations, financial position or cash flows.

Emerging Issues Task Force Issue 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination," ("EITF 05-6") provides guidance on amortization of leasehold improvements purchased subsequent to the inception of the lease or acquired in a business combination. EITF 05-6 states that leasehold

improvements that are placed in service significantly after and not contemplated at or near the beginning of the lease term should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date of the assets' purchase. EITF 05-6 became effective for the Company in the third quarter of fiscal 2005. The adoption of this statement did not have an impact on our consolidated financial statements.

In October 2005, the FASB issued FASB Staff Position (FSP) FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period." This FSP requires rental costs for ground or building operating leases incurred during the construction period be recognized as rental expense. The guidance permits either retroactive or prospective treatment for periods beginning after December 15, 2005. We will prospectively change our policy from capitalization to expensing beginning in fiscal 2006. Due to uncertainties about store opening dates, construction and merchandising periods prior to store openings and other activities that could delay or accelerate a store opening it is difficult to determine the precise impact the adoption of this pronouncement will have on the Company's operating results. Currently, the Company estimates the increase in pre-opening costs in fiscal 2006 due to the adoption of FAS 13-1 will decrease net income by approximately \$0.05 to \$0.06 per share.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

Our primary interest rate risk exposure results from our long-term debt agreement. Our 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. We maintain portions of our debt in LIBOR tranches that mature in one to six months. As those tranches mature, the interest rates on our outstanding borrowings are changed to reflect current prime or LIBOR rates. Therefore, our interest expense changes as the prime or LIBOR market rates change. We have entered into two interest rate swap instruments, designated as cash flow hedges, as shown in the following table:

| <u>Date Entered Into</u> | <u>Rate paid</u> | <u>Rate received</u> | <u>Notional amount</u> | <u>Fair value at 01/28/06</u> |
|--------------------------|------------------|----------------------|------------------------|-------------------------------|
| June 23, 2004 | 3.76% | 3-mo. US Libor | \$ 75,000,000 | \$ 1,161,103 |
| April 8, 2005 | 4.65% | 3-mo. US Libor | \$ 50,000,000 | \$ 362,559 |

Based on our overall interest rate exposure at January 28, 2006, a hypothetical instantaneous increase or decrease of one percentage point in interest rates applied to borrowings under our revolving credit facility would change our after-tax earnings by approximately \$1.4 million over a 12-month period prior to considering the effects of our interest rate swaps.

Our exposure to foreign currency exchange rates is limited because we do not operate any stores outside of the United States. We do not consider the market risk exposure relating to foreign currency exchange to be material. Foreign currency fluctuations did not have a material impact on us during the quarter or year-to-date periods in fiscal 2005, 2004 or 2003.

ITEM 8. Financial Statements and Supplementary Data

The financial statements and supplementary financial information required by this Item and included in this report are listed in the Index to Consolidated Financial Statements appearing on page F-1.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

ITEM 9A. Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report (the "Evaluation Date"). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to us required to be included in our reports filed or submitted under the Exchange Act.

In connection with the filing of this Form 10-K, the Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective as of the end of the period covered by this report.

There was no change in our internal control over financial reporting during our fourth fiscal quarter in 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. We have performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our internal control over financial reporting. The Company's management assessed the internal control over financial reporting based on control criteria set forth in a report entitled Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management has concluded that internal control over financial reporting is effective as of January 28, 2006, based on those criteria.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all errors or misstatements or all fraud. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of January 28, 2006 as stated in their report, a copy of which is included in this Annual Report on Form 10-K.

ITEM 9B. Other Information

None

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
The Sports Authority, Inc.
Englewood, CO

We have audited management's assessment, included in the accompanying *Management Report on Internal Control Over Financial Reporting*, that The Sports Authority, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of January 28, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of January 28, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the fiscal year ended January 28, 2006 of the Company and our report dated March 22, 2006 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Denver, Colorado
March 22, 2006

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Directors

The following table and information sets forth the names of the Directors, the year from which each individual has served as a Director, the age of each Director and the principal occupation of each Director.

| Name | Director Since | Age | Position |
|-----------------------|----------------|-----|--|
| John Douglas Morton | 1995 | 55 | Chairman of the Board of Directors and Chief Executive Officer |
| Gordon D. Barker | 1998 | 59 | Director |
| Mary Elizabeth Burton | 2003 | 54 | Director |
| Cynthia R. Cohen | 2003 | 53 | Director |
| Peter R. Formanek | 1998 | 62 | Director |
| Martin E. Hanaka | 2003 | 56 | Director |
| Richard L. Markee | 2005 | 52 | Director |
| Kevin M. McGovern | 2003 | 57 | Director |
| Jonathan D. Sokoloff | 1993 | 48 | Director |

John Douglas Morton. Mr. Morton is chairman of the board and chief executive officer of the Company and has held such positions since June 2004. From August 2003 until June 2004, Mr. Morton was vice chairman of the board and chief executive officer of the Company. From May 1995 to August 2003, Mr. Morton was our chairman of the board, chief executive officer and president. Mr. Morton joined us in 1986 as division manager of our Utah region. In 1988, he was promoted to division vice president of the Utah region, and, in 1990, he was promoted to vice president of operations. In 1994, Mr. Morton was promoted to executive vice president with responsibility for stores, distribution and marketing. Mr. Morton has worked for over 30 years in the sporting goods retail industry.

Gordon D. Barker. Mr. Barker became one of our directors in April 1998. Mr. Barker was the chief executive officer and a director of Thrifty Payless Holdings, Inc., a subsidiary of RiteAid Corporation, from 1996 until its acquisition by RiteAid Corporation in 1997. He previously served in various capacities at Thrifty Payless since 1968, including as chief operating officer from 1994 to 1996 and as president from 1994 to 1997. Mr. Barker served as chief executive officer of Snyder Drug Stores/Drug Emporium, a privately held mid-western chain of approximately 240 corporate and affiliate drug stores, from October 1999 until September 2003, at which time Snyder Drug Stores filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. Mr. Barker is also a director of United Natural Foods, a distributor of natural food products.

Mary Elizabeth Burton. Ms. Burton became one of our directors in August 2003 at the time of the Sports Authority merger. Ms. Burton had been a director of Sports Authority since 1999. Since July 1992, Ms. Burton has also served as chairman and chief executive officer of BB Capital, Inc., a management services and advisory company, which she owns. Since January 2006, she has been serving as interim chief executive officer of Zale Corporation. From June 1998 until April 1999, Ms. Burton served as the chief executive officer of The Cosmetic Center, Inc., a specialty retailer of cosmetics and fragrances. From July 1991 to June 1992, Ms. Burton served as the chief executive officer of PIP Printing, Inc., a leading business printing franchise chain. In addition, Ms. Burton was the chief executive officer of Supercuts, Inc., from September 1987 until May 1991, as well as having served in various other senior executive level capacities in the retailing industry. Ms. Burton currently also serves as a director of Staples, Inc., Zale Corporation, Aeropostale, Inc. and Rent-A-Center, Inc.

Cynthia R. Cohen. Ms. Cohen became one of our directors in August 2003 at the time of the Sports Authority merger. Ms. Cohen had been a director of Sports Authority since 1998. Ms. Cohen founded Strategic Mindshare in 1990, a strategic management consulting firm serving retailers and consumer product manufacturers and is its president. Prior to that, Ms. Cohen was a partner in management consulting with Deloitte & Touche LLP. Ms. Cohen is a director of bebe, a specialty apparel retailer, and Hot Topic, a teen apparel retailer. Ms. Cohen also serves on the executive advisory board for the Center for Retailing Education and Research at the University of Florida.

Peter R. Formanek. Mr. Formanek became one of our directors in April 1998. Mr. Formanek was co-founder of AutoZone Inc., a retailer of aftermarket automotive parts, and served as president and chief operating officer of AutoZone, Inc. from 1986 until his retirement in 1994.

Martin E. Hanaka. Mr. Hanaka currently serves as chairman of the board emeritus and has served in such position since June 2004. Mr. Hanaka was our chairman following the Sports Authority merger in August 2003. Mr. Hanaka joined Sports Authority in February 1998 as its vice chairman and served as its chief executive officer from September 1998 to August 2003. He served as Sports Authority's chairman from November 1999 to June 2004. From 1994 until October 1997, Mr. Hanaka served as president and chief operating officer and a director of Staples, Inc., an office supply retailer. Mr. Hanaka's extensive retail career includes serving as executive vice president of marketing and as president and chief operating officer of Lechmere, Inc. from 1992 to 1994, and serving in various capacities during his 20-year career at Sears Roebuck & Co., most recently as vice president in charge of Sears Brand Central. Mr. Hanaka also serves as a director of Trans-World Entertainment, a movie and video retail chain operating under several brands, and Brightstar Corp., a leading wholesale distributor of wireless communication equipment, as a national governor of the Boys & Girls Clubs of America, and as a member of the Cornell University Entrepreneurship and Personal Enterprise Council.

Richard L. Markee. Mr. Markee became one of our directors in June 2005. Mr. Markee is currently the Vice Chairman of Toys "R" Us, Inc. and President of Babies "R" Us. From May 2003 to August 2004, he was the President of Toys "R" Us U. S., a worldwide specialty retailer of toys, baby products and children's apparel. Previously, from January 2002 to May 2003, he was Executive Vice President of Toys "R" Us, Inc. and President of Specialty Businesses and International Operations of Toys "R" Us U.S. From October 1999 to January 2002, he served as Executive Vice President, President of Babies "R" Us and Chairman of Kids "R" Us. From prior to 1999 to October 1999, he served as Executive Vice President, President of the Babies "R" Us Division and President of the Kids "R" Us Division. He has been with Toys "R" Us, Inc. in various capacities since 1990.

Kevin M. McGovern. Mr. McGovern became one of our directors in August 2003 at the time of the Sports Authority merger. Mr. McGovern had been a director of Sports Authority since 2000. Mr. McGovern is currently the chairman and chief executive officer of McGovern Capital LLC, which structures, funds and implements capital formation, joint ventures and business alliances. He is the principal in the law firm of McGovern & Associates. Mr. McGovern also serves as the chairman of Greenwich Alliances, which specializes in the formation and negotiation of strategic alliances. He is also a Trustee of Cornell University.

Jonathan D. Sokoloff. Mr. Sokoloff became one of our directors in April 1993. Mr. Sokoloff has been a partner of Leonard Green since 1990, and was employed at Drexel Burnham Lambert Incorporated from 1985 through 1990, most recently as a managing director. He has been an executive officer and equity owner of Leonard Green since its formation in 1994, and is also a director of Rite Aid Corporation, Dollar Financial Group, Inc., and several private companies. Mr. Sokoloff has been a manager and member of GEI Capital, the general partner of GEI IV.

Executive Officers

The following table sets forth the name and age of each of our executive officers and all positions and offices held with us:

| Name | Age | Position |
|-----------------------|-----|--|
| John Douglas Morton | 55 | Chairman of the Board of Directors and Chief Executive Officer |
| David J. Campisi | 50 | President |
| Thomas T. Hendrickson | 51 | Vice Chairman, Chief Financial Officer, Chief Administrative Officer and Treasurer |
| Greg A. Waters | 45 | Executive Vice President and Chief Operating Officer |
| Nesa E. Hassanein | 53 | Executive Vice President, General Counsel and Secretary |
| Kerry M. Sims | 48 | Executive Vice President, Human Resources |

John Douglas Morton. See "Directors" for information concerning Mr. Morton.

David J. Campisi. Mr. Campisi joined The Sports Authority in November 2004 as its president of merchandising and in September 2005, he became president of the Company. Prior to joining Sports Authority, Mr. Campisi served as executive vice president-general merchandise manager of women's apparel, accessories, intimate and cosmetics for Kohl's Corporation from April to October 2004. Before joining Kohl's, Mr. Campisi held various senior level positions during his eight-year tenure with retailer Fred Meyer, Inc., a division of The Kroger Company, including senior vice president-director of apparel, home hardlines & softlines and senior vice president-general merchandise manager, apparel. Mr. Campisi has also served as vice president and divisional merchandise manager of women's sportswear for nine years with Meier & Frank, a division of May Department Stores and John A. Brown, a division of Dayton Hudson.

Thomas T. Hendrickson. Mr. Hendrickson became our non-director vice chairman and chief administrative officer in August 2003, in addition to the positions of chief financial officer and treasurer, which he has held since January 1998. Mr. Hendrickson previously served as the executive vice president and chief financial officer of Sportmart, which position he held since September 1996. He joined Sportmart in January 1993 as vice president-financial operations. In March 1993, he was named chief financial officer of Sportmart, and, in March 1995, was named senior vice president and chief financial officer of Sportmart. From 1987 until joining Sportmart, Mr. Hendrickson was employed as the vice president and controller of Millers Outpost Stores. Mr. Hendrickson is a certified public accountant and has over 25 years of business experience.

Greg A. Waters. Mr. Waters became our chief operating officer in August 2003 in addition to his role as executive vice president-store operations, which he has held since June 2001. He joined us in April 1998 as senior vice president-store operations. Prior to joining us, Mr. Waters served as the western regional vice president for TSA Stores, Inc. since 1994, and as a district manager for TSA Stores, Inc. since 1991.

Nesa E. Hassanein. Ms. Hassanein became our executive vice president in August 2003, in addition to her role as general counsel and secretary, which she has held since June 2000. Ms. Hassanein joined us in July 1998 as vice president and corporate counsel, and was named senior vice president and general counsel in June 2000. Prior to joining us, Ms. Hassanein served as senior vice president and general counsel for Atlas Air Inc. during 1997, as a partner with Morrison & Foerster, LLP from 1995 to 1997, as a shareholder with Brownstein Hyatt Farber & Strickland, PC from 1992 to 1995, and as an associate with Skadden, Arps, Slate, Meagher & Flom from 1982 to 1991.

Kerry M. Sims. Mr. Sims became our executive vice president human resources on April 16, 2005. Mr. Sims joined us in December 2002 as the director of recruiting and employment. He became the

vice president-human resources in March 2003 and the senior vice president human resources in August 2003. Prior to joining The Sports Authority, Inc., from February 2001 to December 2002, he served as vice president-global talent acquisition for Sapient, Inc., a global business and technology consultancy and in 2000 he served as the executive director, global talent acquisition for AOL/Time Warner. Prior to 2000, Mr. Sims has served in various human resources and line management capacities with The Coca-Cola Company, Victoria's Secret Stores, and Circuit City Stores, Inc.

The remaining information required by this Item 10 has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement for our 2006 Annual Meeting of Stockholders.

ITEM 11. Executive Compensation

Information required to be set forth in Item 11 has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement for our 2006 Annual Meeting of Stockholders.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required to be set forth in Item 12 has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement for our 2006 Annual Meeting of Stockholders.

ITEM 13. Certain Relationships and Related Transactions

On January 22, 2006, the Company entered into a definitive agreement to be acquired by an investor group led by Green Equity Investors IV, L.P., an affiliate of Leonard Green & Partners, L.P., and including members of Sports Authority's senior management team for \$37.25 per share in cash. Mr. Sokoloff is a member of our board of directors and is also a partner of Leonard Green & Partners, L.P. The board of directors of Sports Authority (excluding J. Douglas Morton and Jonathan D. Sokoloff, each of whom recused himself), on the recommendation of a special committee of disinterested directors, has unanimously approved the merger agreement and will recommend that Sports Authority's stockholders adopt the merger agreement.

Information required to be set forth in Item 13 has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement for our 2006 Annual Meeting of Stockholders.

ITEM 14. Principal Accountant Fees and Services

Information required to be set forth in Item 14 has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement for our 2006 Annual Meeting of Stockholders.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements:

See Index to Consolidated Financial Statements on page F-1 hereof.

2. Financial Statement Schedules:

All schedules are omitted because of the absence of conditions under which they are required or because the required information is presented in the consolidated financial statements or notes thereto.

3. Exhibits:

- 2.1 Agreement and Plan of Merger, dated as of February 19, 2003, by and among the Registrant, Gold Acquisition Corp. and The Sports Authority, Inc. (n/k/a TSA Stores, Inc.) (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K (File No. 000-23515) filed with the Commission on February 20, 2003).
- 2.2 Agreement and Plan of Merger, dated January 22, 2006, by and among The Sports Authority, Inc., Slap Shot Holdings Corp., and SAS Acquisition Corp (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K (File No. 001-31746) filed with the Commission on January 23, 2006).
- 3.1 Amended and Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K (File No. 001-31746) filed with the Commission on August 13, 2003).
- 3.2 Amended and Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Form 8-K (File No. 001-31746) filed with the Commission on August 13, 2003).
- 4.1 Registrant's Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K (File No. 001-31746) filed with the Commission on August 13, 2003).
- 10.1 First Amended and Restated Financing Agreement by and among The CIT Group/Business Credit, Inc., as Agent and Lender, and Wells Fargo Foothill, LLC, as Documentation Agent, and General Electric Capital Corporation, as Co-Syndication Agent, and Fleet Retail Group, Inc., as Co-Syndication Agent, and the Lenders that are signatory thereto and Registrant, and the subsidiaries of Registrant that are signatories thereto, as Borrowers, dated September 15, 2004, (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K (File No. 001-31746) filed with the Commission on September 20, 2004).
- 10.1.1 Amendment Number One to First Amended and Restated Financing Agreement (incorporated by reference to Exhibit 10.1.1 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 14, 2005).
- 10.2 Registrant's 1994 Management Equity Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-4 (File No. 333-42355) filed with the commission on December 16, 1997).
- 10.2.1 Amendment to Registrant's 1994 Management Equity Plan (incorporated by reference to Exhibit A to the Registrant's Registration Statement on Form S-4 (File No. 000-23515) filed with the Commission on May 14, 1999).

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- 10.3 The Sports Authority 401(k) Retirement Plan, January 1, 2004 Restatement (incorporated by reference to Exhibit 10.5.1 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).
- 10.4 Tax Sharing Agreement, dated as of September 25, 1992, by and among TCH Corporation and its then subsidiaries, including the Registrant (incorporated by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form S-4 (File No. 333-42355) filed with the Commission on December 16, 1997).
- 10.5 Sportmart, Inc. 1996 Restricted Stock Plan, as amended and restated, dated as of July 1, 1996 (incorporated by reference to Exhibit 10.40 to Sportmart, Inc.'s Quarterly Report on Form 10-Q for the quarter ended July 28, 1996 (File No. 000-20672) filed with the Commission on August 11, 1996).
- 10.6 Sportmart, Inc. Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to Sportmart, Inc.'s Registration Statement on Form S-1 (File No. 33-50726) filed with the Commission on September 11, 1996).
- 10.7 Letter Agreement dated July 2, 2002 between the Registrant and Larry Hochberg (incorporated by reference to Exhibit 10.17 to the Registrant's Form 10-K (File No. 000-23515) filed with the Commission on April 4, 2003).
- 10.8 The Sports Authority, Inc. Deferred Compensation Plan, dated as of January 1, 2004 (incorporated by reference to Exhibit 10.8 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 14, 2005).
- 10.9 Amended and Restated Employment Agreement, dated as of August 4, 2003, between the Registrant and John Douglas Morton (incorporated by reference to Exhibit 10.14 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).
- 10.10 Employment Agreement, dated as of August 4, 2003, between the Registrant and Thomas T. Hendrickson (incorporated by reference to Exhibit 10.15 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).
- 10.10.1 Amendment to Employment Agreement, dated as of November 18, 2005 between the Registrant and Thomas T. Hendrickson.*
- 10.11 Employment Agreement, dated as of November 1, 2004, between the Registrant and David J. Campisi (incorporated by reference to Exhibit 10.11 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 14, 2005).
- 10.11.1 Amendment Number One to Employment Agreement between the Registrant and David J. Campisi filed with the Commission on December 8, 2005 (incorporated by reference to Exhibit 10.11.1 to the Registrant's Form 10-Q (File No. 001-31746) filed with the Commission on December 8, 2005).
- 10.12 Employment Agreement, dated as of August 4, 2003, between the Registrant and Gregory A. Waters (incorporated by reference to Exhibit 10.17 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).
- 10.13 Employment Agreement, dated as of August 4, 2003, between the Registrant and Nesa E. Hassanein (incorporated by reference to Exhibit 10.18 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).
- 10.14 Agreement, effective as of December 30, 2003 between the Registrant and Martin E. Hanaka (incorporated by reference to Exhibit 10.19 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).

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- 10.15 Consulting Agreement, effective as of December 30, 2003 between the Registrant and Martin E. Hanaka (incorporated by reference to Exhibit 10.20 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).
- 10.16 Form of Indemnification Agreement between the Registrant and its directors (incorporated by reference to Exhibit 10.21 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).
- 10.17 Form of Indemnification Agreement between the Registrant and certain of its executive officers (incorporated by reference to Exhibit 10.22 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).
- 10.18 2nd Half 2003 Sports Authority Company Bonus Plan (incorporated by reference to Exhibit 10.23 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).
- 10.19 Integration Bonus Plan adopted August 5, 2003 (incorporated by reference to Exhibit 10.24 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).
- 10.20 Registrant's 2003 Performance Bonus Plan (attached as Annex G to the joint proxy statement/prospectus contained in Registrant's Form S-4 (File No. 333-104321) as amended or supplemented, filed with the Commission on June 20, 2003).
- 10.21 2000 Stock Option and Stock Award Plan, as amended (incorporated by reference to Exhibit A to TSA Stores, Inc.'s (formerly known as The Sports Authority, Inc.) Proxy Statement (File No. 001-13426) filed with the Commission on April 26, 2002).
- 10.22 Director Stock Plan (incorporated by reference to Exhibit 10.1 to TSA Stores, Inc.'s (formerly known as The Sports Authority, Inc.) Form 10-Q (File No. 001-13426) filed with the Commission on December 12, 2000).
- 10.23 Salaried Employee's Stock Option and Stock Award Plan (incorporated by reference to TSA Stores, Inc.'s (formerly known as The Sports Authority, Inc.) Form 10-K (File No. 001-13426) filed with the Commission on April 4, 2003).
- 10.24 The Sports Authority, Inc. 2003 Long Term Incentive Compensation Plan (incorporated by reference to the Registrant's Form S-8/S-3 (File No. 333-111751) filed with the Commission on January 7, 2004).
- 10.25 Amended and Restated Joint Venture Agreement, dated as of March 12, 1999 between TSA Stores, Inc. and AEON Co. Ltd. (incorporated by reference to Exhibit 10.19 to TSA Stores, Inc.'s (formerly known as The Sports Authority, Inc.) Form 10-K (File No. 001-13426) filed with the Commission on April 23, 1999).
- 10.26 Amended and Restated Services Agreement dated as of March 26, 1999 between TSA Stores, Inc. and Mega Sports Co., Ltd. (incorporated by reference to Exhibit 10.21 to TSA Stores, Inc.'s (formerly known as The Sports Authority, Inc.) Form 10-K (File No. 001-13426) filed with the Commission on April 23, 1999).
- 10.27 Amended and Restated License Agreement dated as of March 26, 1999 between TSA Stores, Inc. (formerly known as The Sports Authority, Inc.) and Mega Sports Co., Ltd. (incorporated by reference to Exhibit 10.20 to TSA Stores, Inc.'s Form 10-K (File No. 001-13426) filed with the Commission on April 23, 1999).

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- 10.27.1 First Amendment to Amended and Restated License Agreement, dated April 2, 2004 between TSA Stores, Inc. (formerly known as The Sports Authority, Inc.), The Sports Authority Michigan, Inc. and Mega Sports Co., Ltd. (incorporated by reference to Exhibit 10.33.1 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).
 - 10.28 Equity Commitment Letter from Green Equity Investors IV, L.P. to Slap Shot Holdings Corp. and the Board of Directors of The Sports Authority Inc., dated as of January 22, 2006 (incorporated by reference to Exhibit (b)(1) to the Registrant's Schedule 13E-3 filed with the Commission on February 15, 2006).
 - 14. The Sports Authority, Inc. Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14 to the Registrant's Form 10-K (File No. 001-31746) filed with the Commission on April 15, 2004).
 - 21. List of Subsidiaries.*
 - 23.1 Consent of Deloitte & Touche LLP.*
 - 31.1 Certification pursuant to Rule 13A-14 or 15D-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by the Chief Executive Officer.*
 - 31.2 Certification pursuant to Rule 13A-14 or 15D-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by the Chief Financial Officer.*
 - 32.1 Statement required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002, signed by the Chief Executive Officer.*
 - 32.2 Statement required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002, signed by the Chief Financial Officer.*
-

*

Filed as part of this Annual Report on Form 10-K.

THE SPORTS AUTHORITY, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of January 28, 2006 and January 29, 2005

Consolidated Statements of Income for the periods ended January 28, 2006, January 29, 2005, and January 31, 2004

Consolidated Statements of Stockholders' Equity and Comprehensive Income for the periods January 28, 2006, January 29, 2005, and January 31, 2004

Consolidated Statements of Cash Flows for the periods ended January 28, 2006, January 29, 2005, and January 31, 2004

Notes to Consolidated Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
The Sports Authority, Inc.
Englewood, CO

We have audited the accompanying consolidated balance sheets of The Sports Authority, Inc. and subsidiaries (the "Company") as of January 28, 2006 and January 29, 2005, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended January 28, 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, such consolidated financial statements present fairly, in all material respects, the financial position of The Sports Authority, Inc. and subsidiaries as of January 28, 2006 and January 29, 2005, and the results of their operations and their cash flows for each of the three years in the period ended January 28, 2006, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of January 28, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 22, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Denver, Colorado
March 22, 2006

THE SPORTS AUTHORITY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share and Per Share Amounts)

| | January 28, 2006 | January 29, 2005 |
|---|------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 25,295 | \$ 24,838 |
| Accounts receivable, net | 33,859 | 40,370 |
| Inventories | 668,913 | 727,610 |
| Prepaid expenses and other assets | 31,518 | 26,676 |
| Deferred income taxes | 65,329 | 61,923 |
| | <u>824,914</u> | <u>881,417</u> |
| Total current assets | 824,914 | 881,417 |
| Property and equipment, net | 316,699 | 256,312 |
| Favorable leases, net | 15,297 | 18,569 |
| Deferred income taxes | 31,464 | 69,806 |
| Goodwill | 151,193 | 152,484 |
| Other assets, net of accumulated amortization of \$15,038 and \$13,654, respectively | 64,215 | 71,350 |
| | <u>1,403,782</u> | <u>1,449,938</u> |
| Total assets | \$ 1,403,782 | \$ 1,449,938 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 277,966 | \$ 336,073 |
| Current portion of capital lease obligations | 323 | 328 |
| Current portion of note payable | 174 | |
| Accrued expenses | 197,741 | 189,498 |
| | <u>476,204</u> | <u>525,899</u> |
| Total current liabilities | 476,204 | 525,899 |
| Long-term debt | 236,138 | 305,383 |
| Capital lease obligations, less current portion | 185 | 509 |
| Other long-term liabilities | 136,458 | 133,138 |
| | <u>848,985</u> | <u>964,929</u> |
| Total liabilities | 848,985 | 964,929 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value. 10,000,000 shares authorized; none issued | | |
| Common stock, \$.01 par value. 75,000,000 shares authorized; 28,010,409 and 27,429,687 shares issued and 26,437,655 and 25,856,933 shares outstanding, respectively | 280 | 274 |
| Additional paid-in capital | 421,818 | 403,491 |
| Unamortized restricted stock compensation | (15,966) | (10,817) |
| Accumulated other comprehensive income (loss) | 937 | (250) |
| Retained earnings | 171,204 | 115,787 |
| Treasury stock, 1,572,754 common shares, at cost | (23,476) | (23,476) |
| | <u>554,797</u> | <u>485,009</u> |
| Total stockholders' equity | 554,797 | 485,009 |
| Total liabilities and stockholders' equity | \$ 1,403,782 | \$ 1,449,938 |

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January 28, 2006 January 29, 2005

See accompanying notes to consolidated financial statements.

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THE SPORTS AUTHORITY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except Share and Per Share Amounts)

| | 52 weeks ended January 28, 2006 | 52 weeks ended January 29, 2005 | 52 weeks ended January 31, 2004 |
|--|------------------------------------|------------------------------------|------------------------------------|
| Net sales | \$ 2,509,330 | \$ 2,435,863 | \$ 1,760,450 |
| Cost of goods sold, buying, distribution and occupancy | 1,802,123 | 1,756,879 | 1,274,465 |
| Gross profit | 707,207 | 678,984 | 485,985 |
| Operating expenses | 593,797 | 579,776 | 407,527 |
| Merger integration costs | | 21,750 | 43,807 |
| Pre-opening expenses | 2,636 | 4,012 | 1,923 |
| Operating income | 110,774 | 73,446 | 32,728 |
| Nonoperating income (expense): | | | |
| Interest expense | (22,368) | (20,103) | (12,327) |
| Other income, net | 3,122 | 1,396 | 3,514 |
| Income before income taxes | 91,528 | 54,739 | 23,915 |
| Income tax expense | (36,111) | (21,272) | (7,653) |
| Net income | \$ 55,417 | \$ 33,467 | \$ 16,262 |
| Earnings per share: | | | |
| Basic | \$ 2.12 | \$ 1.30 | \$ 0.89 |
| Diluted | \$ 2.06 | \$ 1.27 | \$ 0.83 |
| Basic weighted average shares outstanding | 26,165,203 | 25,691,176 | 18,309,174 |
| Diluted weighted average shares outstanding | 26,869,823 | 26,412,279 | 19,479,695 |

See accompanying notes to consolidated financial statements.

THE SPORTS AUTHORITY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(Dollars in Thousands, Except Share Amounts)

| | Common stock | | Additional Paid-in Capital | Unamortized Restricted Stock Compensation | Accumulated Other Comprehensive Income/(Loss) | Retained Earnings | Comprehensive Income | Treasury stock | | Total Stockholders' Equity |
|--|--------------|---------|----------------------------------|--|--|----------------------|-------------------------|----------------|-------------|----------------------------------|
| | Shares | Dollars | | | | | | Shares | Dollars | |
| Balances at February 1, 2003 | 13,440,987 | \$ 134 | \$ 156,958 | \$ (2,024) | \$ (934) | \$ 66,058 | | 1,572,754 | \$ (23,476) | \$ 196,716 |
| Net income | | | | | | 16,262 | \$ 16,262 | | | 16,262 |
| Unrealized gain on equity securities, net of reclassification adjustment for realized loss | | | | | 31 | | 31 | | | 31 |
| Unrealized gain on interest rate swap, net of tax | | | | | 144 | | 144 | | | 144 |
| Comprehensive income | | | | | | | \$ 16,437 | | | |
| Merger of The Sports Authority | 12,404,693 | 124 | 201,060 | | | | | | | 201,184 |
| Exercise of stock options, including tax benefit of \$7,440 | 892,460 | 9 | 17,958 | | | | | | | 17,967 |
| Restricted stock vesting and repurchase, including tax benefit of \$211 | 17,292 | | 1,847 | 28 | | | | | | 1,875 |
| Issuance of restricted stock | | | 15,431 | (15,431) | | | | | | |
| Equity award issuance | 26,295 | 1 | 1,000 | | | | | | | 1,001 |
| Cancellation of restricted stock | | | (36) | 36 | | | | | | |
| Amortization of restricted stock | | | | 2,117 | | | | | | 2,117 |
| Balances at January 31, 2004 | 26,781,727 | \$ 268 | \$ 394,218 | \$ (15,274) | \$ (759) | \$ 82,320 | | 1,572,754 | \$ (23,476) | \$ 437,297 |
| Net income | | | | | | 33,467 | \$ 33,467 | | | 33,467 |
| Unrealized gain on interest rate swap, net of tax | | | | | 509 | | 509 | | | 509 |
| Comprehensive income | | | | | | | \$ 33,976 | | | |
| Exercise of stock options, including tax benefit of \$2,093 | 347,015 | 3 | 8,776 | | | | | | | 8,779 |
| Restricted stock vesting and repurchase, including tax benefit of \$4,269 | 300,945 | 3 | (851) | | | | | | | (848) |
| Issuance of restricted stock | | | 2,509 | (2,509) | | | | | | |

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| | <u>Common stock</u> | | | <u>Unamortized Restricted Stock Compensation</u> | <u>Accumulated Other Comprehensive Income/(Loss)</u> | | <u>Treasury stock</u> | | |
|---|---------------------|--------|------------|--|--|------------|-----------------------|-------------|------------|
| Cancellation of restricted stock | | | (1,161) | 1,161 | | | | | |
| Amortization of restricted stock | | | | 5,805 | | | | | 5,805 |
| Balances at January 29, 2005 | 27,429,687 | \$ 274 | \$ 403,491 | \$ (10,817) | \$ (250) | \$ 115,787 | 1,572,754 | \$ (23,476) | \$ 485,009 |
| Net income | | | | | | 55,417 | \$ 55,417 | | 55,417 |
| Unrealized gain on interest rate swaps, net of tax | | | | | 1,187 | | 1,187 | | 1,187 |
| Comprehensive income | | | | | | \$ 56,604 | | | |
| Exercise of stock options, including tax benefit of \$2,541 | 453,768 | 5 | 8,854 | | | | | | 8,859 |
| Restricted stock vesting and repurchase, including tax benefit of \$656 | 125,538 | 1 | (705) | | | | | | (704) |
| Issuance of restricted stock | | | 11,624 | (11,624) | | | | | |
| Stock issued to directors | 1,416 | | 45 | | | | | | 45 |
| Cancellation of restricted stock | | | (1,491) | 1,491 | | | | | |
| Amortization of restricted stock | | | | 4,984 | | | | | 4,984 |
| Balances at January 28, 2006 | 28,010,409 | \$ 280 | \$ 421,818 | \$ (15,966) | 937 | \$ 171,204 | 1,572,754 | \$ (23,476) | \$ 554,797 |

See accompanying notes to consolidated financial statements.

THE SPORTS AUTHORITY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

| | 52 weeks ended January 28, 2006 | 52 weeks ended January 29, 2005 | 52 weeks ended January 31, 2004 |
|--|------------------------------------|------------------------------------|---------------------------------------|
| Cash flows from operating activities: | | | |
| Net income | \$ 55,417 | \$ 33,467 | \$ 16,262 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 69,283 | 60,439 | 39,238 |
| Amortization of loan origination costs | 1,590 | 2,051 | 1,472 |
| Impairment of long-lived assets | 110 | 1,929 | |
| Deferred income taxes | 34,219 | 20,698 | 10,156 |
| (Gain) loss on disposition of assets | (433) | 140 | 581 |
| Gain on sale of securities | | | (101) |
| Stock-based compensation, directors | 45 | | |
| Changes in operating assets and liabilities, excluding effects of merger and acquisitions: | | | |
| Accounts receivables, net | 6,359 | (1,510) | (12,974) |
| Inventories | 58,697 | (42,508) | (45,991) |
| Prepaid expenses | (4,969) | (3,124) | 1,420 |
| Other assets | 106 | (2,923) | 1,643 |
| Accounts payable | (58,995) | 12,208 | 50,015 |
| Accrued expenses and other current liabilities | 3,635 | (5,862) | (15,546) |
| Other long term liabilities | 525 | 6,897 | 8,660 |
| Net cash provided by operating activities | 165,589 | 81,902 | 54,835 |
| Cash flows from investing activities: | | | |
| Cash paid for property and equipment | (107,643) | (111,502) | (76,498) |
| Proceeds from sale of property and equipment | 1,939 | 29,814 | 5,119 |
| Proceeds from sale of mortgage notes | 4,107 | 3,088 | |
| Receipts on notes receivable | | 667 | 169 |
| Direct merger costs, net of cash acquired | | | (42,828) |
| Other investing activities | | (205) | 197 |
| Net cash used in investing activities | (101,597) | (78,138) | (113,841) |
| Cash flows from financing activities: | | | |
| Proceeds from long-term debt and note payable | 1,145,284 | 1,124,026 | 772,813 |
| Principal payments on long-term debt | (1,214,355) | (1,135,964) | (699,624) |
| Principal payments on capital lease obligations | (329) | (302) | (782) |
| Proceeds from the sale of common stock under option plans | 6,469 | 6,534 | 10,527 |
| Payment of financing fees | (604) | (1,229) | (6,075) |
| Net cash provided by (used in) financing activities | (63,535) | (6,935) | 76,859 |
| Increase (decrease) in cash and cash equivalents | 457 | (3,171) | 17,853 |
| Cash and cash equivalents at beginning of period | 24,838 | 28,009 | 10,156 |

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| | 52 weeks ended January 28, 2006 | 52 weeks ended January 29, 2005 | 52 weeks ended January 31, 2004 |
|--|------------------------------------|------------------------------------|---------------------------------------|
| Cash and cash equivalents at end of period | \$ 25,295 | \$ 24,838 | \$ 28,009 |
| Supplemental disclosures of cash flow information and non-cash investing activities: | | | |
| Cash paid during the period for interest | \$ 19,948 | \$ 15,719 | \$ 8,466 |
| Cash received (paid) during the period for income taxes | \$ (746) | \$ (764) | \$ 1,246 |
| Accrued property and equipment | \$ 7,352 | \$ 3,298 | \$ 3,686 |

See accompanying notes to consolidated financial statements.

**THE SPORTS AUTHORITY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(1) Company

The Company is one of the nation's largest publicly traded full-line sporting goods retailers with sales of approximately \$2.5 billion for fiscal 2005 and operates 398 stores in 45 states as of January 28, 2006. On August 4, 2003, a wholly-owned subsidiary of Gart Sports Company completed a merger with The Sports Authority, Inc. In connection with the merger, Gart Sports Company ("Gart") was renamed The Sports Authority, Inc. The references made to the entities herein refer to The Sports Authority, Inc. (formerly Gart Sports Company, which is also referred to as "Sports Authority" or "Company"). "TSA" refers to TSA Stores, Inc., (formerly known as The Sports Authority, Inc.). The statement of income for the year ended January 31, 2004 reflects the results of the combined company from the merger date. Results for the first 26 weeks of the year ended January 31, 2004, include the former Gart Sports Company on a stand-alone basis. In the merger, the TSA stockholders received 0.37 shares of Sports Authority common stock for each share of TSA stock they owned.

Under license and e-commerce agreements with GSI Commerce Inc. ("GSI"), GSI operates the Company's sporting goods retail website at www.sportsauthority.com. Under these agreements, GSI owns certain content and technology related to the website, purchases and owns the merchandise sold on the website, and hosts, maintains, fulfills orders and furnishes all other "back-end" operations required to operate the website. GSI receives all revenue generated from the website and pays the Company a royalty.

Mega Sports Co., Ltd. ("Mega Sports") operates *The Sports Authority* stores in Japan pursuant to a license agreement with the Company. Under the agreement, Mega Sports pays a royalty based on its gross sales, in exchange for use of trademarks and other intangible property owned by the Company and for merchandising assistance provided by the Company. In April 2004, the license agreement was amended to extend the term of the agreement from 2005 to 2014 and to revise the royalty payable by Mega Sports, among other things. TSA Stores owns 19.9% of the common stock of Mega Sports.

(2) Summary of Significant Accounting Policies

(a)

Consolidation

The consolidated financial statements present the financial position, results of operations and cash flows of The Sports Authority, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company has changed the manner in which it reports its consolidated statements of cash flows to eliminate accrued property and equipment that was previously reported as a component of changes in operating assets and liabilities in the net cash flows from operating activities section, and as a component of cash paid for property and equipment in the net cash flows from investing activities section. These amounts have now been presented as a supplemental disclosure of non-cash items for fiscal years ended January 28, 2006, January 29, 2005 and January 31, 2004. This change has no impact on net income or the amount of cash and cash equivalents reported.

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

(b)

Fiscal Year

The Company's fiscal year ends on the Saturday closest to the end of January. The fiscal years referred to in these consolidated financial statements are the 52 weeks ended January 28, 2006 ("fiscal 2005"), the 52 weeks ended January 29, 2005 ("fiscal 2004"), and the 52 weeks ended January 31, 2004 ("fiscal 2003").

(c)

Cash and Cash Equivalents

The Company considers cash on hand in stores, bank deposits, credit card receivables, and all highly liquid investments with original maturities of 3 months or less to be cash and cash equivalents. Amounts receivable from credit card issuers are typically converted to cash within 2 to 4 days of the original sales transaction.

(d)

Accounts Receivable, Net

Receivables include trade and non-trade receivables. Trade receivables were \$0.7 million at January 28, 2006 and \$1.8 million at January 29, 2005. Non-trade receivables were \$33.2 million at January 28, 2006 and \$38.6 million at January 29, 2005 and consist primarily of amounts due from vendors under various incentive and promotional programs.

(e)

Inventories

The Company accounts for inventories at the lower of cost or market. Cost is determined using the average cost of items purchased and applying the dollar value last-in, first-out ("LIFO") inventory method. The Company's dollar value LIFO pools are computed using the Inventory Price Index Computation ("IPIC") method. LIFO cost of the Company's inventories is then compared to estimated market value. This assessment of estimated market value is based on the quality and age of merchandise, the rate of sale of merchandise, the quantities on hand, and the Company's assessment of the market conditions. Estimates and judgments are required in the determination of the market value of the Company's inventory and future events, such as, changes in customer merchandise preferences or unseasonable weather patterns, could impact the market value of the Company's inventory. At January 28, 2006 and January 29, 2005, the replacement cost of inventory, calculated by valuing inventories at the first-in, first-out method, approximated its carrying value.

Inventory shrinkage is accrued as a percentage of merchandise sales based on historical inventory shrinkage trends. The Company performs physical inventories at stores and distribution centers throughout the year. The reserve for inventory shrinkage represents an estimate for inventory shrinkage for each location since the last physical inventory date through the reporting date. These estimates are impacted by internal and external factors and may vary from actual results.

(f)

Property and Equipment

Property and equipment are recorded at cost. Property under capital leases is stated at the present value of future minimum lease payments. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from three to nine years for furniture, fixtures, equipment and software. Property held under capital leases and leasehold improvements are amortized on the straight-line method over the shorter of the lease term or estimated useful life of the asset. Maintenance and repairs, which do not extend the useful life of the respective assets, are charged to expense as incurred.

The Company capitalizes the costs of major purchased and internally developed software systems and certain costs associated with customizing those systems. Related training costs and costs incurred post-implementation are expensed as incurred. The Company capitalized \$2.4 million, \$2.0 million, and \$0.9 million of internal payroll and related costs for fiscal years 2005, 2004 and 2003, respectively. Depreciation of purchased and internally developed software systems is calculated using the straight-line method over the estimated useful lives of the software, which range from three to seven years.

The Company capitalizes rent as a component of the historical cost of leasehold improvements during the build-out period prior to store opening. Capitalization of straight-line rent ceases the earlier of when the build-out period is substantially complete or pre-opening activities begin. The Company capitalized approximately \$2.4 million, \$2.4 million and \$1.5 million of rent in fiscal years 2005, 2004

and 2003, respectively. Beginning in fiscal 2006 the Company will no longer be capitalizing rent during the build-out period prior to store opening (see Note 2(aa)).

(g)

Accounting for Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Pursuant to Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), the Company reviews long-lived tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are determined to be impaired, an impairment charge is recorded as measured by the excess of the carrying amount of the assets over their fair value. Impairment costs recognized during fiscal 2005 for two underperforming stores totaled \$0.1 million. Impairment costs recognized during fiscal 2004 for four underperforming stores totaled approximately \$1.9 million. The Company did not record a charge for asset impairment in fiscal 2003. Assets to be disposed of are reported at the lower of the carrying amount or fair value less estimated costs to sell.

(h)

Goodwill and Other Intangible Assets

In accordance with Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets" ("SFAS No. 142"), the Company ceased amortization of goodwill derived from purchase business combinations completed prior to or on June 30, 2001 at the beginning of fiscal 2002.

The Company performs annual impairment testing which considers the Company's fair value to determine whether an impairment charge related to the carrying value of the Company's recorded goodwill and other intangible assets is necessary. As a result of this testing, the Company concluded that there was no such impairment loss at January 28, 2006 or January 29, 2005. The Company will continue to assess whether goodwill and trademarks are impaired on an annual basis. Additional impairment assessments may be performed on an interim basis if the Company encounters events or changes in circumstances, that would indicate that, more likely than not, the book value of goodwill has been impaired. Finite-lived intangible assets will continue to be amortized over their useful lives and are reviewed for impairment if events or circumstances indicate a potential impairment.

Finite-lived intangible assets include favorable leases, loan origination costs and certain capitalizable costs incurred to obtain store locations. Additionally, in conjunction with the merger, the Company recorded an intangible asset representing the estimated fair value of a license agreement between TSA and Mega Sports. Under the license agreement, Mega Sports pays royalties based on a percentage of Mega Sports gross sales, in exchange for use of trademarks, technology, and know-how of the Company and merchandising assistance by the Company. The fair value of the contract reflects estimated, discounted royalty income to be received under the license agreement. Loan origination costs are amortized using the interest method over the term of the related debt. Favorable lease assets and other costs incurred to obtain store locations are amortized over the related lease term, and the Mega Sports license agreement is amortized over the life of the contract. Non-amortized intangible assets include goodwill and trademarks. Goodwill is related to previous acquisitions and the TSA

merger. Trademarks primarily represent an estimate of the value of the TSA name. The carrying amount of intangible assets, including goodwill, is as follows (in thousands):

| | Years Ended | | | |
|-------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | January 28, 2006 | | January 29, 2005 | |
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Goodwill | \$ 151,193 | | \$ 152,484 | |
| Trademark | 40,604 | | 40,604 | |
| Favorable leases | 25,758 | (10,461) | 26,275 | (7,706) |
| License agreement | 11,957 | (2,971) | 11,957 | (1,773) |
| Loan origination fees | 12,310 | (7,566) | 11,706 | (5,976) |
| Lease acquisition costs | 5,785 | (1,569) | 5,165 | (1,174) |
| Total | \$ 247,607 | \$ (22,567) | \$ 248,191 | \$ (16,629) |

The changes in the net carrying amount of goodwill for the year ended January 28, 2006 and January 29, 2005 relate primarily to the after tax impact of changes in estimated liabilities for TSA stores targeted for closure due to the merger and estimated amounts for assumed contractual obligations of TSA at the merger date and are as follows (in thousands):

| | Years Ended | |
|--|-------------------|-------------------|
| | January 28, 2006 | January 29, 2005 |
| Beginning balance | \$ 152,484 | \$ 132,734 |
| TSA purchase accounting fair value adjustments | (1,291) | 19,750 |
| Ending balance | \$ 151,193 | \$ 152,484 |

During the year ended January 28, 2006, amortization of intangible assets was \$6.5 million. The estimated amortization of intangible assets for each of the five fiscal years ending in fiscal 2010 is as follows (in thousands):

| Fiscal Year | Amortization Expense |
|-------------|----------------------|
| 2006 | \$ 6,538 |
| 2007 | \$ 5,968 |
| 2008 | \$ 4,974 |
| 2009 | \$ 3,768 |
| 2010 | \$ 2,810 |

(i) *Self-Insured Reserves*

The Company is self-insured for its workers' compensation, general liability and employee medical plans up to a self-insured retention amount. The Company records a reserve for the estimated cost of both reported and incurred but not reported ("IBNR") claims. The estimate of its current claim obligation requires significant judgment and is based on specific loss estimates for reported claims, and on loss triangulation estimates of future claims payments, including IBNR claims. Reserves are regularly evaluated for adequacy based on the most current available information, including historical claims experience and expected future claims costs.

(j)

Revenue Recognition

Revenue from merchandise sales is recognized when merchandise is sold, net of an allowance for estimated returns. Revenue from service sales is recognized when the services are performed. The Company's allowance for sales returns is reviewed for adequacy based on current returns experience.

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The Company records revenue from sales made under its layaway program upon the final payment and delivery of the layaway merchandise to the customer. Any deposits received prior to final delivery of the product are recorded as a current liability. The Company records royalties under license agreements with Mega Sports and GSI Commerce, Inc. ("GSI") as a component of net sales when earned. These royalties totaled less than 0.5% of Net Sales in each of the fiscal years 2005, 2004 and 2003.

Activity in the allowance for sales returns, net is as follows:

Allowance for sales returns, net (in thousands):

| | Years Ended | | |
|--------------------------------------|---------------------|---------------------|---------------------|
| | January 28, 2006 | January 29, 2005 | January 31, 2004 |
| Beginning balance | \$ 2,176 | \$ 1,712 | \$ 337 |
| Charged to cost and expense(1) | 74,212 | 72,891 | 90,477 |
| Fair value recorded at TSA merger(2) | | | 975 |
| Deductions(1) | (74,040) | (72,427) | (90,077) |
| Ending balance | \$ 2,348 | \$ 2,176 | \$ 1,712 |

(1) Amounts include exchanges of merchandise and returns for cash or store credit.

(2) Amount represents the estimated fair value of the former TSA sales returns allowance as of the date of the merger on August 4, 2003.

(k) *Operating Expenses and Costs of Goods Sold*

Operating expenses include store and non-store expenses (except occupancy) such as payroll, advertising and other operating expenses, and depreciation and amortization not included in cost of goods sold.

Cost of goods sold includes the direct cost of merchandise, plus certain costs associated with procurement, warehousing, handling and distribution. In addition to the full cost of inventory, cost of goods sold includes related store occupancy costs and amortization and depreciation of leasehold improvements and rental equipment.

(l) *Vendor Allowances*

The Company receives certain allowances from its vendors, which include rebates, discounts and cooperative advertising funds. These amounts are negotiated with vendors typically on an annual basis and are, at times, dependent on projected purchase volumes and advertising plans. The amounts are subject to changes in market conditions or marketing strategies of our vendors, and changes in our product purchases. The Company records an estimate of earned allowances based on the latest information available with respect to purchase volumes, advertising plans, terms of vendor agreements and ongoing negotiations with vendors. Cooperative advertising funds are recorded as a reduction of advertising costs in the period in which the costs are incurred. Volume rebate allowances that are not a reimbursement of specific costs are recorded as a reduction of the cost of inventory.

(m) *Pre-Opening Expenses*

The Company expenses pre-opening costs in the period in which they are incurred. Pre-opening expenses include payroll, supplies, straight-line rent during our pre-opening period (generally from the date of build-out completion through store open date) and other costs incurred prior to the store opening date, and typically approximate \$150,000 to \$175,000 per new store and totaled \$2.6 million, \$4.0 million, and \$1.9 million for fiscal years 2005, 2004 and 2003, respectively.

(n)

Advertising Costs

Advertising costs are expensed in the period in which the advertising occurs. The Company participates in various advertising and marketing cooperative programs with its vendors, who, under these programs, reimburse the Company for certain costs incurred. A receivable for cooperative advertising to be reimbursed is recorded as a decrease to expense as the reimbursements are earned. Gross advertising expense incurred prior to vendor allowances was approximately \$113.0 million, \$110.0 million, and \$80.1 million in fiscal years 2005, 2004 and 2003, respectively. Cooperative advertising allowances recorded as a reduction of advertising expense were \$39.6 million, \$38.3 million, and \$32.8 million in fiscal years 2005, 2004 and 2003, respectively, resulting in net advertising costs, which are included in operating expenses, of \$73.4 million, \$71.7 million, and \$47.3 million in fiscal years 2005, 2004 and 2003, respectively.

(o)

Merger Integration Costs

Merger integration costs are costs incurred in connection with the Company's mergers and acquisitions. These costs include only non-recurring, incremental costs arising as a direct result of the merger or acquisition, are included as a component of operating income in the accompanying statements of income and are expensed as incurred. There were no merger integration costs for fiscal 2005. For fiscal 2004 and fiscal 2003, these costs consisted of duplicative payroll, benefits and retention payments, severance costs, consulting fees, closing a Gart distribution center, expense related to closing the operations of the TSA corporate office in Ft. Lauderdale and closing a Gart store in an overlapping market, relocation and travel costs, and advertising related to rebranding and announcing the combined company. Merger integration costs totaled \$21.8 million and \$43.8 million for fiscal years 2004 and 2003, respectively.

(p)

Income Taxes

In connection with the TSA merger, the Company changed its tax year from the Saturday closest to the end of September to the Saturday closest to the end of January, commensurate with its fiscal year end. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. Deferred tax assets are reviewed for recoverability based on projections of future operating results, which dictate the Company's ability to realize the tax assets. A valuation allowance to reduce the carrying value of the deferred tax assets is recorded when this amount exceeds the amount more likely than not to be realized. As of January 28, 2006 and January 29, 2005, the Company had no valuation allowance on its deferred tax assets. We regularly assess our position with regard to individual tax exposures and record liabilities for our uncertain tax positions and related interest and penalties according to the principles of FAS 5, *Accounting for Contingencies*. These accruals, reflect management's view of the likely outcomes of current and future audits. The future resolution of these uncertain tax positions may be different from the amounts currently accrued and therefore could impact future tax period expense.

(q)

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in earnings. In loss periods, including common stock equivalents would be anti-dilutive and, accordingly, no impact is provided for common stock equivalents. The computation of diluted EPS also excludes the effect of anti-dilutive stock options outstanding in each of the respective periods aggregating 574,172 in fiscal 2005, 270,343 in fiscal 2004, and 455,910 in fiscal 2003.

(r)

Stock Compensation Plans

At January 28, 2006, the Company has three stock-based employee compensation plans, which are described more fully in Note 16. The Company accounts for the stock-based compensation granted to employees under the plans using the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. Historically, no stock-based employee compensation cost has been recorded in net income for the Company's stock options, as options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. Compensation expense is recorded by the Company for its grants of unvested restricted stock or for grants of stock-based compensation to nonemployee directors. The compensation expense is amortized on a straight-line basis over the vesting period of the stock and is based on the fair value of the stock on the date of the grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation (in thousands).

| | Fiscal Year | | |
|---|-------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| Net income, as reported | \$ 55,417 | \$ 33,467 | \$ 16,262 |
| Add: Stock-based compensation expense included in net income, net of related tax effects | 3,409 | 4,156 | 2,304 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (8,703) | (7,198) | (5,005) |
| Pro forma net income | \$ 50,123 | \$ 30,425 | \$ 13,561 |
| Earnings per share: | | | |
| Basic as reported | \$ 2.12 | \$ 1.30 | \$ 0.89 |
| Basic pro forma | \$ 1.92 | \$ 1.18 | \$ 0.74 |
| Diluted as reported | \$ 2.06 | \$ 1.27 | \$ 0.83 |
| Diluted pro forma | \$ 1.87 | \$ 1.15 | \$ 0.70 |

On April 7, 2005, the Compensation Committee of The Sports Authority, Inc.'s Board of Directors ratified and approved the acceleration of the vesting of all outstanding unvested stock options with an exercise price greater than \$29.79. As a result, the vesting of 339,893 previously unvested stock options granted under the 2003 Long Term Incentive Compensation Plan and the 1994 Management Equity Plan, was accelerated and all such options became fully exercisable as of April 7, 2005. This acceleration of vesting did not result in any compensation expense for the Company during the fiscal year ended January 28, 2006. Under the fair value method of FAS 123, the Company would have recorded \$4.3 million, net of tax, of compensation expense.

There were no stock options granted during fiscal 2005. The per share weighted-average fair value of stock options granted during fiscal 2004 and 2003 was \$19.25 and \$19.19, respectively, on the date of grant or exchange using the Black-Scholes option pricing model (which incorporates a present value calculation).

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The following weighted-average assumptions were used for grants issued in fiscal 2004 and 2003:

| | Fiscal Year | |
|--------------------------|-------------|---------|
| | 2004 | 2003 |
| Expected volatility | 60.4% | 63.2% |
| Risk free interest rates | 3.75% | 3.00% |
| Expected life of options | 6 years | 6 years |
| Expected dividend yield | 0% | 0% |

(s)

Fair Value of Financial Instruments

The Company has estimated the fair value of its financial instruments using the following methods and assumptions: the carrying amounts of cash and cash equivalents, receivables and accounts payable approximate fair value because of their short-term nature, and the carrying amount of debt approximates fair value because of the variable market rate of interest charged.

(t)

Derivative Instruments and Hedging

The Company utilizes two interest rate swap agreements to minimize the risks and costs associated with its financing activities (see Note 11). The Company has no other derivative instruments.

(u)

Store Closing Reserves

Prior to December 31, 2002 and the adoption of SFAS No. 146, "Accounting for Costs associated with Exit or Disposal Activities," the Company recorded a provision for store closing when the decision to close a store was made. In accordance with SFAS No. 146, for store closing activities initiated after December 31, 2002, the Company records a liability at fair value for costs associated with exit or disposal activities when a liability is incurred rather than when the decision to close a store is made. This changes the timing of recognition for certain exit costs, so that certain exit costs will be recognized over the period in which the exit activities occur. The Company also records store exit reserves arising from its various mergers and acquisitions pursuant to SFAS No. 141, "Business Combinations" and EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" ("EITF 95-3"). Under EITF 95-3, the costs of a plan to exit an activity of the acquired company are recognized as liabilities assumed in the business combination. As such, reserves are recorded in purchase accounting for the net present value of projected costs to be incurred after the store closing date. The costs incurred in connection with store closings primarily consist of post-closing net lease obligations, utilities, property taxes, and employee costs directly related to the store closing.

(v)

Acquisitions and Mergers Accounting

The Company's acquisitions and mergers are accounted for under the purchase method of accounting. Accordingly, the total costs of such transactions are allocated to the tangible and intangible assets acquired and liabilities assumed based on their respective fair values. The determination of fair values involves the use of estimates and assumptions, which are subject to adjustment in the future.

(w)

Comprehensive Income

Accumulated other comprehensive income (loss) is comprised of unrealized holding gains (losses) on the Company's marketable securities and the fair value of the Company's interest rate swap agreements.

(x)

Enterprise-Wide Operating Information

The Company is a publicly traded full-line sporting goods retailer in the 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

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segment as defined by Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information."

Merchandise sales are broadly classified into one of two major categories, hardlines or softlines. Hardlines include items such as, skis, golf equipment, bicycles, exercise equipment and outdoor gear, including camping, hunting and fishing. Softlines consist primarily of apparel, footwear and outerwear.

The following table sets forth the percentage of total net sales for each major product category for the periods indicated:

| | Fiscal Years | | |
|--------------------|--------------|-------|-------|
| | 2005 | 2004 | 2003 |
| Hardlines | 48.8% | 50.2% | 51.0% |
| Softlines: | | | |
| Apparel | 29.1% | 27.2% | 25.9% |
| Footwear | 21.1% | 21.6% | 22.3% |
| Subtotal | 50.2% | 48.8% | 48.2% |
| Services and Other | 1.0% | 1.0% | 0.8% |
| Total | 100% | 100% | 100% |

(y)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to inventory valuation, vendor entitlements, the recoverability of long-lived assets including intangible assets, store closing reserves, self-insured reserves, income taxes, and the estimates used to apply the purchase method of accounting to the Company's mergers and acquisitions. Actual results could differ from those estimates.

(z)

Operating Leases

Rent expense is recognized on a straight-line basis, including consideration of rent holidays, tenant improvement allowances received from the landlords, and applicable rent escalations over the term of the lease. The commencement date of the lease term is the earlier of the date when the Company becomes legally obligated for the rent payments or the date when it takes possession of the building for purposes of constructing the build-out. Straight-line rent recorded during the build-out period is capitalized as a component of the historical cost of leasehold improvements included in property and equipment. The capitalized rent is amortized over the useful life of the related asset or the lease term, whichever is shorter. Straight-line rent recorded during our pre-opening period (generally from the date of completion of build-out through store open date) is recorded as a pre-opening expense. Beginning in fiscal 2006 the Company will no longer be capitalizing rent during the build-out period prior to store opening (see Note 2(aa)).

Tenant improvement allowances received from landlords are recorded as deferred rent liabilities on the consolidated balance sheets and as a component of operating activities on the consolidated statements of cash flows.

(aa)

New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 clarifies that

inventory costs that are "abnormal" are required to be charged to expense as incurred as opposed to being capitalized into inventory as a product cost. SFAS 151 provides examples of "abnormal" costs to include costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage). SFAS 151 is effective for the fiscal year beginning after June 15, 2005. Upon adoption of SFAS 151, there was no impact on the consolidated financial statements of the Company.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, ("SFAS 123(R)"). This Statement requires companies to expense the estimated fair value of stock options and similar equity instruments issued to employees. Currently, companies are required to calculate the estimated fair value of these share-based payments and can elect to either include the estimated cost in earnings or disclose the pro forma effect in the footnotes to their consolidated financial statements. The Company has chosen to disclose the pro forma effect in our consolidated financial statements. The fair value concepts were not changed significantly in SFAS 123(R); however, in adopting this Statement, companies must choose among alternative valuation models and amortization assumptions. On April 14, 2005, the U.S. Securities and Exchange Commission announced a deferral of the effective date of SFAS 123(R). SFAS 123(R) is effective for the first fiscal year that begins after June 15, 2005, which for the Company is fiscal 2006, a 53 week year beginning January 29, 2006. The Company will adopt the provisions of SFAS 123(R) in the first quarter of fiscal 2006 using the modified prospective method. Under the modified prospective method, the Company will record compensation expense for the fair value of equity awards issued after January 28, 2006 on a straight-line basis over the requisite service period for the entire award. The Company will also record compensation expense over the remaining service periods for previously-issued, unvested stock options that are outstanding as of January 28, 2006. The Company will continue to utilize the Black Scholes model in calculating estimated fair value of stock options. The complete impact of the adoption of SFAS 123(R) on future grants cannot be predicted at this time because it will depend on levels of share-based payments granted in the future, as well as the assumptions and the fair value model used to value them, and the market value of our common stock. For grants made prior to the adoption of SFAS 123(R), the impact of expensing unvested stock options that previously had no expense associated with them under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations is currently estimated to be approximately \$0.03 per diluted share in fiscal 2006.

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 47, *Accounting for Conditional Asset Retirement Obligations*. FIN 47 clarifies the term "conditional" as used in SFAS 143, *Accounting for Asset Retirement Obligations*. This interpretation refers to a legal obligation to perform an asset retirement activity even if the timing and/or settlement is conditional on a future event that may or may not be within the control of an entity. Accordingly, the entity must record a liability for the conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. While the Company adopted FIN 47 in the fourth quarter of fiscal 2005, the impact is immaterial to the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" a replacement of APB Opinion No. 20 and FASB Statement No. 3 ("SFAS 154"). This Statement replaces APB Opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. It requires retrospective application to prior-period financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Although the Company has no current application for this Statement, the adoption of this Statement may impact our future results of operations, financial position or cash flows.

Emerging Issues Task Force Issue 05-6, "Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination," ("EITF 05-6") provides guidance on amortization of leasehold improvements purchased subsequent to the inception of the lease or acquired in a business combination. EITF 05-6 states that leasehold improvements that are placed in service significantly after and not contemplated at or near the beginning of the lease term should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date of the assets' purchase. EITF 05-6 became effective for the Company beginning in the third quarter of fiscal 2005. The adoption of this Statement did not have an impact on the Company's consolidated financial statements.

In October 2005, the FASB issued FASB Staff Position (FSP) FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period." This FSP requires rental costs for ground or building operating leases incurred during the construction period be recognized as rental expense. The guidance permits either retroactive or prospective treatment for periods beginning after December 15, 2005. The Company will prospectively change its policy from capitalization to expensing beginning in fiscal 2006. Due to uncertainties about store opening dates, construction and merchandising periods prior to store openings and other activities that could delay or accelerate a store opening, it is difficult to determine the precise impact the adoption of this pronouncement will have on the Company's operating results. Currently, the Company estimates the increase in pre-opening costs in fiscal 2006 due to the adoption of FAS 13-1 will decrease net income by approximately \$0.05 to \$0.06 per share.

(3) Merger

On August 4, 2003, TSA was merged with a wholly-owned subsidiary of Gart Sports Company, as a result of which Gart Sports Company became the owner of 100 percent of the outstanding common stock of TSA and was renamed The Sports Authority, Inc. The primary reasons for the merger of Gart and TSA, and the primary factors that contributed to a purchase price that resulted in recognition of goodwill are:

the merger would create a national sporting goods retailer, melding the complementary geographic footprints of Gart and TSA;

the combined company could realize significant operating synergies and cost savings;

the opportunity for enhanced brands offering, given the potential for the expansion of premium brands into all stores and the ability to strengthen vendor relationships and gain volume discounts with key national brands and use the best practices of each company in marketing;

the opportunity for private label expansion, leveraging TSA's hardlines expertise and Gart's softline expertise and leveraging the size of the combined company to facilitate new product offerings and lower costs;

the merger would enable the combined company to offer a broader selection of sporting goods to a greater number of consumers at competitive prices; and

the combination would improve the combined company's access to financial resources in the future.

Based on an exchange ratio of 0.37 shares of Gart common stock for each TSA share, Gart issued approximately 12.4 million common shares and 1.5 million vested employee stock options in the exchange, which increased stockholders' equity by approximately \$201 million. The common stock was valued at \$15.51 per share, which was the average closing price of Gart's common stock for two business days prior to and after the date the Agreement and Plan of Merger was executed, as well as the closing price on February 19, 2003, the date the Agreement and Plan of Merger was executed. The

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employee stock options were valued using the Black-Scholes option pricing model, based on assumptions prevalent at the February announcement date, which included an expected volatility rate of 69.1%, a risk free interest rate of 3.5%, an expected life of 1 year, and no dividend yield. The transaction has been accounted for using the purchase method of accounting as required by SFAS No. 141, "Business Combinations," with Gart as the accounting acquirer. Accordingly, the assets and liabilities of TSA have been adjusted to their fair values and the excess of the purchase price over the fair value of TSA assets acquired is recorded as goodwill in the accompanying balance sheet. The statement of income for the year ended January 31, 2004 reflects the results of the combined company from the merger date. Results for the first 26 weeks of the 52 weeks ended January 31, 2004, include the former Gart Sports Company on a stand-alone basis. The allocation of the purchase price to specific assets and liabilities was based, in part, upon independent appraisals and internal estimates of cash flow and recoverability. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at August 4, 2003 (in thousands):

| | | |
|---|----|-----------|
| Inventory | \$ | 305,957 |
| Other current assets | | 46,693 |
| Property and equipment, net | | 80,040 |
| Favorable leases and other long term assets, excluding goodwill | | 75,805 |
| Deferred tax assets | | 125,307 |
| Goodwill | | 105,015 |
| Current liabilities | | (342,660) |
| Long term debt | | (122,985) |
| Other non-current liabilities | | (71,988) |
| | | 201,184 |
| Fair value of net assets acquired, including intangibles | \$ | 201,184 |

The following unaudited pro forma summary presents information as if TSA had been acquired at the beginning of fiscal year 2003. The pro forma amounts include certain adjustments, including recognition of depreciation and amortization based on the preliminary allocated purchase price of property and equipment acquired, amortization of favorable leases, amortization of other finite-lived intangible assets acquired, interest expense, and cessation of the amortization of certain lease acquisition costs. The pro forma amounts do not reflect any benefits from synergies, which might be achieved from combining the operations. No adjustments have been made to the pro forma statement of income to conform accounting policies and practices. In addition, no adjustments have been made to eliminate the after-tax effect of certain items included in the amounts below, including: \$26.7 million of merger integration costs; \$0.9 million of costs to settle class-action wage and hour lawsuits; \$1.8 million of merger related costs recorded by TSA prior to the merger date of August 4, 2003; and \$1.3 million of interest income and a \$1.7 million tax benefit, both related to the settlement of a tax dispute with the Company's former parent.

The pro forma information does not necessarily reflect the actual results that would have occurred had the companies been combined during the period presented, nor is it necessarily indicative of the future results of operations of the combined companies.

| | | Fifty-two weeks ended |
|---|----|--------------------------|
| | | January 31, 2004 |
| (Unaudited, in thousands except per share amounts) | | |
| Net Sales | \$ | 2,457,602 |
| Net Income | \$ | 19,408 |
| Basic earnings per share | \$ | 0.78 |
| Diluted earnings per share | \$ | 0.74 |

(4) Accounts Receivable

Activity in the allowance for doubtful accounts is as follows (in thousands):

| | Fiscal Year | | |
|--|-------------|----------|----------|
| | 2005 | 2004 | 2003 |
| Allowance for doubtful accounts at beginning of period | \$ 2,592 | \$ 2,148 | \$ 922 |
| Additions | 1,177 | 2,117 | 1,888 |
| Amounts charged against the allowance | (2,427) | (1,673) | (662) |
| Allowance for doubtful accounts at end of period | \$ 1,342 | \$ 2,592 | \$ 2,148 |

(5) Property and Equipment

Property and equipment consist of the following (in thousands):

| | January 28, 2006 | January 29, 2005 |
|--|---------------------|---------------------|
| Land | \$ 5,050 | \$ 5,800 |
| Buildings and improvements | 17,134 | 9,590 |
| Leasehold improvements | 206,614 | 155,798 |
| Capitalized lease property | 779 | 2,392 |
| Data processing equipment and software | 54,842 | 45,343 |
| Furniture, fixtures and office equipment | 222,795 | 177,976 |
| Less accumulated depreciation and amortization, capital leases | (663) | (2,193) |
| Less accumulated depreciation and amortization | (189,852) | (138,394) |
| Property and equipment, net | \$ 316,699 | \$ 256,312 |

Land and buildings at January 28, 2006 includes two owned and operating store sites as well as one closed store site.

(6) Favorable Leases

Favorable leases acquired in the TSA merger and Oshman's acquisition were primarily the result of net current market rents of store locations exceeding the contractual lease rates at the merger date. The favorable lease amounts are based upon independent appraisals and are amortized over the existing lease terms on a straight-line basis. Amortization expense was \$3.3 million, \$4.0 million and \$3.1 million for fiscal years 2005, 2004 and 2003, respectively.

(7) Accrued Expenses

Accrued expenses consist of the following (in thousands):

| | January 28, 2006 | January 29, 2005 |
|--|---------------------|---------------------|
| Accrued compensation and benefits | \$ 37,992 | \$ 26,295 |
| Accrued sales and property taxes | 34,236 | 33,591 |
| Accrued advertising | 13,301 | 21,018 |
| Current portion of accrued store closing reserve (see Note 10) | 13,842 | 19,270 |
| Accrued gift cards and merchandise return vouchers | 41,899 | 36,914 |
| Self-insured reserves | 24,829 | 24,916 |
| Other | 31,642 | 27,494 |

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| | <u>January 28, 2006</u> | <u>January 29, 2005</u> |
|------------------|-----------------------------|-----------------------------|
| Accrued expenses | \$ 197,741 | \$ 189,498 |

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(8) Long-Term Debt

Borrowings at January 28, 2006 and January 29, 2005 are summarized below (in thousands):

| | January 28, 2006 | January 29, 2005 |
|---|-----------------------------|-----------------------------|
| Revolving credit line, 5.16% weighted average interest rate | \$ 190,312 | \$ 265,383 |
| Term Loan, 7.11% weighted average interest rate | 40,000 | 40,000 |
| Collateralized note payable, 9% interest rate | 6,000 | |
| | 236,312 | 305,383 |
| Current portion | (174) | |
| Long term debt | \$ 236,138 | \$ 305,383 |

Maturities of long-term debt as of January 28, 2006 are as follows (in thousands):

| | January 28, 2006 |
|------------|-----------------------------|
| 2006 | \$ 174 |
| 2007 | 191 |
| 2008 | 40,208 |
| 2009 | 190,541 |
| 2010 | 249 |
| Thereafter | 4,949 |
| | \$ 236,312 |

On August 4, 2003, the Company entered into a new credit financing agreement with CIT/Business Credit, Inc. ("CIT"), as agent, that allows the combined company to borrow up to \$600 million under a revolving credit facility (the "Credit Agreement"), limited to an amount equal to 70% of eligible inventory or 85% of the appraised net orderly liquidation value of eligible inventory. The Company is also entitled to seasonal increases (seasonal advances) in the inventory advance rate for up to 120 days during any calendar year as designated by the Company for the lesser of 80% of eligible inventory or 90% of appraised net orderly liquidation value. The Company is subject to a number of customary covenants under our credit financing agreement. As of January 28, 2006, the Company was in compliance with all debt covenants.

On September 15, 2004, the Company entered into an Amended and Restated Financing Agreement with CIT that modified the terms of the credit facility by providing for an additional \$40 million term loan and extending the maturity date of our existing revolving credit line to August 4, 2008. The term loan was drawn in full on September 15, 2004 and is due on September 15, 2006 unless it is extended to August 4, 2008 at our option upon notice given no earlier than 90 days, and no later than 30 days, prior to September 15, 2006, as long as no default has then occurred and is continuing under the Credit Agreement and if certain EBITDA and fixed charge coverage ratio minimums, as defined in the Credit Agreement, are met. Borrowings are secured by substantially all present and future accounts (as defined in the Amended and Restated Financing Agreement), equipment, inventory, the common stock of its subsidiaries, documents of title and intangible assets. The Company's ability to declare or pay dividends on its common stock and to repurchase shares of its common stock is limited to \$25 million per year under the revolving line of credit.

On April 11, 2005, the Company entered into Amendment One to the Amended and Restated Financing Agreement. This amendment extends the maturity date of the revolving credit line to August 4, 2009 and modifies the method of calculating the margin spread above the applicable interest rates available to us. The pricing grids for both the term loan and the revolving credit line in the loan

agreement were also modified to allow us to earn a lower spread if certain financial targets are achieved which is more favorable than the spread in the Amended and Restated Financing Agreement. At January 28, 2006, and January 29, 2005, \$230.3 million and \$305.4 million, respectively, remained outstanding under the Credit Agreement and \$226.5 million and \$186.7 million, respectively, was available for borrowing, as calculated using eligible inventory.

Loan interest is payable monthly at Chase Manhattan Bank's prime rate plus a margin rate or, at the option of the Company, at Chase Manhattan Bank's LIBOR rate plus a margin rate. The applicable margin rates vary based on the Company's EBITDA levels and are summarized in the table below:

| | Revolving Credit Line | | Term Loan | |
|--|------------------------|-------------------|------------------------|-------------------|
| | Prime Rate Margin Rate | LIBOR Margin Rate | Prime Rate Margin Rate | LIBOR Margin Rate |
| August 4, 2003 Financing Agreement | 0%-0.50% | 1.50%-2.50% | N/A | N/A |
| September 15, 2004 Amended and Restated Financing Agreement | 0%-0.50% | 1.50%-2.50% | 3.25% | 5.50%-6.00% |
| April 11, 2005 Amendment No. 1 to Amended and Restated Financing Agreement | 0% | 1.25%-2.00% | 1.50%-2.25% | 3.00%-4.00% |

The terms of the agreement provide for an annual collateral management fee of \$0.2 million and an unused line of credit fee, payable monthly, of .375% per annum on the unused portion of the line of credit. The Company paid one-time fees of approximately \$1.2 million in fiscal 2004 to secure the Amended and Restated Financing Agreement, and is amortizing the amount over the life of the agreement on the effective interest method. The Company paid one-time fees of approximately \$0.4 million to secure Amendment One to the Amended and Restated Financing Agreement.

On February 17, 2006, we paid off the outstanding balance on our term loan. In accordance with the Credit Agreement our maximum availability on our revolving credit facility increased from \$600 million to \$640 million at the time the term loan was paid off.

The Company has a \$75 million letter of credit subline under the Credit Agreement. As of January 28, 2006, the Company has six letters of credit outstanding that total approximately \$14.0 million and expire throughout 2006.

(9) Other Long-Term Liabilities

Other long-term liabilities consist of the following (in thousands):

| | January 28, 2006 | January 29, 2005 |
|---|------------------|------------------|
| Long-term portion of accrued store closing reserves | \$ 26,944 | \$ 45,402 |
| Deferred rent | 96,502 | 72,828 |
| Contractual obligations | 5,857 | 6,612 |
| Deferred long-term compensation and other | 7,155 | 8,296 |
| Other long-term liabilities | \$ 136,458 | \$ 133,138 |

(10) Store Closing Activities

In fiscal 2003, the Company recorded \$79.0 million of store closing reserves as a part of its purchase accounting for the TSA merger, comprised of: (a) \$22.4 million for the estimated fair value of store closing reserves related to TSA stores closed prior to the merger, (b) \$53.2 million for TSA stores that were targeted for closure due to the merger, as well as the TSA corporate office, and

(c) \$3.4 million for excess space at two open TSA stores. The \$53.2 million reserve relates to stores targeted for closure as a result of the merger, due principally to their location in overlapping Gart markets or due to historical underperformance. The \$3.4 million reserve relates to vacant space at one TSA store due to the loss of a subtenant, and at another store where the Company entered into an agreement with the landlord to buy out of the unutilized space in 2004. In conjunction with the TSA merger, the Company identified 29 Sports Authority locations, including the TSA corporate office for closure or relocation. As of January 28, 2006, the Company has completed the closure or relocation of 28 of the 29 locations, terminated 17 of the related underlying lease obligations, and sold two of the locations. The remaining location in the TSA store exit plan is expected to close in fiscal 2006.

During 2003, the Company recorded store exit reserves of \$1.3 million for one Oshman store closed in the third quarter of 2003 due to its close proximity to a newly acquired TSA store, which was included in integration expense in the accompanying statement of income. Additionally, reserves for two previously closed store sites and the former Gart corporate office were increased by \$0.8 million, due primarily to loss of subtenant revenues. The charge was recorded as a component of operating expenses in the accompanying statement of income. Finally, reserves for two previously recorded Oshman's store closures were reversed due to no future obligations, and such reversal reduced goodwill in the accompanying balance sheet. The Company regularly evaluates the adequacy of its store closing reserves based on recent broker analyses, general economic conditions, current trends in the real estate market, and historical experience with respect to marketing its closed store sites.

Activity in the accrual for closed stores is as follows (in thousands):

| | Fiscal Years | | |
|---|------------------|------------------|------------------|
| | 2005 | 2004 | 2003 |
| Accrual for closed stores, beginning of period | \$ 64,672 | \$ 75,519 | \$ 8,262 |
| Increase (decrease) recorded as a component of purchase accounting: | | | |
| Oshman's acquisition | | | (723) |
| TSA merger | (1,899) | 11,416 | 78,960 |
| Subtotal purchase accounting | (1,899) | 11,416 | 78,237 |
| Increase recorded in operating expenses: | | | |
| Oshman's store closure due to TSA merger | | | 1,318 |
| Consolidation of distribution centers due to TSA merger | | 600 | |
| Accretion and other | 4,483 | 2,224 | 766 |
| Subtotal operating expense | 4,483 | 2,824 | 2,084 |
| Cash Receipts (Payments): | | | |
| Sublease receipts | 2,968 | 2,526 | 2,600 |
| Lease termination payments | (14,921) | (8,297) | (3,355) |
| Other payments | (14,517) | (19,316) | (12,309) |
| Subtotal cash receipts (payments) | (26,470) | (25,087) | (13,064) |
| Accrual for closed stores, end of period(1) | \$ 40,786 | \$ 64,672 | \$ 75,519 |

(1) At January 28, 2006, January 29, 2005 and January 31, 2004, the ending reserve balance is comprised of \$39.4 million, \$63.3 million and \$74.2 million respectively, of remaining reserves established as a component of purchase accounting in connection with the Company's mergers and acquisitions. The remaining balances represent remaining reserves established in connection with routine store closing activities unrelated to the Company's mergers or acquisitions.

(11) Financial Instruments and Risk Management*Interest Rate Instruments*

The Company entered into an interest rate swap agreement on June 23, 2004 for a notional amount of \$75 million, beginning July 7, 2004, and expiring on June 30, 2007, to minimize the risks and costs associated with its financing activities in general and to minimize its exposure to variable cash flows in particular. On April 8, 2005, the Company entered into an additional interest rate swap agreement effective June 1, 2005 and expiring May 31, 2010 with a notional amount of \$50 million. Under the swap agreements, the Company pays fixed rate interest and receives variable LIBOR interest rate payments periodically over the life of the agreement. The total notional interest rate swap amounts are \$125 million and are used to measure interest to be paid or received and do not represent the exposure due to credit loss.

The Company's interest rate swaps are each designated as a cash flow hedge and are considered highly effective, as defined by FASB Statement No. 133. There is no charge to earnings for changes in the fair value of the swap agreements. Cash settlements on the swap agreements are recorded as interest expense. At January 28, 2006 and January 29, 2005, the fair value of the swaps was a gain of \$937,000 and a loss of \$250,000, respectively, net of the related tax benefit. The unrealized gain and loss from these interest rate swaps are included in other comprehensive income and are shown as a component of stockholders' equity.

(12) Income Taxes

Income tax (expense) benefit consists of the following (in thousands):

| | Fiscal Year | | |
|------------------|--------------------|--------------------|-------------------|
| | 2005 | 2004 | 2003 |
| Current: | | | |
| Federal | \$ (1,457) | \$ | \$ 2,502 |
| State | (435) | (574) | |
| | <u>(1,892)</u> | <u>(574)</u> | <u>2,502</u> |
| Deferred: | | | |
| Federal | (32,243) | (19,339) | (9,307) |
| State | (1,976) | (1,359) | (848) |
| | <u>(34,219)</u> | <u>(20,698)</u> | <u>(10,155)</u> |
| | <u>\$ (36,111)</u> | <u>\$ (21,272)</u> | <u>\$ (7,653)</u> |

A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate is as follows:

| | Fiscal Year | | |
|---|--------------------|--------------|--------------|
| | 2005 | 2004 | 2003 |
| U.S. federal statutory rate | 35.0% | 35.0% | 35.0% |
| Increase (decrease) resulting from: | | | |
| State and local taxes, net of federal benefit | 3.5% | 3.5% | 3.5% |
| Adjustment to state NOL carryforwards | 2.1% | | |
| Tax settlement with former parent | | | (7.0)% |
| Other, net | (1.1)% | 0.4% | 0.5% |
| | <u>39.5%</u> | <u>38.9%</u> | <u>32.0%</u> |

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The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities are presented below (in thousands):

| | <u>January 28, 2006</u> | <u>January 29, 2005</u> |
|---|-----------------------------|-----------------------------|
| Assets: | | |
| Accounts receivable | \$ 1,212 | \$ 1,830 |
| Tax credit carryforwards | 8,659 | 7,101 |
| Net operating loss carryforwards | 45,770 | 80,658 |
| Accrued compensation and benefits | 12,667 | 12,729 |
| Accrued occupancy | 31,468 | 21,568 |
| Accrued merchandise credits and gift certificates | 11,971 | 13,671 |
| Store closing reserves | 15,703 | 24,875 |
| Other accrued expenses | 17,014 | 18,900 |
| | <u>144,464</u> | <u>181,332</u> |
| Liabilities: | | |
| Property and equipment | (15,177) | (11,997) |
| Inventories | (12,342) | (17,515) |
| Intangible assets | (18,359) | (18,823) |
| Prepaid expenses | (1,793) | (1,268) |
| | <u>(47,671)</u> | <u>(49,603)</u> |
| Net deferred tax asset before valuation allowance | <u>96,793</u> | <u>131,729</u> |
| Less valuation allowance | | |
| Net deferred tax asset | <u>\$ 96,793</u> | <u>\$ 131,729</u> |

The Company utilized approximately \$72.8 million of its federal net operating loss carryforwards to reduce taxable income for the fiscal year 2005. On a tax basis, the Company generated a net operating loss for the fiscal years 2004 and 2003. At January 28, 2006 the Company has \$98 million of federal and \$235.2 million of state net operating loss carryforwards expiring from 2008 to 2026. In addition, the Company also has tax credit carryforwards of \$8.7 million, of which \$5.9 million have no expiration date and \$2.8 million expire in varying amounts through 2025. Based upon the Company's performance, current tax planning strategies and management estimates of future taxable income, management believes it is more likely than not, that all of the Company's tax assets including operating loss carryforwards, will be utilized. Therefore, no valuation allowance has been established. The impact of the unrealized gain or loss on the Company's interest rate swaps are reported as a component of the Accumulated other comprehensive income (loss) line item in stockholders' equity. We regularly assess our position with regard to individual tax exposures and record liabilities for our uncertain tax positions and related interest and penalties according to the principles of FAS 5, *Accounting for Contingencies*. These accruals, reflect management's view of the likely outcomes of current and future audits. The future resolution of these uncertain tax positions may be different from the amounts currently accrued and therefore could impact future tax period expense.

Prior to April 21, 1994, the Company's financial results were included in the consolidated U.S. federal income tax returns of its former parent. Pursuant to the tax sharing agreement between the Company and its former parent, which was effective from September 25, 1992 up to and including April 20, 1994, the Company recorded income taxes assuming the Company filed a separate income tax return. The tax sharing agreement also provides for the treatment of tax loss carrybacks, indemnifications, and resolution of disputes.

On November 1, 2002, in order to eliminate the accrual of additional interest on taxes owed to the IRS, the Company entered into an agreement with the IRS, based upon the terms of a settlement

between the IRS and the Company's former parent which was subsequently approved by the Joint Committee of Taxation in August of 2003. Pursuant to the agreement, the Company paid the IRS tax of \$1.1 million and interest of \$0.5 million. As such, the Company recorded a reversal of its remaining accrued interest payable to the IRS, totaling approximately \$0.7 million. The tax liability settled under the agreement was recorded as a reduction of the long-term deferred tax liability that had been established previously in relation to this matter. A significant portion of the tax liability agreed to by the Company under the agreement did not require cash payment as those adjustments reduced existing net operating losses carryforwards previously generated by the Company. The Company believes this to be a full and complete settlement of all its separate return issues under review by the IRS. In addition, the Company finalized a settlement with its former parent under the tax sharing agreement. As a result, in January of 2004, the Company received a refund of \$4.6 million, which included tax and interest in the amount \$2.5 million and \$2.1 million, respectively. An income tax benefit in the amount of \$1.7 million was recognized in the first quarter of fiscal 2003 for that part of the tax refund in which a deferred asset had not previously been established.

(13) Leases

The Company leases substantially all of its store locations, distribution centers, and corporate offices. The Company is obligated for seven leases, which are classified as capital leases for financial reporting purposes. The gross amount of capitalized property under capital leases and related accumulated amortization recorded is included in property and equipment.

The Company has noncancelable operating leases primarily for stores, distribution facilities, corporate offices and equipment, expiring at various dates from 2006 to 2023. These leases generally contain renewal options for multiple five-year renewal periods and require the Company to pay all executory costs such as real estate taxes, maintenance and insurance. Certain leases include contingent rentals based upon a percentage of sales in excess of a specified amount. The Company also subleases all or parts of certain excess property it currently leases. The Company leases one store and the Houston distribution center from partnerships or trusts, the partners of which are former directors of the Company and their family members. Rent expense under these related party lease agreements was as follows (in thousands):

| | Fiscal Year | | |
|--------------|-------------|----------|----------|
| | 2005 | 2004 | 2003 |
| Base rentals | \$ 1,323 | \$ 1,393 | \$ 1,199 |

Total rent expense under all operating lease agreements was as follows (in thousands):

| | Fiscal Year | | |
|------------------------|-------------------|-------------------|-------------------|
| | 2005 | 2004 | 2003 |
| Base rentals | \$ 207,498 | \$ 202,046 | \$ 136,222 |
| Contingent rentals | 650 | 593 | 834 |
| Sublease rental income | (1,791) | (3,415) | (3,415) |
| | <u>\$ 206,357</u> | <u>\$ 199,224</u> | <u>\$ 133,641</u> |

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At January 28, 2006, future minimum lease payments under noncancelable leases, with initial or remaining lease terms in excess of one year, are as follows (in thousands):

| Fiscal Years: | Capital leases | Operating leases, net | Total | Amounts to be paid to related parties |
|---|-------------------|--------------------------|---------------------|---|
| 2006 | \$ 367 | \$ 217,629 | \$ 217,996 | \$ 1,237 |
| 2007 | 234 | 217,269 | 217,503 | 763 |
| 2008 | 5 | 206,565 | 206,570 | 786 |
| 2009 | | 197,284 | 197,284 | 786 |
| 2010 | | 185,911 | 185,911 | 786 |
| Thereafter | | 879,892 | 879,892 | 5,171 |
| Total minimum lease payments | \$ 606 | \$ 1,904,550 | \$ 1,905,156 | \$ 9,529 |
| Less imputed interest (at rates ranging from 9.0% to 10.75%) | | 98 | | |
| Present value of future minimum rentals of which \$323 is included in current liabilities, at January 28, 2006 | \$ 508 | | | |

The total future minimum lease payments include amounts to be paid to related parties and are shown net of \$19.3 million of noncancelable sublease payments and exclude estimated executory costs, which are principally real estate taxes, maintenance, and insurance.

In connection with the transfer of certain leased stores to a former affiliate in 1991, the Company remains liable as assignor on one lease. The former affiliate has agreed to indemnify the Company for any losses it may incur as assignor, however, such indemnification is unsecured. In addition, the Company remains liable as assignor on three leases as a result of the Sportmart acquisition. The remaining future minimum lease payments on these leases, exclusive of any variable rent or cost reimbursement that might be required, are as follows at January 28, 2006 (in thousands):

| Fiscal Years | |
|-------------------------------------|------------------|
| 2006 | \$ 3,187 |
| 2007 | 3,187 |
| 2008 | 2,687 |
| 2009 | 2,264 |
| 2010 | 1,818 |
| Thereafter | 3,945 |
| Total minimum lease payments | \$ 17,088 |

In the event of default on the lease obligations, and failure by the assignee to indemnify the Company, the Company would incur a loss to the extent of any remaining obligations, less any obligation mitigated by the lessor re-leasing the property.

(14) Employee Benefit Plans

401(k) Plan

In January 2004, the Company amended its 401(k) Retirement Plan to, among other things, increase the employer's matching contribution rate, reduce the eligibility period, and to cause employees of TSA Stores to vest 100% in matching contribution in their account as of January 1, 2004. On August 4, 2003, the TSA Stores, Inc. 401(k) Savings and Profit Sharing Plan was merged into the

Company's plan. Participants vest in the Company's contributions at a rate of 20% per year after the first year of service. The plan provides for discretionary contributions, if any, by the Company in amounts determined annually by the Board of Directors. The Company matching contributions were approximately \$2.2 million in fiscal 2005, \$1.9 million in fiscal 2004, and \$1.4 million in fiscal 2003.

(15) Deferred Compensation Plan

The Company has a nonqualified Deferred Compensation Plan (the "DCP") for certain members of management. Eligible employees may contribute a portion of base salary or bonuses to the plan annually. The DCP provides for additional matching contributions by the Company, with limitations similar to the Company's 401(k) plan, as well as discretionary contributions in an amount determined by the Company prior to the end of each plan year. The Company paid matching contributions of approximately \$41,000 to the DCP during fiscal 2005 and no matching contributions in fiscal 2004 or fiscal 2003.

(16) Stock Compensation Plans

Long Term Incentive Compensation Plan

In August 2003, the Company adopted a long term incentive compensation plan (the "Long Term Incentive Compensation Plan") following approval by the stockholders which authorizes the issuance of various equity based awards of 2,500,000 shares of common stock. As of January 28, 2006, 527,550 options and 836,484 restricted stock units have been issued and remain outstanding under the Long Term Incentive Compensation Plan. Stock options are granted with an exercise price equal to the fair value of the underlying stock at the date of grant. Stock options have a ten-year term and vest 25% per year over four years from the date of grant. Restricted stock, recorded at the fair value of the stock at the grant date, is granted to certain employees of the Company and generally cliff vests after five years from the grant date or vests 20% per year over five years from the date of grant. Certain grants of stock options and restricted stock units to our board of directors vest over periods ranging from one to three years.

In fiscal 2005, the Compensation Committee of the Company granted approximately \$14.0 million of restricted stock units to employees and board members based on the stock price at the grant dates. Of this amount, approximately \$11.3 million of these grants will vest after five years and are subject to earlier vesting if certain predetermined performance targets are met and approximately \$0.3 million was granted to board members and will vest in three years. Compensation expense for these grants is recognized on a straight-line basis over the vesting period. The vesting of the remaining \$2.3 million is contingent upon achieving minimum predetermined performance targets over a five year period. The Company will record compensation for these grants at the time it becomes probable that these performance targets will be achieved. No compensation expense has been recognized for the contingent grants. The Company recorded approximately \$11.6 million and \$2.5 million of unamortized compensation as a reduction to stockholders' equity in fiscal 2005 and 2004, respectively, related to non-contingent grants of restricted stock.

Management Equity Plan

The Company adopted a management equity plan (the "Management Equity Plan") which authorized the issuance of common stock plus grants of options to purchase shares of authorized but unissued common stock up to 3,000,000 combined shares and options. As of January 28, 2006, 147,600 purchased shares of common stock, 499,860 options, and 18,600 shares of restricted stock have been issued and remain outstanding under the Management Equity Plan. Stock options are granted with an exercise price equal to the estimated fair value of the underlying stock at the date of grant. All stock options have a ten-year term and vest 20% per year over five years from the date of grant. Restricted

stock, recorded at the fair value of the stock at the grant date, is granted to certain employees of the Company and either cliff vests after five years from the grant date or vests 20% per year over five years from the date of grant. The Company recorded no unamortized compensation in fiscal 2005 and 2004, and recorded approximately \$0.1 million of unamortized compensation as a reduction to stockholders' equity in fiscal 2003, related to grants of restricted stock under this Management Equity Plan. These amounts are being amortized to compensation expense on a straight-line basis over the vesting period.

Substitute Company Options

In connection with the merger with TSA, options outstanding under the TSA 2000 Stock Option and Stock Award Plan, the Salaried Employees' Stock Option and Stock Award Plan and the Director Stock Plan were assumed by the Company. These substitute options were modified to Company options utilizing the same conversion ratio of 0.37 to one as the common stock and dividing the exercise price of the previous options by the conversion ratio. The TSA substitute options vested fully on August 4, 2003. The options retained their original terms during which holders can exercise those options. As of August 4, 2003, 4,008,059 TSA options were exchanged for 1,482,982 Company substitute options. As of January 28, 2006, 607,323 options remain outstanding under the TSA substitute options.

Stock option activity during the periods indicated for the Company's stock option plans was as follows:

| | Number of options | Weighted average exercise price | Options exercisable |
|-----------------------------|----------------------|--|------------------------|
| Balance at February 1, 2003 | 1,359,003 | \$ 13.90 | 402,181 |
| Granted | 642,500 | 30.41 | |
| Exchanged for TSA options | 1,482,982 | 15.75 | |
| Exercised | (892,460) | 11.76 | |
| Canceled | (69,744) | 22.98 | |
| | <hr/> | | |
| Balance at January 31, 2004 | 2,522,281 | 19.69 | 1,325,632 |
| Granted | 133,000 | 27.70 | |
| Exercised | (347,015) | 18.87 | |
| Canceled | (142,711) | 26.86 | |
| | <hr/> | | |
| Balance at January 29, 2005 | 2,165,555 | 19.83 | 1,376,089 |
| Granted | | | |
| Exercised | (453,768) | 13.92 | |
| Canceled | (77,054) | 28.60 | |
| | <hr/> | | |
| Balance at January 28, 2006 | 1,634,733 | \$ 21.08 | 1,397,633 |

Canceled options are a result of employee terminations.

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The following table summarizes the status of outstanding stock options as of January 28, 2006:

| Range of exercise prices | Options outstanding | | | Options exercisable | | |
|--------------------------|-------------------------------|---------------------------------------|---------------------------------|-------------------------------|---------------------------------|--|
| | Number of options outstanding | Remaining contractual life (in years) | Weighted average exercise price | Number of options exercisable | Weighted average exercise price | |
| \$ 4.06-6.63 | 254,688 | 4.1 | \$ 6.33 | 254,688 | \$ 6.33 | |
| 8.38-14.00 | 273,139 | 4.3 | 12.25 | 240,239 | 12.02 | |
| 15.14-20.00 | 344,222 | 6.0 | 19.12 | 224,022 | 18.77 | |
| 20.42-29.88 | 529,262 | 6.9 | 27.83 | 445,262 | 28.59 | |
| 31.90-52.03 | 233,422 | 6.4 | 35.04 | 233,422 | 35.04 | |
| \$ 4.06-52.03 | 1,634,733 | 5.8 | \$ 21.08 | 1,397,633 | \$ 21.19 | |

Unvested stock grants under the equity award plans during the periods indicated were as follows:

| | Fiscal Year | | |
|---|-------------|---------|---------|
| | 2005 | 2004 | 2003 |
| Shares of unvested stock granted | 491,917 | 86,000 | 485,000 |
| Weighted average fair value of shares at grant date | \$28.38 | \$29.18 | \$31.82 |

(17) Related Party Transactions

Prior to the TSA merger, Green Equity Investors, whose general partner is Leonard Green & Associates, LP ("LGA"), owned approximately 26% of the outstanding common stock of the Company, which equated to approximately 13% of the combined company post merger. In December 2003, LGA sold 1.1 million shares of stock, reducing its beneficial interest in the Company to approximately 8%. In December 2004, LGA distributed their remaining shares of stock to its partners. At January 28, 2006, LGA owns no shares of Company stock. The Company had a management services agreement with LGA whereby LGA received an annual retainer fee of \$0.5 million plus reasonable expenses for providing certain management, consulting and financial planning services. The management services agreement also provided that LGA may receive reasonable and customary fees and reasonable expenses from time to time for providing financial advisory and investment banking services in connection with major financial transactions that are undertaken. The management services agreement was due to terminate in January 2004. In September 2003, the Company bought out the remaining term of the agreement for \$0.2 million. In addition, in the third quarter of 2003, the Company paid LGA a fee of \$4.25 million, plus out-of-pocket expenses, in connection with the TSA merger which was included in the total purchase price paid. As of January 28, 2006, there were no payments due to LGA or other related parties. See Note 18 for the proposed acquisition by an affiliate of LGA.

The Company entered into a severance and noncancelable consulting agreement with Martin E. Hanaka, former Chairman of the Board and the former Chairman and CEO of TSA. Pursuant to the severance agreement, Mr. Hanaka's employment with the Company ceased as of December 31, 2003. Under this agreement, the Company will continue, until August 3, 2006, to nominate Mr. Hanaka, and, if elected by our stockholders, he shall serve as a Director. Pursuant to the terms of the agreement, Mr. Hanaka was paid a cash payment of \$2.5 million, was awarded \$1.0 million in Company common stock, and his unvested equity awards became fully vested and remain exercisable until at least August 4, 2006. The amounts related to this agreement were recorded as merger integration costs in the accompanying Statement of Income. In addition and simultaneous with this agreement, the Company executed a consulting agreement with Mr. Hanaka. Mr. Hanaka has agreed to provide consulting services to the Company focusing on the cultural integration and the long-term strategic growth of the Company and the enhancement of the public reputation and image of the Company. Pursuant to the consulting agreement, the Company agreed to pay a fee of \$100,000 per year to

Mr. Hanaka and to pay his related office expenses in Fort Lauderdale, Florida, for his services to be rendered over a period of approximately 31 months, terminating August 3, 2006.

Mr. Morton, Chairman and Chief Executive Officer, has a brother who is the President for Scott USA. The Company purchased \$3.1 million, \$2.7 million, and \$2.1 million in merchandise from Scott USA during fiscal 2005, 2004 and 2003, respectively. In each of these years, such purchases represented less than 1% of our total purchases.

(18) Proposed Going Private Transaction

On January 22, 2006, the Company entered into a definitive agreement ("merger agreement") to be acquired by an investor group led by Green Equity Investors IV, L.P., an affiliate of Leonard Green & Partners, L.P. ("the buyer") and including members of Sports Authority's senior management team for \$37.25 per share in cash. The board of directors of Sports Authority (excluding J. Douglas Morton and Jonathan D. Sokoloff, each of whom recused himself), on the recommendation of a special committee of disinterested directors, has unanimously approved the merger agreement and will recommend that Sports Authority's stockholders adopt the merger agreement. The total transaction value, including assumed debt, is approximately \$1.4 billion. The transaction is expected to close in the second fiscal quarter of 2006, and is subject to Sports Authority's stockholder approval, as well as other customary closing conditions, including the receipt of financing and regulatory approvals.

If the merger agreement is terminated because Sports Authority stockholders do not approve the transaction, Sports Authority will be required to reimburse the buyer for their actual and reasonably documented out-of-pocket expenses and fees in connection with the transaction, up to \$5 million subject to increase. Additionally, Sports Authority will be obligated to pay the buyer a termination fee of \$30 million, net of any expenses previously reimbursed, if the merger agreement is terminated under certain circumstances.

(19) Contingencies

Legal Proceedings

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

The Company is a member of a class action lawsuit against Visa/MasterCard and expects to participate in the \$3 billion antitrust litigation settlement. The amount and timing of the payment are not certain at this time and, accordingly, no amount has been recorded at January 28, 2006.

Between January 23 and January 25, 2006, four putative class action complaints were filed on behalf of public stockholders of Sports Authority in the Court of Chancery of the State of Delaware in and for New Castle County, naming, among others, Sports Authority and members of Sports Authority's board of directors. The complaints allege, among other things, that the directors of Sports Authority breached their fiduciary duties in connection with the proposed going private transaction by failing to maximize stockholder value and by approving a transaction that purportedly benefits Sports Authority senior management at the expense of Sports Authority's public stockholders. Among other things, the complaints seek to enjoin Sports Authority and its directors from proceeding with or consummating the merger. Based on the facts known to date, Sports Authority believes that the claims asserted in these actions are without merit and intends to defend these suits vigorously.

On March 16, 2006, the Company became aware that a former store associate at a California store filed a purported class action against The Sports Authority, Inc., in Los Angeles County Superior Court alleging that the Company failed to properly calculate the regular rate of pay of hourly associates, and

thus deprived them of overtime compensation due to them under state law. Furthermore, the action alleges that the Company failed to provide store associates the appropriate meal and rest periods under state law. This action is similar to numerous suits filed against retailers and others with operations in California. The putative class members seek recovery in an unstated dollar amount of unpaid wages, interest, statutory penalties, and attorneys' fees and costs. The action is at a very preliminary state and the Company has not received formal service of process. Accordingly, it is too early to evaluate the probable outcome of the case. The Company intends to vigorously defend this action.

(20) Earnings Per Share

The following table sets forth the computations of basic and diluted earnings per share.

| | Fiscal | | |
|--|----------------|----------------|----------------|
| | 2005 | 2004 | 2003 |
| Net income | \$ 55,417,000 | \$ 33,467,000 | \$ 16,262,000 |
| Weighted average shares of common stock outstanding | 26,165,203 | 25,691,176 | 18,309,174 |
| Basic earnings per share | \$ 2.12 | \$ 1.30 | \$ 0.89 |
| Number of shares used for diluted earnings per share: | | | |
| Weighted average shares of common stock outstanding | 26,165,203 | 25,691,176 | 18,309,174 |
| Dilutive securities stock options and restricted stock | 704,620 | 721,103 | 1,170,521 |
| Weighted average shares of common stock and common stock equivalents outstanding | 26,869,823 | 26,412,279 | 19,479,695 |
| Diluted earnings per share | \$ 2.06 | \$ 1.27 | \$ 0.83 |

(21) E-Commerce Agreement

In June 2001 and July 2001, the former Gart Sports Company and former Sports Authority, Inc., respectively, entered into separate license and e-commerce agreements with GSI, which expire on December 31, 2011 and November 8, 2019, respectively. Under the terms of the agreements, GSI developed and is currently operating an online sporting goods store at www.sportsauthority.com. Under these agreements, GSI owns certain content and technology related to the website, purchases and owns the merchandise sold on the website, and hosts, maintains, fulfills orders and furnishes all other "back-end" operations required to operate the website. GSI receives all revenue generated from the website and pays the Company a royalty based on a certain percent of sales from this site.

(22) Quarterly Financial Data (unaudited)

Note that the amounts below are not necessarily comparable to one another or to anticipated future periods due to the following: non-recurring merger integration costs are only included in the Company's operations for the first three quarters of fiscal 2004.

| | First quarter | Second quarter | Third quarter | Fourth quarter | Annual |
|--|--------------------------|---------------------------|--------------------------|---------------------------|---------------|
| (in thousands, except per share amounts) | | | | | |
| Fiscal 2005 | | | | | |
| Net sales | \$ 591,232 | \$ 617,034 | \$ 559,977 | \$ 741,087 | \$ 2,509,330 |
| Gross profit | 160,858 | 174,049 | 155,332 | 216,968 | 707,207 |
| Net income | 7,950 | 14,215 | 3,463 | 29,789 | 55,417 |
| Basic earnings per share | 0.31 | 0.55 | 0.13 | 1.13 | 2.12 |
| Diluted earnings per share | 0.30 | 0.53 | 0.13 | 1.10 | 2.06 |
| Fiscal 2004 | | | | | |
| Net sales | \$ 572,041 | \$ 605,025 | \$ 545,041 | \$ 713,756 | \$ 2,435,863 |
| Gross profit | 159,306 | 168,318 | 146,364 | 204,996 | 678,984 |
| Net income (loss) | 4,155 | 6,765 | (2,753) | 25,300 | 33,467 |
| Basic earnings (loss) per share | 0.16 | 0.26 | (0.11) | 0.98 | 1.30 |
| Diluted earnings (loss) per share | 0.16 | 0.26 | (0.11) | 0.96 | 1.27 |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on March 22, 2006 on its behalf by the undersigned thereunto duly authorized.

THE SPORTS AUTHORITY, INC.

By: /s/ JOHN DOUGLAS MORTON,

John Douglas Morton,

Chairman of the Board of Directors and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned officers or directors of the Registrant, by virtue of their signatures to this report, appearing below, hereby constitute and appoint John Douglas Morton and Thomas T. Hendrickson, or any one of them, with full power of substitution, as attorneys-in-fact in their names, places and stead to execute any and all amendments to this report in the capacities set forth opposite their names and hereby ratify all that said attorneys-in-fact do by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 22, 2006.

| Signature | Title |
|---------------------------|--|
| /s/ JOHN DOUGLAS MORTON | |
| John Douglas Morton | Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer) |
| /s/ THOMAS T. HENDRICKSON | |
| Thomas T. Hendrickson | Chief Financial Officer, Chief Administrative Officer and Treasurer (Principal Financial and Accounting Officer) |
| Martin E. Hanaka | Director |
| /s/ JONATHAN D. SOKOLOFF | |
| Jonathan D. Sokoloff | Director |
| /s/ GORDON D. BARKER | |
| Gordon D. Barker | Director |
| Peter R. Formanek | Director |
| /s/ MARY ELIZABETH BURTON | |
| Mary Elizabeth Burton | Director |
| /s/ CYNTHIA R. COHEN | |
| Cynthia R. Cohen | Director |

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Signature

Title

/s/ KEVIN M. MCGOVERN

Director

Kevin M. McGovern

/s/ RICHARD L. MARKEE

Director

Richard L. Markee
