

GART SPORTS CO  
Form 10-K405  
April 12, 2001

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year ended February 3, 2001

Commission file number 000-23515

GART SPORTS COMPANY  
(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.)

1000 Broadway  
Denver, Colorado 80203  
(Address of principal executive office) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:  
None

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, par value \$.01 per share  
(title of class)

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 [X] 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. [X]

As of March 30, 2001, there were outstanding 7,366,150 shares of the registrant's common stock, \$.01 par value, and the aggregate market value of the shares (based upon the closing price on that date of the shares on the NASDAQ National Market) held by non-affiliates was approximately \$21,000,000.

Documents Incorporated by Reference

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Part III of this Form 10-K is incorporated by reference from the Registrant's 2001 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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### NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this Annual Report on Form 10-K, including without limitation, statements containing the words "believes," "anticipates," "expects" and words of similar import, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Gart Sports Company and its subsidiaries (the "Company"), or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, the effect of economic conditions generally, and retail and sporting goods business conditions specifically, the impact of competition in existing and future markets, the exercise of control over the Company by certain stockholders and the conflicts of interest that might arise among the Company, such stockholders and their affiliates, the inherent uncertainties relating to the integration of Oshman's Sporting Goods, Inc. (Oshman's) following the acquisition of Oshman's by the Company scheduled

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to close in the second quarter of fiscal 2001, the Company's ability to successfully anticipate merchandising and market trends and customers' purchasing preferences, and the impact of seasonality and weather conditions. These factors are discussed in more detail elsewhere in this report, including, without limitation, under the captions "Business and Properties," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Certain Relationships and Related Transactions." Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

### Trademarks

Gart Sports(R), Gart Sports Superstore(R), Gart Bros. Sporting Goods Company(R), Sportmart(R), Sniagrab(R), Sportscastle(R) and Gart Sports Company(R) are federally registered trademarks of the Company. In addition, the Company claims common law rights to its trademarks listed above and various other trademarks and service marks. All other trademarks or registered trademarks appearing in this Annual Report are trademarks or registered trademarks of the respective companies that utilize them.

### PART I

#### ITEM 1. and ITEM 2. Business and Properties

##### General

Gart Sports Company and its subsidiaries (collectively, the "Company" or "Gart Sports") is one of the leading sporting goods retailers in the midwest and western United States and the leading full-line sporting goods retailer in the Rocky Mountain region. The Company is the second largest, publicly traded, full-line sporting goods retailer in the United States. The Company's business strategy is to provide its customers with an extensive selection of high quality, brand name merchandise at competitive prices with a high level of customer service. The Company operated 120 sporting goods stores in 16 states as of February 3, 2001, the end of its 2000 fiscal year. The Company's executive offices are located at 1000 Broadway, Denver, Colorado 80203, and its telephone number is (303) 861-1122.

Founded in 1928, the Company operates under the Gart Sports and Sportmart names in California, Colorado, Illinois, Utah, Washington, Idaho, Minnesota, Wyoming, Ohio, Oregon, Wisconsin, Montana, New Mexico, Nevada, Indiana and Iowa. The Company was incorporated in Delaware in 1993 and operates through its wholly-owned subsidiaries, Gart Bros. Sporting Goods Company ("Gart Bros.") and Sportmart, Inc. ("Sportmart").

On February 22, 2001, Gart Sports announced it had signed a definitive agreement to acquire Oshman's Sporting Goods, Inc. (AMEX: OSH). Gart Sports has secured commitments from certain shareholders of Oshman's common stock to vote their shares in favor of the proposed merger, bringing the total beneficial owners committed to voting in favor of the proposed merger to approximately 50.1%. Green Equity Investors, L.P., an affiliate of Leonard Green & Partners, L.P., which beneficially owns approximately 64.0% of the outstanding common stock of Gart Sports, has also agreed to vote its shares in favor of the proposed merger. Upon completion of the acquisition of the 58 Oshman's stores, the Company will consist of 178 stores in 25 states. On a pro-forma combined basis, Gart Sports and Oshman's generated revenue of approximately \$1.1 billion during the fiscal year ended February 3, 2001.

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### Industry Overview

The retail sporting goods industry is comprised of five principal categories of retailers: (i) large format sporting goods stores, which typically range from 20,000 to 100,000 square feet in size and emphasize high sales volumes and a large number of SKUs, (ii) traditional sporting goods stores, which typically range in size from 5,000 to 20,000 square feet and carry a more limited assortment of merchandise, (iii) specialty sporting goods stores, generally specializing in one product category of sporting goods, (iv) mass merchandisers, including discount retailers, warehouse clubs and department stores, which although generally price competitive, have limited customer service and a more limited selection of sporting goods, and (v) catalog and internet based retailers, which sell a full line of products via catalogs and the internet.

The sporting goods industry in the United States is characterized by fragmented competition, limited assortments from traditional sporting goods retailers, customer preference for one-stop shopping convenience and the growing importance of delivering value to the customer through selection, service and price. The Company believes that these characteristics of the sporting goods industry make the Company's superstore format particularly well suited to grow and increase the Company's market share relative to traditional sporting goods stores, specialty sporting goods retailers, mass merchandisers, other large format sporting goods retailers, and catalog and internet based retailers.

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### Business Strategy

The Company's business strategy is to provide its 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 the Company's business strategy are the following:

**Broad Assortment of Quality, Brand Name Products.** The Company offers a wide selection of high-quality, brand name apparel and equipment at competitive prices designed to appeal to both the casual sporting goods customer and sports enthusiast for their sporting goods needs. The Company carries over 100,000 active SKUs, including popular brands such as Adidas, Coleman, Columbia, Easton, FootJoy, K2, New Balance, Nike, Rawlings, Reebok, Rollerblade, Rossignol, Russell, Salomon, Spalding, Speedo and Wilson. The Company's customer service, expert technicians and specialty store presentation enable it to purchase directly from manufacturers the full product lines typically available only in specialty stores and pro shops, such as Armour, Cleveland, Cobra, Taylor Made, and Titleist golf accessories, Diamondback bikes, The North Face apparel and accessories and Volkl and Volant ski equipment.

**Customer Service.** The Company's objective is to provide a high level of customer service generally associated with specialty sporting goods stores and pro shops. The Company has committed increased resources to its customer service program in an effort to achieve these high standards. The Company will increase its use of an independent professional shopping service to monitor the stores' compliance with customer service initiatives and procedures. In addition, the Company offers its customers special services including special order capability, equipment rental, on site repair centers, discount ski lift tickets, and hunting and fishing licenses. The Company strives to provide the highest level of technical support.

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Attractive Shopping Environment. The Company seeks to offer an attractive shopping environment that showcases the breadth of the Company's product offerings and reinforces the Company's distinctive brand image. The Company's 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.

Customized Merchandise Mix. The Company tailors its product mix to market demographics and lifestyles. Purchasing decisions are made on a regional, and sometimes a store by store basis and store operations work directly with the Company's buyers to revise the product mix in each store. Various factors typically influence the product mix in a particular market, such as disposable income, professional and amateur sports activities, and specific regional and seasonal activities.

Promotional Advertising and Marketing. The Company uses a promotional pricing and advertising strategy focused on the creation of "events" to drive traffic and sales in its stores. Each event is based upon either a key shopping period such as the winter holidays, Father's Day and Back-to-School or a specific sales or promotional event, including the annual Sniagrab ("bargains" spelled backwards) sale, which the Company believes is the largest pre-season ski and snowboard sale in the United States. The Company's strategy of clustering stores in major markets enables it to employ an aggressive advertising strategy on a cost-effective basis, utilizing newspaper, radio and television.

### Merchandising

The Company offers its customers over 100,000 active SKUs of high quality, brand name sporting goods and apparel. The Company believes that the quality and breadth of its winter sports merchandise has contributed to its strong reputation in the Rocky Mountain region. In addition, the Company believes that its ability to manage the complex inventory requirements of the winter product line, which is characterized by a short selling season, gives it an important competitive advantage. The Company's merchandise is broadly classified into one of two major categories, hardlines or softlines. Hardlines includes such items as skis, golf equipment, bicycles, exercise equipment and camping, hunting, and fishing gear. Softlines consist primarily of apparel, footwear and outerwear.

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The following table sets forth the percentage of total net sales for each major product category for each of the Company's last three fiscal years:

	Fiscal Years		
	2000	1999	1998
	(Unaudited)	(Unaudited)	(Unaudited)
Hardlines.....	51.5%	50.3%	47.9%
Softlines:			
Apparel.....	25.3	25.2	26.0
Footwear.....	23.2	24.5	26.1
	-----	-----	-----
Subtotal.....	48.5	49.7	52.1
	-----	-----	-----

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Total.....	100.0%	100.0%	100.0%
	=====	=====	=====

### Winter Equipment and Apparel

The Company believes that its stores offer the widest selection of ski and snowboard merchandise in the Rocky Mountain region. This extensive selection consists of winter sports apparel, accessories and equipment, including a broad selection of apparel and equipment for Nordic (cross country) skiing. Gart Sports has become a leader in the snowboard industry with its wide range of snowboard-related products, including snowboards, boots, bindings and apparel. The Company offers products from a wide variety of well-known winter sports equipment and apparel suppliers, including Columbia, K2, Salomon, Rossignol and Nordica.

In addition to offering the most widely known and available popular brands, the Company's stores also carry winter equipment and apparel from manufacturers that are typically only available in specialty stores, such as Volkl, Volant, The North Face and Bogner.

Many of the Company's stores also rent winter sports equipment, including skis, snowboards, boots 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 demo ski programs, custom boot fitting, complete ski and snowboard repair facilities, each with specialized equipment, and the convenience of in-store discounted lift ticket sales to area resorts.

### Footwear, In-line Skates and General Apparel

The Company's 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 such diverse activities as basketball, baseball, football, soccer, tennis, golf, aerobics, running, walking, cycling, hiking, cross-training, wrestling and snow-shoeing. The Company's wide variety of sportswear and apparel include a broad selection of licensed apparel for professional and college teams. The Company is also a major retailer of in-line skates and ice skates. Special services in this area include in-line skate repair, bearing and wheel changes, and training and safety programs designed to help new skate owners safely develop their in-line skating skills. The Company's extensive variety of well-known apparel and footwear vendors include Nike, Adidas, Reebok, New Balance, Timberland, Vans, Russell Athletic, K2 and Rollerblade.

### Team Sports, Exercise and Outdoor Recreation

Team Sports and Exercise. The Company offers a broad range of brand name equipment for traditional team sports, including football, baseball, softball, basketball, hockey, volleyball and soccer. The Company also carries a variety of fitness equipment, including treadmills, stationary bicycles, stair climbers, weight machines and free weights, and equipment for recreational activities including table tennis, darts, badminton, croquet and horseshoes. In addition, the Company offers home delivery and in-home set up of exercise equipment and outdoor equipment (such as basketball hoops and trampolines). The Company's stores carry brands such as Icon/Proform, Easton, Lifetime Products, Rawlings, Wilson, Spalding and Bauer.

Golf and Tennis. The Company maintains a wide assortment of golf and tennis

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apparel and equipment to cater to every type of sporting goods customer, ranging from the recreational athlete to the most avid sports enthusiast. Most of the Company's stores have a tennis stringing and a re-gripping center and several stores rent rackets. Many stores feature indoor putting greens and driving cages, enabling customers to try out equipment prior to purchase. The Company has access to products from a wide variety of well-known golf and racquet sports equipment and apparel suppliers, including Taylor Made, Cobra, Cleveland, Armour Golf, Titleist, Wilson, Prince and Head.

Cycling. In most of its stores, the Company offers a selection of bicycles, including mountain bikes, BMX and youth bikes, from such manufacturers as Diamondback, Mongoose, Nishiki and Huffy. The Company's stores carry cycling apparel, accessories and components from suppliers such as Bell, Descente, Nike, Shimano, Giro and Thule. Most of the Company's stores have their own bicycle repair facility where work can be performed on most makes and models of bikes, including those purchased from other retailers. The Company's stores also carry a selection of scooters from such manufacturers as Razor, K2, and Airwalk.

Water Sports. The Company carries 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 and surfing. Suppliers of these products include HO, O'Brien and O'Neill. Swimsuits and accessories are available from Jansen, Mossimo, Nike, Quiksilver, Sideout, Speedo and Tyr. In addition, the Company carries snorkeling equipment and wet suits.

### Hunting, Fishing and Camping Apparel and Equipment

Hunting. The Company carries a broad selection of hunting equipment and accessories, including eye and ear protection, gun cabinets and safes. In particular markets, our stores provide a complete selection of sporting arms, scopes, clothing and hunting licenses. The Company carries such top brand names as Remington, Beretta, Browning, Leupold, Weatherby and Smith & Wesson.

Fishing. The Company's stores offer a broad range of freshwater and salt water fishing equipment, accessories, and fishing licenses. In particular markets, several stores offer instructional fishing courses on topics such as fly tying and salt water fishing. The Company sells equipment and accessories from widely known fishing equipment and accessory manufacturers including Shimano, Shakespeare, Berkley, Scientific Angler and Daiwa.

Camping. The Company's stores typically carry a wide selection of outdoor products for most types of camping, back-packing, canoeing, kayaking, and outdoor activities. In particular markets, the Company offers products from a broad range of manufacturers, including Coleman, Jansport, Kelty, Slumberjack, and Igloo.

### The Company's Stores

#### Store Design

The Company creates a dynamic shopping atmosphere that appeals broadly to both the casual sporting goods customer and the sports enthusiast. Based on more than 70 years of experience in the sporting goods retail industry, the Company has developed a superstore prototype designed to feature the quality and variety of brand name merchandise offered in its stores. The Company's superstores typically range in size from 30,000 to 45,000 square feet depending on market demographics. The Company has determined that the superstore format provides the best opportunity for growth. Generally, 80% of store space is dedicated to selling while 20% is used for office and non-retail functions.

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The Company performed various levels of remodeling in 29 stores during fiscal 2000 and plans 27 additional store remodels in fiscal 2001. In certain stores, the Company plans to improve the shopping environment with clearer sight lines, more appealing flooring and color schemes and improved visual design. In some instances, department size and adjacencies will be tailored to regional and seasonal needs to improve the stores' shopability.

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The prototype superstore 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. In addition, many of the Company's stores feature specialized brand shops for vendors such as Nike, Columbia, and Adidas, which offer a broad array of vendor-specific products in specialized, image-enhancing fixtures. The visibility of the branded apparel and the feature shops emphasize the quality image and brand assortment of the Company's stores.

Specialty departments are located adjacent to other related departments and apparel assortments to increase customer convenience and to stimulate cross-purchasing. The specialty departments display merchandise on low racking to allow customers easy access to products and to promote storewide visibility and easy department identification. The specialty departments use the walls to display merchandise in order to convey the depth and breadth of product selection. Department layouts are adjusted periodically to make room for seasonal products.

The Company is in the process of rolling out an exciting new fixturing program that will affect virtually every superstore in the chain. It will utilize a set of apparel fixtures, accessories, signage and graphics that will clearly define these categories and sub-categories to create a more customer friendly environment. The Company is currently negotiating with apparel vendors to use these same fixtures in developing vendor shop areas. This coordinated effort will produce a completely integrated, flexible apparel fixture program.

The Company's 15 non-superstore freestanding and strip center stores more closely resemble traditional sporting goods stores and range in size from 10,000 to 31,000 square feet. The Company's ten stores in enclosed shopping malls average 15,000 square feet and carry a selection of merchandise that appeals to the mall-oriented shopper, focusing on apparel and footwear. The Company's five resort stores range in size from 15,000 to 27,000 square feet and provide a broader merchandise selection and lower prices than typically available in resort areas, while offering a high level of customer service.

### Operations, Customer Service and Training

Typically, the Company's superstores have 55 to 80 sales associates and technicians, while its non-superstores employ a staff of approximately 20 to 25. Additional seasonal support is hired during Father's Day, Back-to-School, Thanksgiving, Christmas and for the annual Sniagrab pre-season ski sale.

The Company employs a Store Manager, a Sales Manager and a Merchandise Manager in each store. The Store Manager reports to a District Manager who is responsible for a number of stores within a limited geographic region. There are currently 16 District Managers who report to two Regional Vice Presidents.

The Company's objective is to provide the same high level of customer



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service that is generally associated with specialty sporting goods stores and pro shops. The Company has committed increased resources toward customer service and training in an effort to achieve these high standards. Product training clinics have been set-up to provide product knowledge training for all associates in the serviceable areas of ski, snowboard, golf, tennis, bike, baseball and home fitness. Customer service training has also been implemented for all store associates and management teams to heighten the awareness of customer service and improve the customer shopping experience in the Company's stores. New customer service programs emphasizing add-on sales, customer acknowledgement and exceeding customer expectations have been implemented in the Company's stores to recognize and award exceptional service by both individuals and overall store teams. The Company uses an independent professional shopping service to monitor compliance with customer service initiatives and procedures.

The Company's stores are typically open seven days a week, from 9:00 a.m. to 9:00 p.m., Monday through Saturday; and 10:00 a.m. to 6:00 p.m. on Sunday. Hours are adjusted for individual markets as necessary.

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### Site Selection and Location

In choosing appropriate markets, the Company considers the demographic and lifestyle characteristics of a market, including, among other factors, the following: levels of disposable income; trade area; local buying patterns; enthusiasm for outdoor recreation; popularity of collegiate and professional sports teams; and regional sports activities.

The following table sets forth the location, by state, of the Company's stores, as of February 3, 2001:

State	Superstores	Resort Stores	Other Stores	Total Number of Stores
-----	-----	-----	-----	-----
California.....	30	--	--	30
Colorado.....	11	3	9	23
Illinois.....	15	--	--	15
Utah.....	4	1	7	12
Washington.....	9	--	--	9
Idaho.....	1	--	6	7
Minnesota.....	5	--	--	5
Wyoming.....	--	1	3	4
Ohio.....	3	--	--	3
Oregon.....	3	--	--	3
Wisconsin.....	2	--	--	2
Montana.....	2	--	--	2
New Mexico.....	2	--	--	2
Nevada.....	1	--	--	1
Indiana.....	1	--	--	1
Iowa.....	1	--	--	1
	---	---	---	---
Total.....	90	5	25	120
	===	===	===	===

The Company plans to open new stores primarily in existing markets to further leverage the Company's fixed cost structure, advertising program and

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distribution system. The Company intends to open eight to ten additional stores in fiscal 2001.

### Management Information Systems

Over the last five years, the Company has installed sophisticated management information systems which use JDA, E-3 Replenishment, and Arthur Planning retail software operating on an IBM AS/400 platform. The Company utilizes IBM 4680 and 4690 point-of-sale systems that incorporate scanning, price look-up, zone pricing support, and store level access to the Company's merchandise information system. The Company's fully integrated management information systems track purchasing, sales and inventory transfers down to the SKU level and have allowed the Company to improve overall inventory management by identifying individual SKU activity and projecting trends and replenishment needs on a timely basis. These systems have enabled the Company to increase margins by reducing inventory investment, strengthening in-stock positions, reducing the Company's historical shrinkage levels, and creating store level perpetual inventories and automatic inventory replenishment on basic items of merchandise. The Company has implemented a state-of-the-art data warehouse application that allows its merchandising staff to analyze product and pricing strategies, its operations staff to optimize its investments in store labor, and its executive staff to monitor all of the key business performance indicators on a daily basis. The Company has implemented a fully integrated merchandise planning and allocation system that optimizes the distribution of most products to the stores through the integration of historical sales data and forecasted data at an individual store and item level. This minimizes markdowns taken on merchandise and improves sales on these products. Store operations personnel in every location have online access to e-mail, product signage, standard operating procedures, and advertising information through the

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Company's intranet. The Company has implemented Radio Frequency ("RF") scanning for all of its stores and is continuing to roll out this technology to its distribution centers this year. This technology allows the Company to streamline its merchandise handling and inventory management. RF technology, along with expansion of the Company's Electronic Data Interchange ("EDI") initiatives, will result in lower overall cost of inventory ownership and improved accuracy in merchandise requirements forecasting.

### Advertising and Promotion

The Company's comprehensive marketing program is designed to promote the Company's extensive selection of brand name products at competitive prices. The program is centered on extensive newspaper advertising supplemented by television, radio and billboard ads. The advertising strategy is focused on weekly newspaper advertising utilizing both four-page pre-printed flyer inserts and standard run of press ("ROP") advertising, with additional emphasis on key shopping periods, such as the winter holidays, Father's Day, Back-to-School, and on specific sales and promotional events, including the annual Sniagrab sale.

The Company's strategy of clustering stores in major markets enables it to employ an aggressive advertising strategy on a cost-effective basis through the use of newspaper, radio and television advertising. The Company's goal is to be one of the dominant sporting goods advertisers in each of its markets. The Company advertises in major metropolitan newspapers as well as regional newspapers circulated in areas surrounding its store locations. Newspaper advertising typically consists of weekly promotional ads with three-color inserts on a weekly basis. Television advertising is generally concentrated

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three to four days prior to a promotional event or key shopping period. Radio advertising is used primarily to publicize specific promotions in conjunction with newspaper advertising or to announce a public relations promotion or grand opening. Billboards emphasizing the Company's image and high quality brand name merchandise are strategically located on high traffic thoroughfares near store locations. Vendor payments under cooperative advertising arrangements with the Company, as well as vendor buy-ins to sponsor sporting events and programs, have significantly contributed to the Company's advertising leverage.

The Company's advertising is designed to create an "event" in the stores and to drive customer traffic with advertisements promoting a wide variety of sale priced merchandise appropriate for the current holiday or event. In addition to holidays, the Company's events include the Sniagrab sale, celebrity autograph sessions, events related to local sports teams, race sponsorships and registrations, vendor demonstrations and other activities that attract customers to its stores. The Company's marketing program is administered by an in-house staff.

The Company sponsors tournaments and amateur competitive events in an effort to align itself with both the serious sports enthusiast and the recreational athlete. The Company is also recognized as a major sponsor of professional sports teams in some of its markets, including, from time to time, the Denver Broncos, Colorado Rockies and Avalanche, and the Minnesota Wild.

### Purchasing and Distribution

The Company's Merchandise Purchasing Department has an average of approximately 15 years of retail experience. In addition to merchandise procurement, the buying staff is also responsible for determining initial pricing, product marketing plans and working with the allocation and replenishment groups to establish stock levels and product mix. The buying staff also regularly communicates with store operations to monitor shifts in consumer tastes and market trends.

The Company's Planning, Replenishment, Allocation, and Merchandise Control Department is responsible for merchandise distribution, inventory control, and the E-3 Replenishment Purchasing and Allocation System. This group acts as the central processing intermediary between the buying staff and the Company's stores. The group also coordinates the inventory levels necessary for each advertising promotion with the buying staff and Advertising Department, tracking the effectiveness of each ad to allow the buying staff and Advertising Department to determine the relative success of each promotional program. In addition, the group's other duties

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include implementation of price changes, creation of all vendor purchase orders, and determination of the adequate amount of inventory for each store.

The Company purchases merchandise from over 1,000 vendors and has no long-term purchase commitments. During fiscal 2000, Nike, the Company's largest vendor, represented approximately 11.7% of the Company's purchases. No other vendor represented more than 10.0%.

The Company utilizes a "hub and spoke" distribution system in which vendors ship directly to central distribution centers serving regional stores. Management believes that its distribution system has the following advantages as compared to a direct delivery (i.e., drop shipping) system utilized by other retailers: reduced individual store inventory investment; more timely replenishment of store inventory needs, better use of store floor space;

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reduced transportation costs, and easier returns to vendors.

The Company has three regional distribution centers: (1) a 240,000 square foot facility located in Denver, Colorado, (2) a 202,500 square foot facility located in Fontana, California, and (3) a 141,000 square foot facility located in Woodridge, Illinois. Inventory arriving at the distribution centers is allocated directly to the stores or to the distribution center or to both. The E-3 automated reorder system regularly replenishes the stores by allocating merchandise from the distribution centers based on each store's sales. Merchandise allocated by the E-3 system to the Company's stores accounts for approximately 25% of the Company's total net sales. This system has significantly reduced the need for back-stock in the stores. The Company plans to continue adding SKUs to this automated reorder system.

The Company operates tractor trailers for delivering merchandise from its Denver distribution center to its Colorado stores, and contracts with common carriers to deliver merchandise to its stores outside a 150-mile radius from Denver and to its stores receiving merchandise from the Company's Fontana, California and Woodridge, Illinois distribution centers. The Company is currently evaluating its distribution system.

### Competition

The retail sporting goods industry is highly fragmented and intensely competitive. While the Company's competition differs by market, there are five general categories of sporting goods retailers with which the Company competes: large format sporting goods stores, traditional sporting goods stores, specialty sporting goods stores, mass merchandisers and catalog and internet based retailers.

**Large Format Sporting Goods Stores.** Stores in this category include Galyans, The Sports Authority, Dick's Sporting Goods and Sport Chalet, typically range from 20,000 to 100,000 square feet in size and tend to be destination (freestanding or strip shopping center anchor) locations. Most large format sporting goods stores emphasize high sales volumes and a large number of SKUs.

**Traditional Sporting Goods Stores.** This category consists of traditional sporting goods chains, such as Big 5 and Hibbett Sporting Goods, as well as local independent sporting goods retailers. These stores typically range in size from 5,000 to 20,000 square feet and are frequently located in regional malls and strip shopping centers. Traditional chains and local sporting goods stores often carry a more limited assortment of products.

**Specialty Sporting Goods Stores.** This category consists of specialty stores and pro shops specializing in certain categories of sporting goods. Examples include such national retail chains as The Athlete's Foot, Champs, Finish Line, Foot Locker, REI, Bass Pro Shops, Pro Golf Discount and Nevada Bob's. These retailers are highly focused, selling generally only one product category such as athletic footwear, ski or snowboard equipment, backpacking and mountaineering, or golf and tennis equipment and apparel.

**Mass Merchandisers.** Stores in this category include discount retailers such as Target, Kmart and Wal-Mart, warehouse clubs such as Costco, and department stores such as JC Penney and Sears. These stores range in size from approximately 50,000 to 200,000 square feet and are primarily located in regional malls and strip

shopping centers. Sporting goods merchandise and apparel represent a small portion of the total merchandise in these stores and the selection is often

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more limited than in other sporting goods retailers.

Catalog and Internet Based Retailers. This category consists of catalog retailers such as Cabela's and on-line internet retailers such as Global Sports Interactive. These competitors sell a full line of sporting goods products via catalogs and the internet.

The Company believes that although it will continue to face competition from retailers in each of these categories, the most significant competition is expected to be from the large format sporting goods stores. The Company faces direct competition from large format sporting goods stores, including Sport Chalet in California; The Sports Authority in California, Illinois and Washington; Dick's Sporting Goods in Wisconsin, Illinois and Ohio; and Galyans in Colorado, Indiana, Illinois, Minnesota and Ohio. The principal competitive factors include store location and image, product selection, quality and price, and customer service. Increased competition in markets in which the Company has stores, the adoption by competitors of innovative store formats and retail sales methods or the entry of new competitors or the expansion of operations by existing competitors in the Company's markets could have a material adverse effect on the Company's business, financial condition and operating results. In addition, certain of the Company's competitors have substantially greater resources than the Company. The Company believes that the principal strengths with which it competes are its broad selection and competitive prices combined with high level customer service and brand names typically available only in specialty stores and pro shops.

### Properties

The Company currently leases all of its store locations. 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. Leases for ten of the Company's non-superstore format stores have expired or are expiring by the end of fiscal 2001. Two of such stores are occupied on a month-to-month basis, three of such stores are closed and five stores are subject to leases with an option to renew or relocate. The Company regularly evaluates whether to renew store leases in existing locations or to strategically relocate some of the stores to better locations and replace them with larger stores. The Company believes that at store locations where it chooses to remain and renew expired leases, the Company can do so on favorable terms. Leases for the Company's 90 Superstores expire between 2001 and 2018, with three leases expiring in fiscal 2001. The three expiring leases include options to renew. The Company anticipates that all of its new stores will have long-term leases, typically 10-15 years, with multiple five-year renewal options.

Seven of the leases for the Company's stores are with partnerships, the partners of which are certain former officers or directors of Sportmart (including Messr. Larry Hochberg, currently a director of the Company) and their family members (the "Hochberg Partnerships"). In addition, the Company leases from Hochberg Partnerships three stores that the Company no longer occupies but sublets. See "Certain Relationships and Related Transactions."

In addition, as a result of the closing of Sportmart's Canadian subsidiary, the Company remains secondarily liable for two leases the Company has assigned in Canada and is contingently liable behind two other parties with respect to a portion of a third location in Canada. The Company has sublet the former Sportmart corporate offices in Wheeling, Illinois.

The Company owns a vacant retail location in Edmonton, Alberta, Canada, which is being marketed for sale.

The Company also leases its three regional distribution centers. The lease

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for the 240,000 square foot distribution center in Denver, Colorado, expires in 2004 with a ten year renewal option. The lease for the 202,500 square foot distribution center in Fontana, California expires in 2008, assuming all options are exercised. The lease for the 141,000 square foot distribution center in Woodridge, Illinois expires in 2007, assuming all options are exercised. In addition, the Company leases a warehouse in Denver, Colorado. The lease for the 76,000 square

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foot warehouse expires in 2001 and will be replaced with a 100,000 square foot warehouse in Denver, Colorado. The lease for the 100,000 square foot warehouse will expire in 2007, assuming all options are exercised.

### Employees

At March 30, 2001, the Company employed approximately 5,100 individuals, 48% of whom were employed on a full-time basis and 52% of whom were employed on a part-time basis (less than 32 hours per week). Due to the seasonal nature of the Company's business, total employment fluctuates during the year. The Company considers its employee relations to be good. None of the Company's employees are covered by a collective bargaining agreement.

### Trademarks and Tradenames

The Company uses the Gart Sports(R), Gart Sports Superstore(R), Gart Bros. Sporting Goods Company(R), Sniagrab(R), Sportscastle(R) and Gart Sports Company(R) trademarks and trade names, which have been registered with the United States Patent and Trademark Office. Sportmart(R) and Sportmart's corporate logo are federally registered trademarks of the Company. The Company also owns numerous other trademarks and servicemarks which involve the manufacturing of soft goods, advertising slogans, promotional event names and store names used in its business.

### ITEM 3. Legal Proceedings

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

On July 24, 1997, the Internal Revenue System proposed adjustments to the 1992 and 1993 consolidated federal income tax returns of the Company and its former parent company, now Thrifty PayLess Holdings, Inc., a subsidiary of RiteAid Corporation, and the manner in which LIFO inventories were characterized on such returns. See note 19 to the consolidated financial statements.

In June 2000, a former employee of Sportmart brought two class action complaints in California against the Company, alleging certain wage and hour claims in violation of the California Labor Code, California Business and Professional Code section 17200 and other related matters. One complaint alleges that the Company classified certain managers in its California stores as exempt from overtime pay when they would have been classified as non-exempt and paid overtime. The second complaint alleges that the Company failed to pay hourly employees in its California stores for all hours worked. In March 2001, a third class action complaint was filed in the same court in California alleging the same wage and hour violations regarding classification of certain managers as exempt from overtime pay. All the complaints seek compensatory damages, punitive damages and penalties. The amount of damages sought is

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unspecified. Although the court recently denied motions to dismiss the first two complaints, the Company intends to vigorously defend these matters and at this time, the Company has not ascertained the future liability, if any, as a result of these complaints.

### ITEM 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 2000.

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## PART II

### ITEM 5. Market Price of Common Stock and Related Stockholder Matters

The Common Stock began trading on the Nasdaq National Market on January 9, 1998, under the symbol "GRTS." As of March 30, 2001, there were approximately 209 holders of record of Common Stock. The number of holders of Common Stock does not include the beneficial owners of Common Stock 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 sales prices of the Common Stock on the Nasdaq National Market during fiscal 1999 and 2000:

	High	Low
	-----	-----
Fiscal Year 1999		
First quarter.....	\$ 8.125	\$5.750
Second quarter.....	\$ 7.750	\$5.625
Third quarter.....	\$ 7.000	\$4.500
Fourth quarter.....	\$ 6.750	\$4.625
Fiscal Year 2000		
First quarter.....	\$ 6.875	\$5.000
Second quarter.....	\$ 9.250	\$4.750
Third quarter.....	\$13.500	\$8.625
Fourth quarter.....	\$13.438	\$9.125

The Company has never declared or paid any dividends on its Common Stock. The Company plans to retain earnings to finance future growth and has no current plans to pay cash dividends to stockholders. The payment of any future cash dividends will be at the sole discretion of the Company's Board of Directors and will depend upon, among other things, future earnings, capital requirements, and the general financial condition of the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources." In addition, the Company's revolving line of credit limits the amount of dividends that may be declared or paid on the Common Stock.

During fiscal 1999, the Board of Directors authorized a discretionary program to purchase up to \$3,000,000 of its common stock, par value, \$.01 per share, from time to time, on the open market or in privately negotiated transactions using the Company's currently available cash. The Company purchased 156,200 shares of its stock in fiscal 1999 at a cost of approximately \$979,000 and 194,600 shares of its stock at a cost of approximately \$1,191,000 in fiscal 2000. The Company has not purchased any shares of its stock since September 14, 2000. On March 5, 2001, the Board of

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Directors authorized the Company to continue its discretionary share purchase program and authorized the Company to purchase an additional \$3,000,000 of its stock.

### ITEM 6. Selected Consolidated Financial Data

The selected consolidated financial data presented below under the caption "Statement of Operations Data" and "Net cash provided by (used in)" for each of the fiscal years in the three-year period ended February 3, 2001 ("fiscal 2000"), and the "Balance Sheet Data" as of February 3, 2001 and January 29, 2000 are derived from the Company's audited consolidated financial statements. This data should be read in conjunction with the consolidated financial statements of the Company, the notes thereto and with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." The "Statement of Operations Data" and "Net cash provided by (used in)" for each of the fiscal years in the two year period ended January 3, 1998 ("fiscal 1997"), and the 28 day period ended January 31, 1998 ("transition period") and the "Balance Sheet Data" as of January 30, 1999, January 31, 1998, January 3, 1998 and January 4, 1997 are derived from audited consolidated financial statements not included in this report.

During 1995, the Company adopted an annual fiscal reporting period that ends on the first Saturday in January. Accordingly, fiscal 1997 began on January 5, 1997 and ended on January 3, 1998 and included 52 weeks

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of operations. Fiscal 1996 began on January 7, 1996 and ended on January 4, 1997 and included 52 weeks of operations. During 1998, the Company adopted an annual fiscal reporting period that ends on the Saturday closest to the end of January. Accordingly, fiscal 2000 began on January 30, 2000 and ended on February 3, 2001 and included 53 weeks of operations. Fiscal 1999 began on January 31, 1999 and ended on January 29, 2000 and included 52 weeks of operations. Fiscal 1998 began on February 1, 1998 and ended on January 30, 1999 and included 52 weeks of operations.

Management does not believe that the results of operations for the transition period are indicative of future results, due to the effects of seasonality and costs associated with the Sportmart acquisition. Therefore, the results of operations for the transition period are not comparable to other presented periods. The results for fiscal years 2000, 1999 and 1998 are comparable to each other, but these results are not comparable to the transition period ended January 31, 1998 or fiscal 1997 and 1996, which represent the results of Gart Sports only, before the acquisition of Sportmart.

	Fiscal Years			28 days ended January 31, 1998	Fiscal Years	
	2000	1999	1998		1997	1996
(Dollars in thousands, except share and per share amounts)						
STATEMENT OF OPERATIONS						
DATA:						
Net sales.....	\$ 751,124	\$ 680,995	\$ 658,047	\$ 38,825	\$ 228,379	\$ 204,
Cost of goods sold, buying, distribution and occupancy.....	(559,778)	(517,405)	(503,379)	(31,924)	(164,289)	(148,
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Gross profit.....	191,346	163,590	154,668	6,901	64,090	55,
Operating expenses.....	(164,830)	(150,985)	(148,348)	(11,360)	(52,721)	(47,
Merger integration costs.....	--	--	(2,923)	(3,377)	(395)	
Operating income (loss).....	26,516	12,605	3,397	(7,836)	10,974	8,
Interest expense.....	(11,071)	(10,615)	(9,302)	(525)	(983)	(1,
Other income, net.....	246	779	302	38	776	
Income (loss) before income taxes.....	15,691	2,769	(5,603)	(8,323)	10,767	7,
Income tax benefit (expense).....	7,405	(996)	2,185	318	(4,083)	(2,
Net income (loss).....	\$ 23,096	\$ 1,773	\$ (3,418)	\$ (8,005)	\$ 6,684	\$ 4,
Basic earnings (loss) per share.....	\$ 3.13	\$ 0.23	\$ (0.45)	\$ (1.11)	\$ 1.21	\$ 0
Weighted average shares of common stock outstanding.....	7,380,529	7,632,696	7,676,816	7,212,267 (1)	5,501,673	5,512,
Diluted earnings (loss) per share.....	\$ 2.99	\$ 0.23	\$ (0.45)	\$ (1.11)	\$ 1.19	\$ 0
Weighted average shares of common stock and common stock equivalents outstanding.....	7,729,601	7,701,427	7,676,816	7,212,267	5,596,823	5,512,
OTHER DATA:						
Number of stores at beginning of period....	127	125	123	63	60	
Number of stores opened or acquired.....	--	7	6	60 (2)	5	
Number of stores closed.....	(7)	(5)	(4)	--	(2)	
Number of stores at end of period.....	120	127	125	123	63	
Total gross square feet at end of period.....	4,517,122	4,600,738	4,361,335	4,206,197	1,605,963	1,453,
Comparable store sales increase (decrease) (3).....	6.4%	(0.6%)	(4.5%)	10.0%	5.6%	4
EBITDA(4).....	\$ 41,538	\$ 27,577	\$ 15,043	\$ (6,633)	\$ 15,040	\$ 12,
NET CASH PROVIDED BY (USED IN):						
Operating activities...	24,053	1,326	16,289	(15,395)	7,838	21,
Investing activities...	(12,385)	(8,806)	(15,561)	483	(3,720)	(2,
Financing activities...	(11,404)	4,544	(6,321)	18,326	40	(16,
BALANCE SHEET DATA (at end of period):						
Working capital.....	\$ 113,324	\$ 104,853	\$ 94,439	\$ 108,844	\$ 39,886	\$ 34,
Total assets.....	335,128	344,085	335,119	319,435	121,291	96,
Long-term debt.....	95,900	105,900	100,000	105,600	--	
Redeemable common stock, net.....	--	--	--	--	1,904	

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Stockholders' equity...	88,886	65,894	63,466	68,757	42,613	36,
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- (1) The Company acquired Sportmart, Inc. ("Sportmart") on January 9, 1998 in a transaction involving the issuance of 2,180,656 shares of the Company's Common Stock, par value \$.01 (the "Common Stock"), in exchange for all the outstanding common stock of Sportmart.
- (2) Represents the 59 Sportmart stores acquired on January 9, 1998 and one new store opened in January 1998.
- (3) Stores enter the comparable store sales base at the beginning of their 14th month of operation. The 59 Sportmart stores acquired on January 9, 1998, are included in comparable store sales bases utilizing historical Sportmart comparable store data.
- (4) EBITDA is earnings (loss) before income taxes plus interest expense and other financing costs and depreciation and amortization. Gart Sports believes that, in addition to cash flows from operations and net income (loss), EBITDA is a useful financial performance measure for assessing operating performance as it provides an additional basis to evaluate the ability of Gart Sports to incur and service debt and to fund capital expenditures. In evaluating EBITDA, Gart Sports believes that consideration should be given, among other things, to the amount by which EBITDA exceeds interest costs for the period, how EBITDA compares to principal repayments on debt for the period and how EBITDA compares to capital expenditures for the period. To evaluate EBITDA, the components of EBITDA such as revenue and operating expenses and the variability of such components over time should also be considered. EBITDA should not be construed, however, as an alternative to operating income (loss) (as determined in accordance with accounting principles generally accepted in the United States of America ("GAAP")) as an indicator of Gart Sports' operating performance or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Gart Sports' method of calculating EBITDA may differ from methods used by other companies, and as a result, EBITDA measures disclosed herein may not be comparable to other similarly titled measures used by other companies.

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### 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 the notes thereto and the Company's consolidated financial statements and notes thereto, included elsewhere in this report.

In fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information", which establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, major customers and the significant countries in which the entity holds assets and reports revenue. The Company is a leading retailer of sporting goods in the midwest and western United States. Given the economic characteristics of the store formats, the similar nature of the products sold, the type of customer and method of distribution, the operations of the Company are aggregated in one reportable segment.

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### 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 2000		Fiscal 1999		Fiscal 1998	
	Dollars	%	Dollars	%	Dollars	%
Net sales.....	\$751.1	100.0%	\$681.0	100.0%	\$658.0	100.0%
Cost of goods sold, buying, distribution and occupancy...	559.8	74.5	517.4	76.0	503.4	76.5
Gross profit.....	191.3	25.5	163.6	24.0	154.6	23.5
Operating expenses.....	164.8	21.9	151.0	22.2	148.3	22.5
Merger integration costs.....	--	--	--	--	2.9	0.4
Operating income.....	26.5	3.6	12.6	1.8	3.4	0.6
Interest expense.....	11.0	1.5	10.6	1.5	9.3	1.4
Other income, net.....	0.2	--	0.8	0.1	0.3	--
Income (loss) before income taxes.....	15.7	2.1	2.8	0.4	(5.6)	(0.8)
Income tax benefit (expense)..	7.4	1.0	(1.0)	(0.1)	2.2	0.3
Net income (loss).....	\$ 23.1	3.1%	\$ 1.8	0.3%	\$ (3.4)	(0.5)%
Number of stores at end of period.....	120		127		125	

The following table sets forth pro-forma fiscal year 2000 results excluding the effect of the significant tax benefit and utilizing statutory tax rates (dollars rounded to millions, except share and per share amounts):

	Pro-forma Fiscal 2000	
	Dollars	%
Income before income taxes....	\$ 15.7	2.1%
Income tax expense.....	(6.1)	(0.8)
Net income.....	\$ 9.6	1.3%
Earnings per share:		
Basic.....	\$ 1.30	
Diluted.....	\$ 1.24	
Basic weighted average shares outstanding.....	7,380,529	
Diluted weighted average shares outstanding.....	7,729,601	

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Newly opened stores enter the comparable store sales base at the beginning of their 14th month of operation. The 59 Sportmart stores acquired on January 9, 1998 are included in the comparable store sales base utilizing historical Sportmart comparable store data.

Inventories are stated at the lower of last-in, first-out ("LIFO") cost or market. The Company considers cost of goods sold to include the direct costs of merchandise, plus certain internal costs associated with procurement, warehousing, handling and distribution. In addition to the full cost of inventory, cost of goods sold includes related occupancy costs and amortization and depreciation of leasehold improvements and rental equipment. Operating expenses include controllable and non-controllable store expenses (except occupancy), non-store expenses and depreciation and amortization not associated with cost of goods sold.

Fiscal 2000 as compared to Fiscal 1999

Net Sales. Net sales increased \$70.1 million, or 10.3%, to \$751.1 million in fiscal 2000 compared to \$681.0 million in fiscal 1999. Fiscal 2000 consisted of 53 weeks compared to 52 weeks for fiscal 1999. After adjusting for \$11.4 million of net sales contributed by the additional operating week in fiscal 2000, total revenues would have increased by 8.6% to \$739.7 million on a 52-week basis. Comparable store sales increased 6.4% for the comparable 52-week period, primarily due to increased sales in all categories, particularly in hardgoods, outdoor products, and apparel categories. Hardgoods sales increased as a result of strong sales of bicycles and scooters, exercise fitness equipment and athletic hardgoods. Sales of outdoor products were strong as a result of a good winter snow season, which resulted in increased sales of skis and snowboards. Apparel sales were driven by strong sales of ski apparel and ladies activewear.

Gross Profit. Gross profit for fiscal 2000 was \$191.3 million or 25.5% of net sales as compared to \$163.6 million or 24.0% of net sales for fiscal 1999. The increase is primarily due to increased merchandise margins in most departments as a result of improved buying disciplines, more consistency in the product offerings and increased utilization of the Company's automated inventory replenishment purchasing and allocation system. Also, occupancy costs decreased as a percent of sales principally due to the leveraging of the fixed component of this expense category with higher net sales.

Operating Expenses. Operating expenses in fiscal 2000 were \$164.8 million, or 21.9% of net sales compared to \$151.0 million, or 22.2% of net sales for fiscal 1999. As a percentage of sales, operating expenses decreased 0.3 percentage points compared to fiscal 1999 due to improved sales and continued cost controls. The increase in dollars is primarily due to increased store payroll in response to increased store traffic, an increase in bonuses earned for fiscal 2000 and the additional expenses incurred due to the extra operating week in fiscal 2000.

Operating Income. As a result of the factors described above, operating income for fiscal 2000 was \$26.5 million or 3.6% of net sales compared to \$12.6 million or 1.8% of net sales in fiscal 1999.

Interest Expense. Interest expense for fiscal 2000 increased to \$11.0 million, or 1.5% of net sales, from \$10.6 million, or 1.5% of net sales. Interest expense was flat as a percentage of sales and increased only slightly

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in dollars as a result of a higher effective interest rate for fiscal 2000 as compared to fiscal 1999.

**Income Taxes.** The Company's income tax benefit for fiscal 2000 was \$7.4 million compared to an income tax expense of \$1.0 million in fiscal 1999. The income tax benefit in the current year reflects the reversal of valuation allowances, which had offset previously generated deferred tax assets. The Company's effective tax rate for fiscal 2000 was a benefit of 47.2% compared to an expense of 36.0% in fiscal 1999.

Fiscal 1999 as compared to Fiscal 1998

**Net Sales.** Net sales increased \$23.0 million, or 3.5%, to \$681.0 million in fiscal 1999 compared to \$658.0 million in fiscal 1998. The increase in net sales is primarily attributed to the opening of seven new superstores resulting in \$22.2 million in net sales and \$4.4 million of increased sales from new stores opened late in fiscal

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1998, which were not yet considered comparable, partially offset by \$3.6 million in lost sales from the closing of five smaller format stores. Comparable store sales decreased 0.6% for the same period, primarily due to lower sales in licensed apparel, footwear, and in-line skates. The decrease in licensed apparel is primarily due to the Denver Broncos not repeating as Super Bowl champions. The footwear and in-line skate segments of the industry continued to be very competitive in fiscal 1999. The decline in sales of these items was partially offset by strong sales of outdoor products and hardgoods.

**Gross Profit.** Gross profit for fiscal 1999 was \$163.6 million or 24.0% of net sales as compared to \$154.6 million or 23.5% of net sales for fiscal 1998. The increase in gross profit is primarily a result of the synergies realized from the acquisition of Sportmart and improved assortment management and buying disciplines. These increases were partially offset by higher occupancy costs due to new stores opened in fiscal 1999.

**Operating Expenses and Merger Integration Costs.** Operating expenses in fiscal 1999 were \$151.0 million, or 22.2% of net sales compared to \$151.2 million, or 22.9% of net sales for fiscal 1998. There were no integration costs in fiscal 1999. In fiscal 1998, the Company incurred \$6.0 million of merger integration costs. Of these costs, \$2.9 million were recorded as a non-recurring charge, and \$3.1 million were included in other operating expenses. These costs consist primarily of professional fees, stay bonuses to employees at the Sportmart corporate headquarters, travel and moving expenses, costs associated with re-ticketing merchandise in the Sportmart stores, and expenses to keep the Sportmart corporate office open during the first part of fiscal 1998. Excluding integration costs from fiscal 1998, operating expenses increased from \$145.2 million or 22.1% of net sales in fiscal 1998 to \$151.0 million or 22.2% of net sales in fiscal 1999. This increase is primarily due to the increase in the number of superstores compared to the prior year and bonuses earned in fiscal 1999.

**Operating Income.** As a result of the factors described above, operating income for fiscal 1999 was \$12.6 million or 1.8% of net sales compared to \$3.4 million or 0.6% of net sales in fiscal 1998.

**Interest Expense.** Interest expense for fiscal 1999 increased to \$10.6 million, or 1.5% of net sales, from \$9.3 million, or 1.4% of net sales. The increase from the prior year is primarily due to an increase in average interest-bearing debt for the year attributable to new store inventories and an increase in the effective borrowing rate as a result of rising interest

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rates.

Income Taxes. The Company's income tax expense for fiscal 1999 was \$1.0 million compared to an income tax benefit of \$2.2 million in fiscal 1998. The Company's effective tax rate decreased to 36% in fiscal 1999, from 39% in fiscal 1998, as a result of lower state taxes.

### Liquidity and Capital Resources

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

#### Cash Flow Analysis (dollars in thousands, except ratios)

	Fiscal 2000 -----	Fiscal 1999 -----	Fiscal 1998 -----
Cash provided by operating activities.....	\$ 24,053	\$ 1,326	\$ 16,289
Cash used in investing activities.....	(12,385)	(8,806)	(15,561)
Cash provided by (used in) financing activities.....	(11,404)	4,544	(6,321)
Capital expenditures.....	\$ 12,550	\$ 11,957	\$ 14,331
Long-term debt (at end of period).....	95,900	105,900	100,000
Working capital (at end of period).....	113,324	104,853	94,439
Current ratio (at end of period).....	1.80	1.66	1.60
Long-term debt to equity ratio (at end of period).....	1.08	1.61	1.58

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Cash provided by operating activities in fiscal 2000 was primarily the result of net income, adjusted for depreciation and amortization, deferred income taxes, and decreases in inventory, partially offset by decreases in accounts payable.

Cash used in investing activities in fiscal 2000 was for capital expenditures. These expenditures were primarily for the remodeling of existing stores and the purchase or enhancement of certain information systems.

Cash used in financing activities in fiscal 2000 represents net payments on borrowings on the Company's revolving line of credit and purchases of treasury stock.

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

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require the Company to maintain a specified minimum level of net worth at all times and restrict the Company's ability to pay dividends. Loan interest is payable monthly at Chase Manhattan Bank's prime rate plus a margin rate that cannot exceed 0.25% or, at the option of the Company, at Chase Manhattan Bank's LIBOR rate plus a margin that cannot exceed 1.75%. The margin rates on prime and LIBOR borrowings have been reduced since the first quarter of fiscal 2000, as certain earnings levels have been achieved, to 0.0% and 1.50%, respectively. There was \$119.5 million outstanding under the Credit Agreement at March 3, 2001, and \$36.4 million was available for borrowing. The increase in long-term debt since fiscal year end 2000 is primarily attributable to seasonal inventory purchases and decreases in accounts payable.

The Internal Revenue Service has proposed adjustments to the 1992 and 1993 consolidated federal income tax returns of the Company and its former parent, now Thrifty PayLess Holdings, Inc., a subsidiary of RiteAid Corporation, due to the manner in which LIFO inventories were characterized on such returns. Based on management's discussion with the Company's former parent, the Company believes the potential accelerated tax liability, which could have a negative effect on liquidity in the near term, ranges from approximately \$2,500,000 to \$9,700,000. See note 19 to the consolidated financial statements.

Capital expenditures, on a stand-alone basis, are projected to be approximately \$15 to \$17 million in fiscal 2001. These capital expenditures will be for new store openings, store remodeling, store fixtures, information systems, and distribution center facilities. The Company leases all of its store locations and intends to continue to finance its new stores with long-term operating leases. Based upon historical data, newly constructed superstores require a cash investment of approximately \$1.8 million for a 40,000 square foot store and \$1.5 million for a 33,000 square foot store. Superstores constructed in existing retail space historically have required additional capital investments of approximately \$700,000 in leasehold improvements per location. The level of capital improvements will be affected by the mix of new construction versus renovation of existing retail space.

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

In conjunction with the pending acquisition of Oshman's, the Company received a commitment from CIT to increase its revolving line of credit from \$175 million to \$300 million. The Company believes that the available resources under the revised line of credit, combined with cash generated from operations, will be sufficient to fund the combined entity, the costs incurred to integrate Oshman's with the Company as well as non-recurring costs incurred as a result of this transaction.

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### Foreign Currency and Interest Rate Risk Management

In connection with the Sportmart acquisition, certain derivative financial instruments were acquired. The instruments were utilized to reduce interest rate and foreign currency exchange risks. The Company does not use derivatives for speculative trading purposes.

The assumed contracts consisted of one interest rate cap agreement and various foreign currency option contracts. These agreements were transferred from Sportmart's credit agreement to the Company's credit agreement. The interest rate cap agreement was for a notional amount totaling \$25.0 million,

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placed an interest rate ceiling on LIBOR at 6.0% and expired in August 1999.

In connection with its Canadian operations (which were closed in 1997), Sportmart had entered into foreign currency contracts to hedge intercompany loans and other commitments in currencies other than its Canadian subsidiary's functional currency. All of these foreign currency contracts expired prior to fiscal 1998.

### Seasonality and Inflation

The following table sets forth the Company's unaudited consolidated quarterly results of operations for each of the quarters in fiscal 2000 and 1999. 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 2000 (dollars in millions)

	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----
Net sales.....	\$165.7	\$187.6	\$166.1	\$231.7
% of full year net sales.....	22.1%	25.0%	22.1%	30.8%
Operating income.....	\$ 3.2	\$ 7.0	\$ 2.8	\$ 13.5

#### Fiscal 1999 (dollars in millions)

Net sales.....	\$151.9	\$172.6	\$155.5	\$201.0
% of full year net sales.....	22.3%	25.4%	22.8%	29.5%
Operating income (loss).....	\$ 1.9	\$ 3.6	\$ (1.5)	\$ 8.6

The fourth quarter has historically been the strongest quarter for the Company. For fiscal 2000 and 1999 the fourth quarter contributed 30.8% and 29.5%, respectively, of net sales. Comparable store sales for the 13 weeks ended January 27, 2001 increased 10.1% and 9.8% for the 14 week period ended February 3, 2001. The Company believes 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; second, holiday sales contribute significantly to the Company's operating results. As a result of these factors, inventory levels, which gradually increase beginning in April, generally reach their peak in November and then decline to their lowest level following the December holiday season. Any decrease in sales for the fourth quarter, whether due to a slow holiday selling season, poor snowfall in ski areas near the Company's markets or otherwise, could have a material adverse effect on the Company's business, financial condition and operating results for the entire fiscal year.

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



Impact of Recent Accounting Pronouncements

Beginning in fiscal 1999, the Company began expensing pre-opening costs in the period in which they are incurred in conformity with Statement of Position 98-5 ("SOP 98-5") "Reporting on the Costs of Start-Up Activities". SOP 98-5 broadly defines start-up activities as those one-time activities related to, among other things, opening a new facility. Prior to fiscal 1999, the Company capitalized such costs and amortized the balance over the fiscal year in which it opened the new facility. The implementation of SOP 98-5 slightly affects quarterly results; however on an annual basis, there is no financial impact. Generally, the Company incurs approximately \$125,000 of pre-opening costs per new store.

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

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". This staff accounting bulletin summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. This statement was adopted by the Company during the fourth quarter of fiscal 2000 and did not have a material impact on results of operations or financial position.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company's primary interest rate risk exposure results from the Company's long-term debt agreement. The Company's long-term debt bears interest at variable rates that are tied to either the U.S. prime rate or LIBOR at the time of the borrowing. At the end of each 90-day period, the interest rates on the Company's outstanding borrowings are changed to reflect current prime or LIBOR rates. Therefore, the Company's interest expense changes as prime or LIBOR change.

Historically, the Company has not relied upon derivative financial instruments to mitigate the risk associated with changes in interest rates. However, in connection with the Sportmart acquisition, the Company acquired one interest rate cap agreement that Sportmart had used to reduce its interest rate risk. The interest rate cap was used to lock in a maximum rate if interest rates rose, but enabled the Company to otherwise pay lower market rates. The cap agreement was for a notional amount totaling \$25.0 million, placed an interest rate ceiling on LIBOR of 6.0%, and expired in August 1999.

Based on the Company's overall interest rate exposure at February 3, 2001, a hypothetical instantaneous increase or decrease of one percentage point in interest rates applied to all financial instruments would change the Company's after-tax earnings by approximately \$585,000 over a 12-month period.

The Company's exposure to foreign currency exchange rates is limited because the Company does not operate any stores outside of the United States. In

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connection with the acquisition of Sportmart, the Company acquired one store in Canada, which Sportmart had closed prior to the acquisition. The Company is currently attempting to sell this store (see Item 2 -- Properties discussion). The Company does not consider the market risk exposure relating to foreign currency exchange to be material. Foreign currency fluctuations did not have a material impact on the Company during fiscal 2000, 1999, or 1998.

The fair value of the Company's investments in marketable equity securities at February 3, 2001 was \$274,000. The fair value of these investments will fluctuate as the quoted market prices of such securities fluctuate. Based on the Company's marketable equity securities portfolio and quoted market prices at February 3, 2001, a 50% increase or decrease in the market price of such securities would result in an increase or decrease of approximately \$137,000 in the fair value of the marketable equity securities portfolio. Although changes in

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quoted market prices may affect the fair value of the marketable equities securities portfolio and cause unrealized gains or losses, such gains or losses would not be realized unless the investments are sold or determined to have a decline in value which is other than temporary.

As of February 3, 2001, the fair value of the Company's investments in marketable equity securities was \$226,000 less than the adjusted basis of those investments. Such unrealized holding loss has not been recognized in the Company's consolidated statement of operations, but rather has been recorded as a component of stockholders' equity in other comprehensive loss. The actual gain or loss that the Company will realize when such investments are sold will depend on the fair value of such securities at the time of sale.

### 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

The Company filed a Current Report on Form 8-K with the Commission dated May 16, 2000 to report, under Item 4, that the registrant engaged Deloitte & Touche LLP as its independent auditor for the fiscal year ended February 3, 2001. The decision to engage Deloitte & Touche LLP was approved by the Registrant's Audit Committee. The Registrant dismissed its former independent auditor, KPMG LLP ("KPMG") effective upon the appointment of Deloitte & Touche LLP.

KPMG's report on the Registrant's financial statements for the fiscal years ended January 29, 2000 and January 30, 1999 did not contain an adverse opinion or a disclaimer of opinion, nor was the report modified as to uncertainty, audit scope or accounting principles. For the past two fiscal years and during the subsequent interim period preceding the date of the change in independent auditor there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure that would have caused KPMG to make reference in their report to such disagreements.

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## PART III

### ITEM 10. Directors and Executive Officers of the Registrant

The executive officers and directors of the Company are as follows:

Name -----	Age ---	Position -----
John Douglas Morton.....	50	President, Chief Executive Officer and Chairman of the Board
Thomas T. Hendrickson...	46	Executive Vice President, Chief Financial Officer and Treasurer
Greg Waters.....	40	Senior Vice President -- Store Operations
Arthur S. Hagan.....	62	Senior Vice President -- Merchandising
James M. Van Alstyne....	40	Senior Vice President -- Merchandising
Michael McCaghren.....	41	Senior Vice President -- Chief Information Officer
Nesa E. Hassanein.....	48	Senior Vice President -- General Counsel and Secretary
Anthony Forde.....	45	Senior Vice President -- Merchandise Allocation and Marketing
Jonathan D. Sokoloff....	43	Director
Jonathan A. Seiffer.....	29	Director
Gordon D. Barker.....	55	Director
Peter R. Formanek.....	57	Director
Larry J. Hochberg.....	63	Director

John Douglas Morton. Mr. Morton became President, Chief Executive Officer and Chairman of the Board in May 1995. Mr. Morton joined Gart Sports in 1986 as Division Manager of Gart Sports' Utah region. In 1988 he was promoted to Division Vice President of that region and in 1990 to Vice President of Operations for Gart Sports. In 1994 Mr. Morton was promoted to Executive Vice President of Gart Sports with responsibility for Stores, Distribution and Marketing. Prior to joining Gart Sports he served in various positions with Wolfe's Sporting Goods (a seven-store sporting goods retailer) from 1972 to 1980 including Merchandise Manager -- Ski, Camping, Golf and Tennis, Store Manager, and Operations Manager. From 1980 until joining Gart Sports he served as a District Manager for Malone and Hyde's sporting goods division (a 40-store retail sporting goods retailer). Mr. Morton has worked for over 30 years in the sporting goods retail industry.

Thomas T. Hendrickson. Mr. Hendrickson became Executive Vice President, Chief Financial Officer and Treasurer of the Company in 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 he 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.

Greg Waters. Mr. Waters joined the Company in April 1998 as Senior Vice President -- Store Operations. Prior to joining the Company, Mr. Waters served as the western Regional Vice President for The Sports Authority since 1994 and as a District Manager for The Sports Authority since 1991. Mr. Waters was employed by Herman's World of Sporting Goods from 1983 until 1991, most recently as a District Manager.

Arthur S. Hagan. Mr. Hagan became Senior Vice President -- Merchandising in January 1998. Mr. Hagan joined the Company in 1988 as the Company's Division Merchandise Manager for Golf, Tennis, Ski Clothing/Equipment and Garden Furniture and was promoted to Vice President Store Operations in 1995 and to Senior Vice President -- Store Operations in May 1997. He was President and

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owner of Hagan Sports Ltd. (a six-store sporting goods retailer acquired by the Company in 1987) and President and Chief Executive Officer of Aspen Leaf of Colorado, Inc. (a 12-store ski equipment and apparel retailer). Mr. Hagan has over 30 years retailing experience.

James M. Van Alstyne. Mr. Van Alstyne became Senior Vice President -- Merchandising in April 2000. Mr. Van Alstyne joined the Company in 1986 as a Buyer and held that position until 1993. Mr. Van Alstyne

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returned to the Company in 1998 as Vice President Merchandising -- Hardlines and held that position until April 2000. Prior to rejoining the Company, Mr. Van Alstyne served as Western Regional Sales Manager, National Sales Manager and then Vice President of Sales for the U.S., Latin America and Australia for Easton Sports, Inc. from 1993 to 1998.

Michael McCaghren. Mr. McCaghren became Senior Vice President -- Chief Information Officer of the Company in March 1999. Prior to joining the Company, he was most recently Senior Vice President -- Systems, Merchandise Planning, Allocation and Replenishment, Logistics and Corporate Administration at Jumbo Sports (a sporting goods retailer) where he was employed from 1997 to 1999. Before joining Jumbo Sports, for approximately one year, Mr. McCaghren was National Director at GSI Outsourcing Inc., an information systems outsourcing subsidiary of ADP, Inc. From 1991 to 1996, he was Senior Vice President and Chief Information Officer of Eli Witt Company, a grocery wholesaler.

Nesa E. Hassanein. Ms. Hassanein became Senior Vice President and General Counsel in June 2000. Ms. Hassanein joined Gart Sports in July 1998 as Vice President and Corporate Counsel. Prior to joining Gart Sports, Ms. Hassanein served as Senior Vice President and General Counsel for Atlas Air Inc. during 1997. Ms. Hassanein previously served as a partner with Morrison & Foerster, LLP from 1995 to 1997, 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.

Anthony Forde. Mr. Forde became Senior Vice President -- Marketing & Merchandise Allocations in June of 2000. He joined Gart Sports in January of 1998 as Vice President -- Merchandise Allocations. Prior to joining Gart Sports, Mr. Forde was Vice President -- Merchandising Allocations for Thrifty Payless. Since 1980, he served as store manager, district manager, category manager and visual director for Phar Mor and Giant Eagle. Mr. Forde has over 25 years of retail experience.

Jonathan D. Sokoloff. Mr. Sokoloff became a Director of the Company in April 1993. Mr. Sokoloff has been a partner of Leonard Green & Associates, L.P. ("LGA"), a merchant banking firm and the general partner of Green Equity Investors, L.P. ("GEI"), the holder of approximately 64.0% of the outstanding Common Stock, 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 & Partners, L.P. ("LGP"), a merchant banking firm affiliated with LGA, since its formation in 1994, and is also a director of Twinlab Corporation (a manufacturer and marketer of nutritional supplements), RiteAid Corporation (a national drug store chain) and several private companies.

Jonathan A. Seiffer. Mr. Seiffer became a Director of the Company in December 1998. Since January 1999, Mr. Seiffer has been a partner of LGP. From December 1997 to January 1999, Mr. Seiffer was a Vice President of LGP. From October 1994 until December 1997, Mr. Seiffer was an associate at LGP. Prior

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to October 1994, Mr. Seiffer was a member of the corporate finance department of Donaldson, Lufkin & Jenrette Securities Corporation. He is also a director of several private companies.

Gordon D. Barker. Mr. Barker became a Director of the Company in April 1998. Mr. Barker was the Chief Executive Officer and a Director of Thrifty Payless Holdings, Inc. ("Thrifty Payless"), 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 is also a director of United Natural Foods (a distributor of natural food products) listed under the NASDAQ Exchange symbol UNFI. Mr. Barker also currently serves as C.E.O. of Snyder Drug Stores, a mid-western chain of approximately 150 corporate and affiliate drug stores.

Peter R. Formanek. Mr. Formanek became a Director of the Company 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. He currently is a director of The

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Perrigo Company, a manufacturer of store brand over-the-counter drug products and vitamins, and Borders Group, Inc., the second largest operator of book superstores and the largest operator of mall-based bookstores in the United States.

Larry J. Hochberg. Mr. Hochberg became a Director of the Company in April 1998. Mr. Hochberg served as a Director of Sportmart from the time he co-founded it in 1970 until Sportmart's acquisition by Gart Sports in January 1998. Mr. Hochberg also co-founded Children's Bargain Town (now part of Toys "R" Us) which he sold in 1969. Mr. Hochberg is a graduate of Northwestern University School of Law. He served on the Executive Committee and the Board of Directors of the International Mass Retailing Association from 1993 to 1998. Mr. Hochberg currently is a member of the executive committee of the Jewish Federation of Metropolitan Chicago.

The remaining information required by this Item 10 is incorporated herein by reference, when filed, to the Company's Proxy Statement for its 2001 Annual Meeting of Stockholders expected to be filed no later than June 4, 2001.

### 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 the Company's Proxy Statement for its 2001 Annual Meeting of Stockholders expected to be filed no later than June 4, 2001.

### ITEM 12. Security Ownership of Certain Beneficial Owners and Management

Information required to be set forth in Item 12 has been omitted and will be incorporated herein by reference, when filed, to the Company's Proxy Statement for its 2001 Annual Meeting of Stockholders expected to be filed no later than June 4, 2001.

### ITEM 13. Certain Relationships and Related Transactions

Information required to be set forth in Item 13 has been omitted and will be incorporated herein by reference, when filed, to the Company's Proxy Statement for its 2001 Annual Meeting of Stockholders expected to be filed no later than

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June 4, 2001.

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## PART IV

### ITEM 14. Exhibits, Financial Statement Schedules, And Reports on Form 8-K

#### (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:

Exhibit Number -----	Description -----
2.1	-- Agreement and Plan of Merger, dated as of February 21, 2001, by and among Gart Sports Company, GSC Acquisition Corp. and Oshman's Sporting Goods, Inc. (incorporated by reference to the Registrant's Report on Form 8-K filed March 1, 2001)
3.1	-- Amended and Restated Certificate of Incorporation of Registrant (incorporated by reference to the Registrant's Registration Statement, File No. 333-42355)
3.2	-- Amended and Restated Bylaws of Registrant (incorporated by reference to the Registrant's Registration Statement, File No. 333-42355)
4.1	-- Form of Common Stock Certificate (incorporated by reference to the Registrant's Registration Statement, File No. 333-42355)
10.1	-- Financing Agreement between The CIT Group/Business Credit, Inc. (as Agent and a Lender) and Gart Bros Sporting Goods Company and Sportmart, Inc., dated January 9, 1998 (incorporated by reference to the Registrant's Report on Form 8-K filed January 13, 1998)
10.2	-- Registration Rights Agreement between Registrant and certain former shareholders of Sportmart, Inc. (incorporated by reference to the Registrant's Registration Statement, File No. 333-42355)
10.3	-- Registration Rights Agreement between Registrant and Green Equity Investors, L.P. (incorporated by reference to the Registrant's Report on Form 8-K filed January 13, 1998)
10.4	-- Gart Sports 1994 Management Equity Plan (incorporated by reference to the Registrant's Registration Statement, File No. 333-42355)

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- 10.4a -- Amendment to Gart Sports Management Equity Plan (incorporated by reference to the Registrant's Form 14-A filed May 7, 1999)
- 10.5 -- Gart Sports Employee Benefit Plan (incorporated by reference to the Registrant's Registration Statement, File No. 333-42355)
- 10.6 -- Form of Executive Severance Agreements (incorporated by reference to the Registrant's Report on Form 10-K for the period ended January 30, 1999, File No. 000-23515)
- 10.7 -- Consulting Agreements between Registrant and Larry J. Hochberg and Andrew S. Hochberg (incorporated by reference to the Registrant's Registration Statement, File No. 333-42355)

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Exhibit Number -----	Description -----
10.8	-- Management Services Agreement among Registrant, Gart Bros. Sporting Goods Company and Leonard Green & Associates, L.P. (incorporated by reference to the Registrant's Registration Statement, File No. 333-42355)
10.9	-- Tax Indemnity Agreement dated as of September 25, 1992 among Pacific Enterprises, TCH Corporation, Thrifty Corporation and Big 5 Holdings, Inc. (incorporated by reference to the Registrant's Registration Statement, File No. 33-69118)
10.10	-- Tax Sharing Agreement dated as of September 25, 1992 among TCH Corporation and its then subsidiaries, including the Registrant (incorporated by reference to the Registrant's Registration Statement, File No. 333-42355)
10.11	-- Indemnification Allocation Agreement dated April 20, 1994 among Thrifty Payless Holdings, Inc., the Registrant and MC Sports Company (incorporated by reference to the Registrant's Registration Statement, File No. 333-42355)
10.12	-- Indemnification and Reimbursement Agreement dated April 20, 1994 among Thrifty Payless Holdings, Inc., and its then subsidiaries, including the Registrant (incorporated by reference to the Registrant's Registration Statement, File No. 333-42355)
10.13	-- Sportmart, Inc. 1996 Restricted Stock Plan (as amended and restated) (incorporated by reference to Sportmart, Inc.'s Report on Form 10-Q for the quarter ended July 28, 1996, File No. 000-20672)
10.14	-- Sportmart, Inc. Stock Option Plan, as amended (incorporated by reference to Sportmart, Inc.'s Registration Statement, File No. 33-50726)

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- 10.15 -- Lease between Sportmart, Inc. and American National Bank and Trust Company, as Trustee under Trust No. 32490 for the Sportmart store in Calumet City, Illinois, as amended (incorporated by reference to Sportmart, Inc.'s Registration Statement, File No. 33-50726)
- 10.16 -- Lease between Sportmart, Inc. and American National Bank and Trust Company, as Trustee under Trust No. 54277 for the Sportmart store in Chicago (Lakeview), Illinois, as amended (incorporated by reference to Sportmart, Inc.'s Registration Statement, File No. 33-50726)
- 10.17 -- Lease between Sportmart, Inc. and American National Bank and Trust Company, as Trustee under Trust No. 56691 for the Sportmart store in Wheeling, Illinois, as amended (incorporated by reference to Sportmart, Inc.'s Registration Statement, File No. 33-50726)
- 10.18 -- Lease between Sportmart, Inc. and Lake County Trust Company, as Trustee under Trust No. 3737 for the Sportmart store in Merrillville, Indiana, as amended (incorporated by Reference to Sportmart, Inc.'s Registration Statement, File No. 33-50726)
- 10.19 -- Lease between Sportmart, Inc. and North Riverside Limited Partnership for the facility in North Riverside, Illinois, as amended (incorporated by reference to Sportmart, Inc.'s Registration Statement, File No. 33-50726)
- 10.20 -- Lease between Sportmart, Inc. No Contest division and North County Associates, L.P. for the Sportmart No Contest store in Ferguson, Missouri, as amended (incorporated by reference to Sportmart, Inc.'s Registration Statement, File No. 33-50726)

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Exhibit Number -----	Description -----
10.21	-- Agency Agreement between Registrant and Hilco/Great American Group, Inc. (incorporated by reference to Sportmart, Inc.'s Report on Form 10-K for the year ended February 2, 1997, File No. 000-20672)
10.22	-- First Amendment to Lease between Sportmart, Inc. and Roosevelt Associated Limited Partnership for the Sportmart store at Lombard, Illinois (incorporated by reference to Sportmart, Inc.'s Report on Form 10-K for the year ended February 2, 1997, File No. 000-20672)
10.23	-- Lease between Sportmart, Inc. and American National Bank and Trust Company of Chicago as Trustee under Trust No. 42371 for the Sportmart store in Schaumburg, Illinois (incorporated by reference to Sportmart, Inc.'s Report on Form 10-K for the year ended February 2, 1997, File No. 000-20672)



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- 10.23a -- Amendment to Lease between Sportmart, Inc. and American National Bank and Trust Company, as Trustee under Trust No. 42371 for the Sportmart store in Schaumburg, Illinois, as amended (incorporated by reference to the Registrant's Report on Form 10-K for the period ended January 29, 2000, File No. 000-23515)
- 10.24 -- Lease between Sportmart, Inc. and H-C Developers, as Agent for American National Bank and Trust Company of Chicago, as Trustee under Trust No. 30426 for the Sportmart store in Niles, Illinois (incorporated by reference to Sportmart, Inc.'s Report on Form 10-K for the year ended February 2, 1997, File No. 000-20672)
- 10.25 -- First Amendment to lease between Sportmart, Inc. and Merrillville Partners Limited Partnership for the Sportmart store in Merrillville, Illinois (incorporated by reference to Sportmart, Inc.'s Report on Form 10-K for the year ended February 2, 1997, File No. 000-20672)
- 10.26 -- Second Amendment to Lease between Sportmart, Inc. and North Riverside Associates Limited Partnership for the Sportmart store in North Riverside, Illinois (incorporated by reference to Sportmart, Inc.'s Report on Form 10-K for the year ended February 2, 1997, File No. 000-20672)
- 10.27 -- Third Amendment to Lease between Sportmart, Inc. and Torrence Properties for the Sportmart store in Calumet City, Illinois (incorporated by reference to Sportmart, Inc.'s Report on Form 10-K for the year ended February 2, 1997, File No. 000-20672)
- 10.28 -- Third Amendment to Lease between Sportmart, Inc. and North Riverside Associates Limited Partnership for the Sportmart store in North Riverside, Illinois (incorporated by reference to Sportmart, Inc.'s Report on Form 10-K for the year ended February 2, 1997, File No. 000-20672)
- 10.29 -- Post-Employment Medical Benefits Plan for Larry Hochberg (incorporated by reference Sportmart, Inc.'s Report on Form 10-K for the year ended February 2, 1997, File No. 000-20672)
- 10.30 -- Deferred Compensation Plan of Gart Bros. Sporting Goods Company, dated January 1, 1999 (incorporated by reference to the Registrant's Report on Form 10-K for the period ended January 29, 2000, File No. 000-23515)
- 16.1 -- Letter from KPMG LLP regarding Change in Certifying Accountants (incorporated by reference to the Registrant's Report on Form 8-K filed May 23, 2000)
- 21.1 -- Subsidiaries of Registrant (incorporated by reference to the Registrant's Report on Form 10-K for the transition period ended January 31, 1998, File No. 000-23515)

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Exhibit Number -----	Description -----
23.1	-- Consent of Deloitte & Touche LLP
23.2	-- Consent of KPMG LLP
99.1	-- Voting Agreement, dated as of February 21, 2001 by and among Gart Sports Company, GSC Acquisition Corp. and Marilyn Oshman, individually and as a trustee (incorporated by reference to the Registrant's Schedule 13D filed March 5, 2001)
99.2	-- Voting Agreement, dated as of February 21, 2001 by and among Gart Sports Company, GSC Acquisition Corp. and Alvin Lubetkin (incorporated by reference to the Registrant's Schedule 13D filed March 5, 2001)
99.3	-- Voting Agreement, dated as of February 21, 2001 by and among Gart Sports Company, GSC Acquisition Corp. and Karen Desenberg, individually, as a custodian and as a trustee, and Jay Douglas Desenberg (incorporated by reference to the Registrant's Schedule 13D filed March 5, 2001)
99.4	-- Voting Agreement, dated as of February 21, 2001 by and among Gart Sports Company, GSC Acquisition Corp. and Judy O. Margolis, individually, as a custodian and as a trustee (incorporated by reference to the Registrant's Schedule 13D filed March 5, 2001)
99.5	-- Voting Agreement, dated as of February 21, 2001 by and among Gart Sports Company, GSC Acquisition Corp. and Barry M. Lewis, as a trustee (incorporated by reference to the Registrant's Schedule 13D filed March 5, 2001)
99.6	-- Voting Agreement, dated as of February 21, 2001 by and among Gart Sports Company, GSC Acquisition Corp. and Edward C. Stanton III, as a trustee (incorporated by reference to the Registrant's Schedule 13D filed March 5, 2001)
99.7	-- Joint Filing Agreement, dated as of March 2, 2001 by and between Gart Sports Company and GSC Acquisition Corp. (incorporated by reference to the Registrant's Schedule 13D filed March 5, 2001)

### (b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K with the Commission dated May 16, 2000 to report, under Item 4, that the registrant engaged Deloitte & Touche LLP as its independent auditor for the fiscal year ended February 3, 2001 and concurrently dismissed its former independent auditor, KPMG LLP.

The Company also filed a Current Report on Form 8-K with the Commission dated February 22, 2001, to report under Item 5 that the registrant had entered into a definitive agreement to acquire Oshman's Sporting Goods, Inc. ("Oshman's"). Pursuant to the terms of the agreement, Oshman's shareholders will receive \$7.00 in cash and 0.55 shares of the Company's common stock for each share of Oshman's common stock, subject to adjustment in the event the Company's common stock, as reported on NASDAQ, is less than \$9.50 per share on the date of the closing. The Company has secured commitments from certain shareholders of Oshman's common stock to vote their shares in favor of the

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proposed merger, bringing the total beneficial owners voting in favor of the proposed merger to approximately 50.1%. Green Equity Investors, L.P., an affiliate of Leonard Green & Partners, L.P., which beneficially owns approximately 64.0% of the outstanding common stock of the Company, has also agreed to vote its shares in favor of the proposed merger. Completion of the transaction is subject to customary conditions, including the approval of the Oshman's shareholders and the effectiveness of a registration statement for the Gart shares to be issued.

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### GART SPORTS COMPANY

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#### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Gart Sports Company:

We have audited the accompanying consolidated balance sheet of Gart Sports Company and subsidiaries (the "Company") as of February 3, 2001 and the related consolidated statements of operations, stockholders' equity and comprehensive income and of cash flows for the 53 weeks ended February 3, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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

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audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 3, 2001 and the results of its operations and its cash flows for the 53 weeks ended February 3, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Denver, Colorado  
March 7, 2001

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### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Gart Sports Company:

We have audited the accompanying consolidated balance sheet of Gart Sports Company and subsidiaries (Company) as of January 29, 2000 and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for the 52 weeks ended January 29, 2000 and January 30, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gart Sports Company and subsidiaries as of January 29, 2000 and the results of their operations and their cash flows for the 52 weeks ended January 29, 2000 and January 30, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Denver, Colorado  
March 14, 2000

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GART SPORTS COMPANY  
AND SUBSIDIARIES

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

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	February 3, 2001	January 29, 2000
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 8,107	\$ 7,843
Accounts receivable, net of allowance for doubtful accounts of \$606 and \$429, respectively.....	6,273	6,708
Note receivable.....	181	165
Inventories.....	230,800	240,891
Prepaid expenses and other assets.....	7,474	6,722
Deferred income taxes.....	2,033	1,533
	-----	-----
Total current assets.....	254,868	263,862
Property and equipment, net.....	59,298	59,694
Favorable leases acquired, net of accumulated amortization of \$4,891 at January 29, 2000.....	--	12,536
Assets held for sale.....	1,671	1,729
Deferred income taxes.....	13,208	--
Other assets, net of accumulated amortization of \$2,912 and \$1,953, respectively.....	6,083	6,264
	-----	-----
Total assets.....	\$335,128	\$344,085
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$105,395	\$127,247
Current portion of capital lease obligations.....	470	417
Accrued expenses.....	35,679	31,345
	-----	-----
Total current liabilities.....	141,544	159,009
Long-term debt.....	95,900	105,900
Capital lease obligations, less current portion.....	1,805	2,276
Deferred rent and other long-term liabilities.....	6,993	5,292
Deferred income taxes.....	--	5,714
	-----	-----
Total liabilities.....	246,242	278,191
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value. 3,000,000 shares authorized at February 3, 2001 and January 29, 2000; none issued.....	--	--
Common stock, \$.01 par value. 22,000,000 shares authorized at February 3, 2001 and January 29, 2000; 7,739,203 and 7,694,617 shares issued and 7,357,064 and 7,507,078 shares outstanding, respectively.....	77	77
Additional paid-in capital.....	57,014	55,990
Unamortized restricted stock compensation.....	(2,055)	(1,770)
Accumulated other comprehensive loss.....	(226)	(574)
Retained earnings.....	36,489	13,393
	-----	-----
	91,299	67,116
Treasury stock, 382,139 and 187,539 common shares, respectively, at cost.....	(2,413)	(1,222)
	-----	-----
Total stockholders' equity.....	88,886	65,894
	-----	-----
Total liabilities and stockholders' equity.....	\$335,128	\$344,085
	=====	=====

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See accompanying notes to consolidated financial statements.

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## GART SPORTS COMPANY AND SUBSIDIARIES

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

	53 weeks ended February 3, 2001	52 weeks ended January 29, 2000	52 weeks ended January 30, 1999
	-----	-----	-----
Net sales.....	\$ 751,124	\$ 680,995	\$ 658,047
Cost of goods sold, buying, distribution and occupancy.....	559,778	517,405	503,379
	-----	-----	-----
Gross profit.....	191,346	163,590	154,668
Operating expenses.....	164,830	150,985	148,348
Merger integration costs.....	--	--	2,923
	-----	-----	-----
Operating income.....	26,516	12,605	3,397
	-----	-----	-----
Nonoperating income (expense):			
Interest expense.....	(11,071)	(10,615)	(9,302)
Other income, net.....	246	779	302
	-----	-----	-----
	(10,825)	(9,836)	(9,000)
	-----	-----	-----
Income (loss) before income taxes.....	15,691	2,769	(5,603)
Income tax benefit (expense).....	7,405	(996)	2,185
	-----	-----	-----
Net income (loss).....	\$ 23,096	\$ 1,773	\$ (3,418)
	=====	=====	=====
Earnings (loss) per share:			
Basic.....	\$ 3.13	\$ 0.23	\$ (0.45)
	=====	=====	=====
Diluted.....	\$ 2.99	\$ 0.23	\$ (0.45)
	=====	=====	=====
Weighted average shares of common stock outstanding.....	7,380,529	7,632,696	7,676,816
	=====	=====	=====
Weighted average shares of common stock and common stock equivalents outstanding.....	7,729,601	7,701,427	7,676,816
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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GART SPORTS COMPANY  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND  
COMPREHENSIVE INCOME (LOSS)

(Dollars in Thousands, Except Share Amounts)

	Common stock	Additional paid-in capital	Unamortized restricted stock compen- sation	Accumu- lated other Compre- hensive loss	Retained earnings	Compre- hensive income (loss)	Treasury stock	No rece f st hol
Balances at January 31, 1998.....	\$80	\$55,651	\$ (80)	\$ --	\$15,038		\$ (1,865)	\$
Net loss.....	--	--	--	--	(3,418)	\$ (3,418)	--	
Net unrealized loss on equity securities.....	--	--	--	(1,762)	--	(1,762)	--	
Comprehensive loss.....						<u>\$ (5,180)</u>		
Purchase of 31,339 shares of treasury stock.....	--	--	--	--	--		(243)	
Receipts on notes receivable.....	--	--	--	--	--		--	
Exercise of stock options for 4,553 shares.....	--	34	--	--	--		--	
Amortization of restricted stock.....	--	--	59	--	--		--	
Balances at January 30, 1999.....	80	55,685	(21)	(1,762)	11,620		(2,108)	
Net income.....	--	--	--	--	1,773	\$ 1,773	--	
Unrealized gain on equity securities, net of reclassification adjustment for realized gain.....	--	--	--	1,188	--	1,188	--	
Comprehensive income....						<u>\$ 2,961</u>		
Purchase of 156,200 shares of treasury stock.....	--	--	--	--	--		(979)	
Retirement of treasury stock.....	(3)	(1,862)	--	--	--		1,865	
Issuance of common stock.....	--	72	--	--	--		--	
Receipts on notes receivable.....	--	--	--	--	--		--	
Issuance of restricted stock.....	--	2,252	(2,252)	--	--		--	
Cancellation of restricted stock.....	--	(157)	157	--	--		--	
Amortization of restricted stock.....	--	--	346	--	--		--	

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Balances at January 29, 2000.....	77	55,990	(1,770)	(574)	13,393		(1,222)
Net income.....	--	--	--	--	23,096	\$23,096	--
Unrealized gain on equity securities and reclassification adjustment for realized loss.....	--	--	--	348	--	348	--
Comprehensive income....						\$23,444	
Purchase of 194,600 shares of treasury stock.....	--	--	--	--	--		(1,191)
Exercise of stock options for 38,200 shares.....	--	205	--	--	--		--
Issuance of common stock.....	--	47	--	--	--		--
Issuance of restricted stock.....	--	921	(921)	--	--		--
Cancellation of restricted stock.....	--	(149)	149	--	--		--
Amortization of restricted stock.....	--	--	487	--	--		--
Balances at February 3, 2001.....	\$77	\$57,014	\$(2,055)	\$(226)	\$36,489		\$(2,413)

See accompanying notes to consolidated financial statements.

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GART SPORTS COMPANY  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in Thousands)

	53 weeks ended February 3, 2001	52 weeks ended January 29, 2000	52 weeks ended January 30, 1999
Cash flows from operating activities:			
Net income (loss).....	\$ 23,096	\$ 1,773	\$ (3,418)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization.....	14,776	14,193	11,826
Deferred income taxes.....	(7,405)	996	(1,626)
Loss (gain) on disposition of assets.....	383	(156)	(1,525)
Increase in deferred rent.....	1,523	1,524	1,391
Deferred compensation.....	47	97	--
Changes in operating assets and			



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liabilities:			
Accounts receivables, net.....	435	1,668	(3,755)
Inventories.....	10,091	(17,054)	(9,023)
Prepaid expenses.....	(673)	84	(3,859)
Other assets.....	(702)	(3,317)	(889)
Accounts payable.....	(21,852)	769	46,670
Accrued expenses and other current liabilities.....	4,334	749	(19,503)
	-----	-----	-----
Net cash provided by operating activities.....	24,053	1,326	16,289
	-----	-----	-----
Cash flows from investing activities:			
Sale (purchase) of marketable securities..	--	2,979	(3,529)
Purchases of property and equipment.....	(12,550)	(11,957)	(14,331)
Proceeds from sale of property and equipment.....	--	--	2,118
Receipts on notes receivable.....	165	172	181
	-----	-----	-----
Net cash used in investing activities..	(12,385)	(8,806)	(15,561)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from long-term debt.....	221,470	206,350	171,943
Principal payments on long-term debt.....	(231,470)	(200,450)	(177,543)
Principal payments on capital lease obligations.....	(418)	(377)	(340)
Purchase of treasury stock.....	(1,191)	(979)	(243)
Proceeds from the sale of common stock under option plans.....	205	--	34
Payment of financing fees.....	--	--	(172)
	-----	-----	-----
Net cash (used in) provided by financing activities.....	(11,404)	4,544	(6,321)
	-----	-----	-----
Increase (decrease) in cash and cash equivalents.....	264	(2,936)	(5,593)
Cash and cash equivalents at beginning of period.....	7,843	10,779	16,372
	-----	-----	-----
Cash and cash equivalents at end of period.....	\$ 8,107	\$ 7,843	\$ 10,779
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest, net.....	\$ 11,795	\$ 10,067	\$ 9,075
	=====	=====	=====
Cash (received) paid during the period for income taxes.....	\$ (194)	\$ (494)	\$ 52
	=====	=====	=====
Supplemental disclosure of non-cash financing activities:			
Issuance of restricted stock.....	\$ 921	\$ 2,252	\$ --
	=====	=====	=====
Retirement of treasury stock.....	\$ --	\$ 1,865	\$ --
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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## GART SPORTS COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS February 3, 2001 and January 29, 2000

#### (1) Description of Business

Gart Sports Company ("Company"), a Delaware corporation, operates in one business segment through its wholly owned subsidiary, Gart Bros. Sporting Goods Company ("Gart Bros."), which owns 100% of the outstanding stock of Sportmart, Inc. ("Sportmart"). As of February 3, 2001 the Company operated, through its wholly owned subsidiaries, 120 retail sporting goods stores in 16 states in the Midwest, Rocky Mountain, and Western United States.

#### (2) Summary of Significant Accounting Policies

##### (a) Consolidation

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

##### (b) Fiscal Year

The Company has a 52-53 week fiscal reporting year ending on the Saturday closest to the end of January. The fiscal years referred to in these consolidated financial statements are the 53 weeks ended February 3, 2001 ("fiscal 2000"), the 52 weeks ended January 29, 2000 ("fiscal 1999") and the 52 weeks ended January 30, 1999 ("fiscal 1998").

##### (c) Cash and Cash Equivalents

The Company considers cash on hand in stores, bank deposits and highly liquid investments as cash and cash equivalents.

##### (d) Marketable Securities

The Company's marketable equity securities are classified as "available-for-sale", carried at fair value and are included in prepaid expenses and other assets in the accompanying consolidated balance sheet. Fair values are determined using publicly available pricing information. Unrealized holding gains and losses on such securities are included in other comprehensive income or loss and are shown as a component of stockholders' equity as of the end of each period. At February 3, 2001 and January 29, 2000 these available-for-sale marketable securities had carrying amounts of \$274,000 and \$195,000 respectively.

During fiscal 2000, the Company realized a loss of approximately \$300,000 due to a writedown of its marketable securities as a result of an other than temporary decline in the value of the securities. Approximately \$100,000 of unrealized holding gains arose, after the adjustment for the realized loss included in income before taxes.

During fiscal 1999, the Company sold certain marketable securities, resulting in a realized gain of approximately \$220,000, before taxes, which has been recognized as other income. The Company utilized the specific identification method to determine the cost basis of the securities sold. During fiscal 1999, approximately \$1.4 million of unrealized holding gains

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arose, before the reclassification adjustment of the realized gain included in income before taxes.

In fiscal 1998, the increase in other comprehensive loss and the corresponding decrease in marketable securities totaled \$1,762,000.

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### GART SPORTS COMPANY AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

##### (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. If the first-in, first-out ("FIFO") method of inventory valuation at the lower of cost or market had been used instead of the LIFO method, inventories would have been \$2,174,000 higher at February 3, 2001 and \$2,097,000 higher at January 29, 2000.

##### (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 and equipment. Property held under capital leases and leasehold improvements is 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 the external costs associated with customizing those systems; related training costs are expensed as incurred. 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 five years.

In the first quarter of 1998, the AICPA's Accounting Standards Executive Committee issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP requires that entities capitalize certain internal-use software costs once specific criteria are met. The Company adopted SOP 98-1 in 1998 resulting in \$690,000, \$549,000 and \$680,000 of capitalized costs for fiscal years 2000, 1999 and 1998, respectively.

##### (g) Accounting for Long-Lived Assets and Long-Lived Assets to Be Disposed Of

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 considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the

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assets. The Company did not record a charge for asset impairment in fiscal 2000, 1999, or 1998. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

### (h) Other Assets

Other assets are amortized using the interest method. Loan origination costs are amortized over the term of the related debt.

### (i) Revenue Recognition

Revenue from merchandise sales is recognized when merchandise is sold. Revenue from service sales is recognized when the services are performed. In consideration of guidance issued by the Securities and Exchange Commission under Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB

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## GART SPORTS COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

101"), the Company changed its method of accounting for layaway sales during the fourth quarter of fiscal 2000. The accounting change did not have a material impact on annual or quarterly results of operations or financial position.

### (j) Pre-Opening Expenses

Beginning in fiscal 1999, the Company expenses pre-opening costs in the period in which they are incurred in conformity with Statement of Position 98-5 ("SOP 98-5") "Reporting on the Costs of Start-Up Activities. SOP 98-5 broadly defines start-up activities as those one-time activities related to, among other things, opening a new facility. Prior to fiscal 1999, the Company capitalized such costs and amortized the balance over the fiscal year in which it opened the new facility. The implementation of SOP 98-5 slightly affects quarterly results; however on an annual basis, there is no financial impact. Generally, the Company incurs approximately \$125,000 of pre-opening costs per new store.

### (k) 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 advertising costs are expensed. Net advertising costs, which are included in operating expenses, were \$17,284,000 for fiscal 2000, \$17,019,000 for fiscal 1999, and \$19,306,000 for fiscal 1998.

### (l) Income Taxes

The Company files a consolidated U.S. federal income tax return using a tax year ending on the Saturday closest to the end of September. 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

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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.

### (m) Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is computed by dividing earnings (loss) 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.

### (n) Stock Option Plans

The Company uses the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and related interpretations. As such, for fixed plans, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. As required by the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company has provided pro forma net income (loss) disclosures for employee stock option grants as if the fair-value-based method defined in SFAS No. 123 had been applied.

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## GART SPORTS COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

### (o) Fair Value of Financial Instruments

The Company's financial instruments' carrying values approximate their fair values.

### (p) Comprehensive Income

Effective February 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which requires the Company to report the change in its net assets from non-owner sources. Accumulated other comprehensive loss is comprised of unrealized holding gains (losses) on the Company's marketable securities.

### (q) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Actual results could differ significantly from those estimates.

### (r) New Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board ("FASB") issued

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

### (s) Reclassifications

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

### (3) Accounts Receivable

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

	Fiscal 2000	Fiscal 1999	Fiscal 1998
	-----	-----	-----
Allowance for doubtful accounts at beginning of period.....	\$429	\$ 122	\$ 345
Additions.....	177	711	--
Amounts charged against the allowance.....	--	(417)	(247)
Recoveries of amounts previously charged.....	--	13	24
	----	-----	-----
Allowance for doubtful accounts at end of period....	\$606	\$ 429	\$ 122
	====	=====	=====

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### GART SPORTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

### (4) Note Receivable

The Company has a note receivable from the landlord of the Northridge, California Sportmart store, with an annual interest rate of 10.5%. Principal and interest are due in monthly installments through July 1, 2005. The agreement contains a right of offset provision.

### (5) Assets Held for Sale

At the effective date of the acquisition of Sportmart on January 9, 1998, the Company acquired certain assets classified as Held for Sale. Assets held for sale relate to discontinued Canadian operations and consist of land and buildings in Edmonton, Alberta, Canada currently being marketed for sale. This asset is classified as long-term at February 3, 2001 as it is uncertain if a sale will occur within a year.

### (6) Property and Equipment

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

	February 3, 2001	January 29, 2000
	-----	-----
Buildings and leasehold improvements .....	\$ 40,032	\$ 38,474
Capitalized lease property.....	1,936	1,936
Data processing equipment and software .....	12,262	9,370
Furniture, fixtures and office equipment .....	45,606	38,383
Less accumulated depreciation and amortization .....	(40,538)	(28,469)
	-----	-----
Property and equipment, net .....	\$ 59,298	\$ 59,694
	=====	=====

### (7) Favorable Leases

Favorable leases acquired in the Sportmart acquisition were primarily the result of net current market rents of Sportmart store locations exceeding the contractual lease rates. The Company originally recorded \$19,261,000 of favorable leases in connection with the purchase, based upon independent appraisals. The Company was amortizing the identified intangible amounts over the existing terms of the leases on a straight-line basis. Amortization expense was \$519,000 for fiscal 2000, \$2,388,000 for fiscal 1999, and \$2,220,000 for fiscal 1998. The Company closed one of these stores during fiscal 1998 and wrote off the associated remaining unfavorable lease balance of \$1,755,000 against the related store closing reserve. During fiscal 2000 and fiscal 1999, the Company reduced its valuation allowance for deferred tax assets related to pre-acquisition operating losses of Sportmart (see note 12 to the consolidated financial statements). This revaluation resulted in the favorable leases originally recorded in connection with the Sportmart acquisition being reduced to \$0 in fiscal 2000, after an initial reduction to the favorable leases of \$4,183,000 recorded in fiscal 1999.

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### GART SPORTS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

### (8) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	February 3, 2001	January 29, 2000
	-----	-----
Accrued compensation and benefits.....	\$13,530	\$ 8,426
Accrued sales and property taxes.....	8,827	11,019
Accrued advertising.....	3,949	2,603
Accrued store closing reserve.....	945	897
Other.....	8,428	8,400
	-----	-----

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Accrued expenses .....	\$35,679	\$31,345
	=====	=====

(9) Long-Term Debt

On January 9, 1998, the Company entered into a financing agreement with a commercial finance company. The agreement includes a line of credit feature that allows the Company to borrow up to \$175,000,000 limited to an amount equal to 70% of eligible inventory (as defined in the agreement). The maximum percentage may be increased, upon election by the Company, to 75% of eligible inventory for one consecutive 90-day period each fiscal year. Borrowings are secured by substantially all accounts receivables, inventories and intangible assets. The commercial finance company may not demand repayment of principal, absent an occurrence of default under the agreement, prior to January 9, 2003. Interest is payable monthly at prime (8.50% at February 3, 2001) plus .25% or LIBOR (5.62% at February 3, 2001) plus 1.75%, per annum. Beginning February 1, 1999, if earnings before income taxes, depreciation and amortization is greater than \$25 million for the prior four fiscal quarters, interest is payable monthly at the prime rate or LIBOR plus 1.50%. These earnings levels have been attained since the end of fiscal 1999, and as a result, the margin rates on prime and LIBOR borrowings have been reduced to 0.0% and 1.50%, respectively, since that time. The terms of the agreement provide for an annual collateral management fee of \$100,000 and for a line of credit fee, payable monthly, of .375% per annum on the unused portion of the line of credit. The agreement contains certain covenants, including financial covenants which require the Company to maintain a specified level of minimum net worth at all times and limits the payment of dividends on common stock. At February 3, 2001, \$95.9 million was outstanding under the agreement and \$57.0 million was available for borrowing, as calculated using 70% of eligible inventory. The Company's policy is to classify borrowings under revolving credit facilities as long-term debt since the Company has the ability, and the intent, to maintain these obligations for longer than one year.

The Company paid a one time fee of \$875,000 to secure the credit facility, and is amortizing the amount over the life of the contract on the interest method.

In conjunction with the pending acquisition of Oshman's Sporting Goods, Inc. ("Oshman's") (see note 22 to the consolidated financial statements), the Company has received a commitment letter from CIT/Business Credit, Inc. ("CIT") to increase the Company's credit line to \$300 million.

(10) Store Closing Activities

The Company records a provision for store closing when the decision to close a store is made. The provision consists of the incremental costs which are expected to be incurred, including future net lease obligations, utilities and property taxes, employee costs and other expenses directly related to the store closing.

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GART SPORTS COMPANY  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

In connection with the acquisition of Sportmart, the Company acquired certain discontinued operations that had been previously reserved for,



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including Sportmart's Canadian subsidiary and four stores in the United States leased from related parties.

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

	Fiscal years		
	2000	1999	1998
Provision for closed stores at beginning of period	\$ 897	\$1,355	\$ 5,789
Additions.....	366	--	1,242
Decreases.....	(318)	(458)	(5,676)
Provision for closed stores at end of period.....	\$ 945	\$ 897	\$ 1,355

### (11) Financial Instruments and Risk Management

In connection with the Sportmart acquisition, certain derivative financial instruments were acquired. The instruments were utilized to reduce interest rate and foreign currency exchange risks. The Company does not use derivatives for speculative trading purposes.

The assumed contracts consisted of one interest rate cap agreement and various foreign currency option contracts. These agreements were transferred from Sportmart's credit agreement to the Company's credit agreement. The interest rate cap agreement was for a notional amount totaling \$25.0 million, placed an interest rate ceiling on LIBOR at 6.0% and expired in August 1999.

### (12) Income Taxes

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 provided for the treatment of tax loss carrybacks, indemnifications, resolution of disputes, and other matters that may arise as a result of its former parent's pending Internal Revenue Service ("IRS") examination.

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GART SPORTS COMPANY  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

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

Fiscal		
2000	1999	1998
-----	-----	-----

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Current:			
Federal .....	\$	--	\$ 469
State.....		--	90
			-----
		--	559
Deferred:			
Federal.....	5,968	(803)	1,292
State.....	1,437	(193)	334
			-----
	7,405	(996)	1,626
			-----
	\$7,405	\$ (996)	\$2,185
	=====	=====	=====

The effective income tax rate on income (loss) before income taxes differs from the U.S. federal statutory rate for the following reasons:

	Fiscal		
	2000	1999	1998
	-----	-----	-----
U.S. federal statutory rate .....	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State and local taxes, net of federal benefit.....	5.0%	5.0%	5.0%
Change in valuation allowance .....	(86.6%)	--	2.0%
Change in state rate apportionment factors.....	--	(5.2%)	--
Other, net .....	0.4%	2.2%	(2.0%)
	-----	-----	-----
	(47.2%)	36.0%	39.0%
	=====	=====	=====

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GART SPORTS COMPANY  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

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):

	February 3, January 29,	
	2001	2000
	-----	-----
Assets:		
Accounts receivable .....	\$ 421	\$ 182
Tax credit carry forwards.....	2,043	2,043
Net operating loss carryforwards.....	18,992	22,435
Accrued compensation and benefits.....	1,268	1,196
Accrued occupancy.....	1,710	1,116

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Other accrued expenses.....	1,251	1,277
Property and equipment.....	1,670	--
	-----	-----
	27,355	28,249
	-----	-----
Liabilities:		
Property and equipment.....	--	(2,803)
Inventories.....	(11,088)	(9,667)
Prepaid expenses.....	(1,026)	(680)
	-----	-----
	(12,114)	(13,150)
	-----	-----
Total net asset before valuation allowance .....	15,241	15,099
Less valuation allowance .....	--	(19,280)
	-----	-----
Net deferred tax asset (liability) .....	\$ 15,241	\$ (4,181)
	=====	=====

The noncurrent deferred tax asset (liability) consists primarily of basis differences in property and equipment and differences between the tax and book basis of LIFO inventories acquired in the business combination, net of applicable alternative minimum tax credit carryforwards. The LIFO basis difference is classified as noncurrent as this inventory is not expected to be liquidated or replaced within one year.

The Company established a valuation allowance of \$21,230,000 in connection with the acquisition of Sportmart on January 9, 1998. In the transition period, the Company incurred a loss, primarily relating to Sportmart operations and established an additional valuation allowance of \$2,492,000. The valuation allowance was decreased \$4,329,000 during fiscal 1999. Based upon the Company's fiscal 2000 performance, current tax planning strategies and management estimates of future taxable income, management believes it is more likely than not that all of the pre-acquisition operating losses will be utilized. As such, the remaining valuation allowance established in prior years was reduced to zero in fiscal 2000.

The Company utilized approximately \$8,830,000 and \$6,873,000 of its net operating loss carryforwards, in fiscal 2000 and 1999 respectively, to reduce taxable income. The Company has available at February 3, 2001, net operating loss carryforwards of approximately \$48,897,000 of which \$3,674,000 will expire in 2012, \$28,300,000 will expire in 2013, and \$16,923,000 will expire in 2019. In addition, the Company also has tax credit carryforwards of \$2,043,000 at February 3, 2001, which have no expiration date.

(13) Leases

The Company is obligated for two leased properties which are classified as capital leases for financial reporting purposes. Both capital leases are with partnerships substantially owned by a certain director of the

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GART SPORTS COMPANY  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

Company and his family members. The lease terms range from 15 to 18 years and provide for minimum annual rental payments plus contingent rentals based upon a percentage of sales in excess of stipulated amounts. The gross amount of

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capitalized lease property and related accumulated amortization recorded under capital leases is included in Property and Equipment.

The Company has noncancelable operating leases primarily for stores, distribution facilities and equipment, expiring at various dates from 2001 to 2018. These leases generally contain renewal options for periods ranging from three to ten years 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. Eight of the leases, three of which relate to closed store locations, are with partnerships, the partner of which is a director of the Company and his family members. The Company also subleases all or parts of certain properties it currently leases. Minimum rentals include noncash rent expense related to the amortization of deferred rent totaling \$1,523,000 in fiscal 2000, \$1,524,000 in fiscal 1999, and \$1,391,000 in fiscal 1998.

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

	Fiscal		
	2000	1999	1998
Base rentals .....	\$50,855	\$48,222	\$42,408
Contingent rentals .....	280	195	97
Sublease rental income .....	(22)	(37)	(40)
	-----	-----	-----
	\$51,113	\$48,380	\$42,465
	=====	=====	=====

At February 3, 2001, future minimum lease payments under noncancelable leases, with initial or remaining lease terms in excess of one year, were as follows (in thousands):

Fiscal Years	Capital leases	Operating leases	Total	Amounts to be paid to related parties
-----	-----	-----	-----	-----
2001.....	\$ 673	\$ 47,934	\$ 48,607	\$ 2,613
2002.....	685	46,474	47,159	2,649
2003.....	648	44,802	45,450	2,612
2004.....	235	42,228	42,463	2,199
2005 .....	235	39,979	40,214	1,812
Thereafter .....	372	260,993	261,365	5,919
	-----	-----	-----	-----
Total minimum lease payments .....	\$2,848	\$482,410	\$485,258	\$17,804
		=====	=====	=====
Less imputed interest (at rates ranging from 9.0% to 10.75%).....	573			
	-----			
Present value of future minimum rentals of which \$470 is included in current liabilities, at February 3, 2001.....	\$2,275			

=====

The total future minimum lease payments include amounts to be paid to related parties and are shown net of \$5,458,000 of noncancellable sublease payments and exclude estimated executory costs, which are principally real estate taxes, maintenance, and insurance (See note 18 to the consolidated financial statements).

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GART SPORTS COMPANY  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

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, were as follows at February 3, 2001 (in thousands):

Fiscal Years

-----

2001.....	\$ 1,500
2002.....	1,500
2003.....	1,500
2004.....	1,438
2005 .....	1,184
Thereafter .....	7,251
	-----
Total minimum lease payments .....	\$14,373
	=====

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

Profit Sharing Plan

During 1995, the Company amended its qualified defined contribution profit sharing plan to include a 401(k) plan feature for all eligible employees. The amended plan provides for tax deferred contributions by eligible employees and for discretionary matching contributions by the Company. 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 contributed in the form of matching contributions, \$357,000 in fiscal 2000, \$300,000 in fiscal 1999, and \$277,000 in fiscal 1998.

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### Sportmart, Inc. Restricted Stock Plan

In July 1996, the Board of Directors of Sportmart and its stockholders adopted the 1996 Restricted Stock Plan. At the acquisition date, pursuant to the Change in Control provisions of the plan, 250,000 shares of Sportmart common stock reserved for four participants were converted to 41,252 shares of Gart Sports' common stock. Of this amount, 28,876 shares were issued to former Sportmart senior management who are no longer employed by the Company, and therefore became fully vested with no restrictions on resale. The balance of 12,376 shares was issued to one individual who remained with the Company and continued to vest under the terms of the plan. The Company recorded approximately \$80,000 of unamortized compensation as a reduction to stockholders' equity. This amount was amortized to compensation expense on a straight-line basis over the remaining vesting period. The shares were fully vested on August 1, 1999.

### (15) Deferred Compensation Plan

During fiscal 1999, the Company began 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

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### GART SPORTS COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

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 made no matching contributions to the DCP during fiscal 2000 or 1999.

### (16) Stock Option Plans

#### Management Equity Plan

The Company adopted a management equity plan (the "Management Equity Plan") which authorizes the issuance of common stock plus grants of options to purchase shares of authorized but unissued common stock up to 1,500,000 combined shares and options. The plan was amended by a vote of the stockholders at the annual meeting of stockholders held on June 16, 1999. The stockholders voted to amend the Management Equity Plan to increase the number of shares and options authorized to be granted from 1,500,000 to 1,750,000 shares and options. As of February 3, 2001, 147,600 purchased shares of common stock, 1,199,650 options, and 469,208 shares of restricted stock have been issued and remain outstanding under the Management Equity Plan. Stock awards issued in excess of 1,750,000 shares are subject to approval by the shareholders of an increase in the number of shares available under the Management Equity Plan. The purchased shares were paid for with a combination of cash and notes that bore interest at 8% per annum, and were secured by the common stock purchased. The notes were due October 17, 1999 and were paid in full at that time. 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 was granted to certain employees of the Company and has a cliff vesting after five years from the grant date. The Company recorded approximately \$0.9 and \$2.3 million of unamortized compensation as a reduction to stockholders' equity in fiscal 2000 and 1999,

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respectively. These amounts are being amortized to compensation expense on a straight-line basis over the vesting period.

### Substitute Company Options

In connection with the acquisition of Sportmart, options outstanding under the 1992 Sportmart, Inc. Stock Option Plans were assumed by the Company. The substitute options were modified to Company options utilizing the same conversion ratio of .165014 to one as the common stock and dividing the exercise price of the previous options by the conversion ratio.

The holders of the substitute options continue with the same vesting periods as the original grants, except that those holders whose employment with Sportmart terminated within six months of the acquisition date had accelerated vesting. All such persons had immediately vested options upon termination, and had one year to exercise such options. As of January 9, 1998, 1,153,573 Sportmart options were exchanged for 190,457 Company substitute options.

On March 9, 1998 the Compensation Committee of the Board of Directors revalued certain substitute options issued in conjunction with the acquisition. All options to purchase shares for those employees remaining with the Company, after the acquisition, with exercise prices greater than \$14.00 were revalued to \$14.00, the closing price of the Company's common stock on that date.

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### GART SPORTS COMPANY AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

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

	Number of options	Weighted average exercise price	Options exercisable
	-----	-----	-----
Balance at January 31, 1998.....	773,757	\$13.60	310,894
Granted.....	342,975	13.39	
Exercised.....	(4,553)	5.80	
Canceled.....	(177,730)	27.25	
	-----		
Balance at January 30, 1999.....	934,449	10.97	372,361
Granted.....	233,000	6.64	
Exercised.....	--	--	
Canceled.....	(145,518)	16.73	
	-----		
Balance at January 29, 2000.....	1,021,931	9.07	451,520
Granted.....	382,500	6.42	
Exercised .....	(38,200)	5.36	
Canceled.....	(123,560)	8.75	
	-----		
Balance at February 3, 2001.....	1,242,671	\$ 8.40	510,459
	=====		

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Canceled options are a result of employee terminations.

At February 3, 2001, January 29, 2000 and January 30, 1999, the weighted-average remaining contractual lives of outstanding options were 7.2, 6.8 and 7.0 years, respectively.

The per share weighted-average fair value of stock options granted during fiscal years 2000, 1999, and 1998 was \$4.61, \$4.16, and \$10.06, respectively, on the date of grant or exchange using the Black Scholes option-pricing model (which incorporates a present value calculation).

The following weighted-average assumptions were used for grants issued in fiscal year 1998:

Expected volatility.....	54%
Risk free interest rates.....	5.68%
Expected life of options.....	6 to 10 years
Expected dividend yield.....	0%

The following weighted-average assumptions were used for grants issued in fiscal year 1999:

Expected volatility.....	73.4%
Risk free interest rate.....	5.5%
Expected life of options.....	6 years
Expected dividend yield.....	0%

The following weighted-average assumptions were used for grants issued in fiscal year 2000:

Expected volatility.....	73.2%
Risk free interest rate.....	5.5%
Expected life of options.....	6 years
Expected dividend yield.....	0%

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### GART SPORTS COMPANY AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

The following table summarizes the status of outstanding stock options as of February 3, 2001:

Options outstanding		Options exercisable	
Number of	Remaining contractual	Number of	Weighted average
	Weighted average		Weighted average



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Range of exercise prices	options outstanding	life (in years)	exercise price	options exercisable	exercise price
\$5.13 - 6.00...	617,400	7.0	\$ 5.61	254,860	\$ 5.13
6.625- 8.625...	202,500	8.2	6.78	46,500	6.67
9.00 - 11.25...	90,000	8.4	9.47	24,000	9.00
14.00- 15.63...	332,771	6.5	14.28	185,099	14.20
	-----			-----	
\$ 5.13- 15.63...	1,242,671	7.2	\$ 8.40	510,459	\$ 8.74
	=====			=====	

The Company applies APB No. 25 in accounting for the Management Equity Plan and Substitute Option Plan and grants its options at fair value, accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's consolidated net income would have been reduced or loss increased, to the pro forma amounts indicated below (in thousands, except share amounts):

	Fiscal		
	2000	1999	1998
Net income (loss), as reported.....	\$23,096	\$1,773	\$(3,418)
	=====	=====	=====
Net income (loss), pro forma.....	\$22,321	\$1,072	\$(4,209)
	=====	=====	=====
Earnings (loss) per share, pro forma:.....			
Basic.....	\$ 3.02	\$ 0.14	\$(0.55)
	=====	=====	=====
Diluted.....	\$ 2.89	\$ 0.14	\$(0.55)
	=====	=====	=====

The full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net income (loss) amounts presented above because compensation cost is reflected over the options' vesting period of five years and compensation cost for options granted prior to January 1, 1995 is not considered.

(17) Enterprise-Wide Operating Information

In Fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information," which establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, major customers and the material countries in which the entity holds assets and reports revenues.

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

Prior to the acquisition of Sportmart by the Company, Sportmart operated

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certain stores in Canada. Sportmart discontinued such Canadian operations prior to the Company's acquisition of Sportmart. Therefore, net sales per the accompanying consolidated statements of operations do not include any amounts from stores located outside of the United States.

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### GART SPORTS COMPANY AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

#### (18) Related Party Transactions

Green Equity Investors, whose general partner is Leonard Green & Associates, LP ("LGA") owns approximately 64.0% of the outstanding common stock of the Company. The Company has a management services agreement with LGA whereby LGA receives an annual retainer fee plus reasonable expenses for providing certain management, consulting and financial planning services. The management services agreement also provides 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 may be undertaken in the future. The management services agreement terminates April 20, 2004. The minimum management fee is \$500,000 per year for the remaining term of the agreement. The Company paid a management fee to LGA of \$500,000 for each of fiscal 2000, 1999 and 1998.

During 1998, the Company had noncancelable consulting agreements with certain former Sportmart executives, who are or were Directors of the Company. The Company paid a fee equal to 50% of their base salary as in effect at September 26, 1997 and reasonable expenses for a period of one year. The consultants agreed to be available, from time to time, to advise the Company on strategic issues, planning, merchandising and operational issues related to the acquisition of Sportmart. In addition, the Company paid a severance benefit in equal installments over eighteen months equal to 100% of the base salary as of September 26, 1997, commencing on January 9, 1998.

The Company leases certain properties from related parties. Rent expense under these lease agreements was as follows (in thousands):

	Fiscal		
	2000	1999	1998
Base rentals.....	\$1,787	\$1,732	\$1,808
Contingent rentals.....	80	39	50
	\$1,867	\$1,771	\$1,858

As of February 3, 2001, there were no payments due to LGA or other related parties.

#### (19) Contingencies

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### Tax Contingency

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

On July 24, 1997, the IRS proposed adjustments to the Company's and former parent's 1992 and 1993 federal income tax returns in conjunction with the former parent's IRS examination. The proposed adjustments related to the manner in which LIFO inventories were characterized on such returns. The Company recorded approximately \$9,700,000 as a long-term net deferred tax liability for the tax effect of the LIFO inventory basis difference. The IRS has asserted that this basis difference should be reflected in taxable income in 1992 and 1993. The Company has taken the position that the inventory acquired in connection with the acquisition of its former parent was appropriately allocated to its inventory pools. The IRS has asserted the inventory was acquired at a bargain purchase price and should be allocated to a separate pool and liquidated as inventory turns.

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### GART SPORTS COMPANY AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

Based on management's discussions with the Company's former parent, the Company believes the potential accelerated tax liability, which could have a negative effect on liquidity in the near term, ranges from approximately \$2,500,000 to \$9,700,000. The range of loss from possible assessed interest charges resulting from the proposed adjustments range from approximately \$580,000 to \$3,300,000. The Company has accrued approximately \$1.2 million for potential interest charges in its consolidated financial statements. No penalties are expected to be assessed relating to this matter. At February 3, 2001, the LIFO inventory and other associated temporary differences continue to be classified as long-term net deferred tax liabilities.

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

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

### Legal Proceedings

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 ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

In June 2000, a former employee of Sportmart brought two class action complaints in California against the Company, alleging certain wage and hour

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

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### GART SPORTS COMPANY AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

#### (20) Earnings (Loss) Per Share

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

	Fiscal 2000	Fiscal 1999	Fiscal 1998
	-----	-----	-----
Net income (loss) .....	\$23,096,000	\$1,773,000	\$(3,418,000)
Weighted average shares of common stock outstanding.....	7,380,529	7,632,696	7,676,816
	-----	-----	-----
Basic earnings (loss) per share.....	\$ 3.13	\$ 0.23	\$ (0.45)
	=====	=====	=====
Number of shares used for diluted earnings (loss) per share:			
Weighted average shares of common stock outstanding.....	7,380,529	7,632,696	7,676,816
Dilutive securities--stock options ..	349,072	68,731	--
	-----	-----	-----
Weighted average shares of common stock and common stock equivalents outstanding .....	7,729,601	7,701,427	7,676,816
	-----	-----	-----
Diluted earnings (loss) per share .....	\$ 2.99	\$ 0.23	\$ (0.45)
	=====	=====	=====

All of the Company's stock options were excluded from the computation of diluted loss per share for fiscal 1998 since their effect was anti-dilutive.

#### (21) Quarterly Financial Data (unaudited)

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	First quarter	Second quarter	Third quarter	Fourth quarter	Annual
	(in thousands, except per share amounts)				
Fiscal 2000					
Net sales.....	\$165,749	\$166,128	\$187,600	\$231,647	\$751,124
Gross profit.....	39,310	47,205	41,222	63,609	191,346
Net income.....	410	10,765	233	11,688	23,096
Basic earnings per share....	0.05	1.46	0.03	1.59	3.13
Diluted earnings per share..	0.05	1.44	0.03	1.48	2.99
Fiscal 1999					
Net sales.....	\$151,933	\$172,562	\$155,495	\$201,005	\$680,995
Gross profit.....	35,804	40,611	34,340	52,835	163,590
Net income (loss).....	(110)	514	(2,512)	3,881	1,773
Basic earnings (loss) per share.....	(0.01)	0.07	(0.33)	0.51	0.23
Diluted earnings (loss) per share.....	(0.01)	0.07	(0.33)	0.51	0.23

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GART SPORTS COMPANY  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

(22) Subsequent Events

On February 22, 2001, the Company announced it had signed a definitive agreement to acquire Oshman's Sporting Goods, Inc. The Company has secured commitments from certain shareholders of Oshman's common stock to vote their shares in favor of the proposed merger, bringing the total beneficial owners voting in favor of the proposed merger to approximately 50.1%. Green Equity Investors, L.P., an affiliate of Leonard Green & Partners, L.P., which beneficially owns approximately 64.0% of the outstanding common stock of the Company, has also agreed to vote its shares in favor of the proposed merger. Completion of the transaction is subject to customary conditions, including the approval of the Oshman's shareholders and the effectiveness of a registration statement for the Gart shares to be issued. Oshman's currently operates 58 sporting goods specialty stores, including 43 SuperSports USA stores and 15 traditional stores. Oshman's SuperSports USA stores are located primarily in medium to large metropolitan areas across the United States, offering high quality name brand and private label equipment and sportswear. Oshman's SuperSports USA stores utilize interactional merchandising by offering sports test-play areas, including basketball courts, batting cages, golf simulators and tennis courts. Upon completion of the acquisition of the 58 Oshman's stores, the Company will consist of 178 stores in 25 states. On a pro-forma combined basis, the Company and Oshman's generated revenue of approximately \$1.1 billion during the fiscal year ended February 3, 2001.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed

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on April 10, 2001 on its behalf by the undersigned, thereunto duly authorized.

GART SPORTS COMPANY

/s/ JOHN DOUGLAS MORTON

By: \_\_\_\_\_  
John Douglas Morton  
President 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 April 10, 2001.

Signature -----	Title -----
<u>          /s/ JOHN DOUGLAS MORTON          </u> John Douglas Morton	Chairman, President and Chief Executive Officer (Principal Executive Officer)
<u>          /s/ THOMAS T. HENDRICKSON          </u> Thomas T. Hendrickson	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
<u>          /s/ JONATHAN D. SOKOLOFF          </u> Jonathan D. Sokoloff	Director
<u>          /s/ JONATHAN SEIFFER          </u> Jonathan Seiffer	Director
<u>          /s/ GORDON D. BARKER          </u> Gordon D. Barker	Director
<u>          /s/ PETER R. FORMANEK          </u> Peter R. Formanek	Director
<u>          /s/ LARRY J. HOCHBERG          </u> Larry J. Hochberg	Director