



**COLUMBIA
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The Sports Authority – Case “B”

Martin “Marty” Hanaka was elated. The Sports Authority (TSA) was on the verge of achieving another milestone since its days of financial restructuring. On February 19, 2003, TSA announced a “merger of equals” with Gart Sports Company, the third largest sporting goods retailer in the U.S. The combination would form the first truly national sporting goods retailer with approximately \$2.5 billion in sales from 385 stores in 45 states (**Exhibits 1 & 2**). TSA would contribute its expertise in hard lines while Gart Sports brought its strong Western U.S. presence and expertise in winter sports soft lines. Hanaka thought, “Now, we’ll be happy regardless of which team won the Super Bowl or World Series!”

Both management teams believed that the two operating strategies and cultures could be successfully integrated. The deal was structured as a 50/50 split between the shareholders of each company with the combined company continuing to be called The Sports Authority. Under the terms of the transaction, both companies would have four board seats. Hanaka would become the Chairman while John Douglas “Doug” Morton would be CEO (See **Exhibit 3** for Senior Management Team). Hanaka, as Chairman, would oversee the strategic planning as well as the successful integration of the two companies. He was excited because this merger provided many benefits in terms of growth and scale and was consistent with the strategic initiatives he pursued at TSA. Moreover, there was little overlap in the store footprint, so relatively few stores would have to be closed.

Hanaka thought back to all of those conversations that he used to have with Morton, the CEO of Gart Sports, about the combining their companies. He still couldn’t believe how quickly the deal gained momentum after the most serious discussions with Morton took place last October, at the last industry function. Both Hanaka and Morton felt that the merger was compelling and made a great deal of strategic sense. Both boards had approved the deal and all that remained were the shareholder votes and regulatory approval. On the regulatory front, Hanaka believed that the fragmented nature of the sporting goods industry and the benefits to consumers favored approval of the merger. He hoped that the transaction would close by the third quarter of 2003 (the fiscal year ended in February).

About Gart Sports

Gart Sports Company, headquartered in Denver, Colorado, is the leading full-line sporting goods retailer in the western United States. The Company was established in 1928 and offers a comprehensive, high-quality assortment of brand name sporting apparel and equipment at competitive prices operating through its wholly-owned subsidiaries, Gart Bros. Sporting Goods Company, Sportmart, Inc., and Oshman’s Sporting Goods, Inc.

Gart Sports offers over 150,000 SKUs in approximately 180 stores across 25 states. Products range from footwear, in-line skates, general apparel, equipment for team sports, exercise and outdoor recreation, golf, tennis, cycling, hunting, fishing, and camping. Gart Sports offers one of the widest selections of ski and snowboard merchandise in the Western United States. Gart Sports has become a leader in the snowboard industry with its wide range of snowboard-related products, including snowboards, boots, bindings and specialty apparel. Many of the company’s stores also rent winter sports equipment, including skis, snowboards, boots, snowshoes, and poles.

Gart Sports is backed by Leonard Green, a private equity partnership that owns approximately 24% of the company’s equity, which has agreed to vote its shares in favor of the merger. Under the current management, Gart Sports has grown rapidly over the past several years. The company also made a few acquisitions. In 1998, it acquired Sportmart, with 59 stores in 8 states, and in 2001, it acquired Oshman’s, with 58 stores in 9 states.

Integration

The combined headquarters would be moved to Denver, where Gart was headquartered. One reason for the move was that Denver would be a more central location than TSA’s home of Fort Lauderdale, FL. The move would be phased in so that the customer service functions would be maintained during the transition. Management anticipated that approximately \$40 to \$50 million could be saved from overhead made redundant by the merger. The financial projections for these savings to be realized were conservative, with only \$15 million estimated for the full year after the close of the transaction. One attractive feature of the deal was how both companies employed similar information system platforms (known internally as “JDA” and “E3”) which coordinated merchandising and order replenishment, making the technical integration more manageable.

Another synergy of the deal was the potential to combine marketing plans and purchasing clout to gain efficiencies from the larger store base. All stores would eventually be converted to The Sports Authority nameplate, but this changeover would require market-by-market planning to make sure that each market had an appropriate transition to a new format. All of the other aspects of the integration were still under review, yet both management teams felt confident in the strength of the combination.

Both TSA and Gart Sports pursued successful private label merchandise strategies. TSA estimates that approximately 8% of its total merchandise is private label. One of its most successful efforts is with the Head apparel line. Gart Sports had slightly less penetration of its private label merchandise, but has enjoyed success with its Alpine Designs and Mountain Tech lines. Both management teams agreed that the private label effort should be extended with a goal of offering 10% to 12% private label merchandise, and possibly up to 15% in the near future. The ability to offer private label products was differentiation as well as price.

Under the combined company, the store remodeling effort would be accelerated. The liquidity situation included a committed \$600 million working capital line that would be sufficient to meet its funding needs. Store remodeling would be accelerated from the rate of 30 stores per year, which TSA had aggressively pursued as a standalone company. Management even suggested that store remodeling could be completed within the next two years. In addition, given the improved liquidity situation, TSA would continue to add approximately 20 stores per year to its footprint, thereby expanding its lead in the industry.

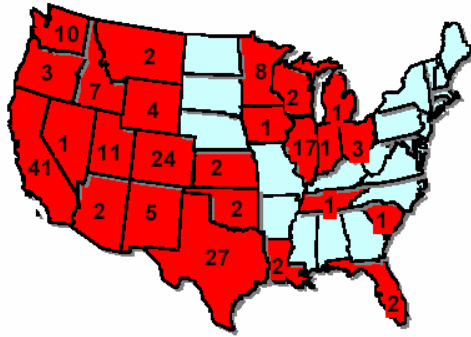
Most important, the combined clout of the companies would provide distribution efficiencies. Gart Sports added four distribution centers to TSA's three, thereby providing the combined company with an opportunity to optimize its distribution network. The national distribution network would enable the new TSA to drive product to its customer base more rapidly than currently possible. Under the new system, almost every store would be within a 1-day delivery period of a distribution center (**Exhibit 4**)

All in all, the merger of these two competitors was a compelling transaction. Hanaka thought to himself, “Have we just started a new war in the sporting goods retailer space?” It was a sure bet that things would be interesting in the near future.

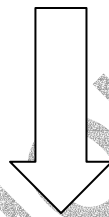
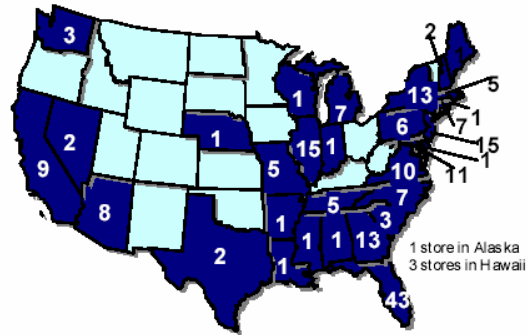
Exhibit 1 – Pro Forma Geographic Reach



180 Stores



205 Stores



385 Stores

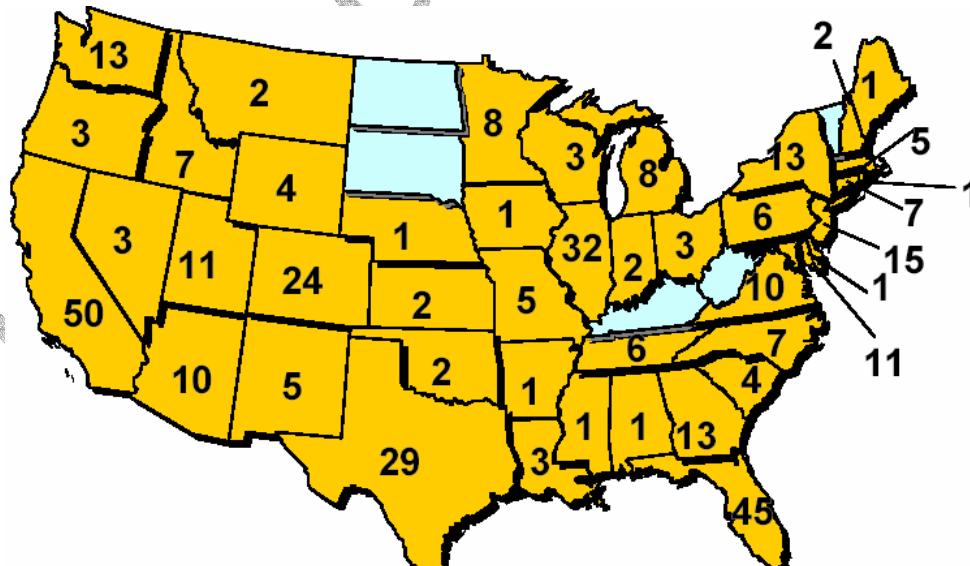
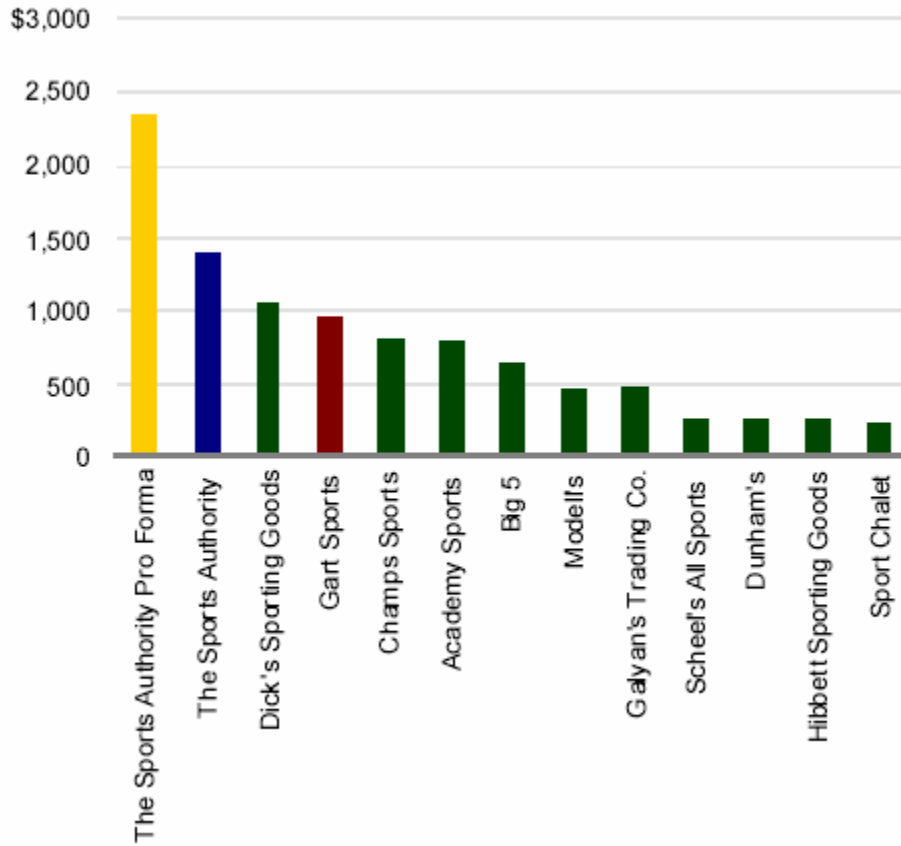


Exhibit 2 – Top 10 Players (2001 Sales)



Inspection

Exhibit 3 – Senior Management Team***Martin E. Hanaka, Chairman***

Martin E. Hanaka, age 52. Mr. Hanaka was elected as Chairman in November 1999, after having been elected as Chief Executive Officer in September 1998, and having been elected as Vice Chairman in February 1998. From 1994 until October 1997, Mr. Hanaka served as President and Chief Operating Officer and a director of Staples, Inc., an office supply retailer. Mr. Hanaka's extensive retail career has included serving as Executive Vice President of Marketing and as President and Chief Operating Officer of Lechmere, Inc. from 1992 to 1994, and serving in various capacities for 20 years at Sears Roebuck & Co., most recently as Vice President in charge of Sears Brand Central. Mr. Hanaka is also a director of Trans-World Entertainment (movie and video retail chain under several brands) and the Sporting Goods Manufacturers Association, as a National Trustee of the Boys & Girls Clubs of America, and as a member of the Cornell University Entrepreneurship and Personal Enterprise Council and the Cornell University Council.

John Douglas Morton, Vice Chairman and Chief Executive Officer

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.

Tom Hendrickson, Chief Administrative Officer and Chief Financial Officer

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.

Elliott J. Kerbis, President and Chief Merchandising Officer

Elliott J. Kerbis, age 49. Mr. Kerbis joined the Company in October 2000 as Executive Vice President - Merchandising and Sales Promotion and was promoted to President and Chief Merchandising Officer in January 2002. He previously served as Senior Vice President of Merchandise at Filene's, a department store owned by The May Department Store Company from May 1999 to August 2000, and as Executive Vice President of

Merchandise for Hardlines of The Caldor Corporation, a discount retailer, from 1987 to 1999. Prior to joining Caldor Corporation, Mr. Kerbis served in various capacities with R.H. Macy & Co. from 1977 to 1987.

Exhibit 4 – National Distribution Network

