

DICKS SPORTING GOODS INC

Form 10-K/A

June 05, 2007

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**FORM 10-K/A
Amendment No. 1
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended February 3, 2007
Commission File No.001-31463**

DICK S SPORTING GOODS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

16-1241537
(I.R.S. Employer
Identification No.)

300 Industry Drive, RIDC Park West, Pittsburgh,
Pennsylvania
(Address of principal executive offices)

15275
(Zip Code)

(724) 273-3400
(Registrant's telephone number, including area code)

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

<i>Title of each class</i>	<i>Name of Each Exchange on which Registered</i>
Common Stock, \$.01 par value	The New York Stock Exchange

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

None

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant was \$1,313,735,042 as of July 29, 2006 based upon the closing price of the registrant's common stock on the New York Stock Exchange

reported for July 28, 2006.

The number of shares of common stock and Class B common stock of the registrant outstanding as of March 20, 2007 was 39,952,119 and 13,383,840, respectively.

Documents Incorporated by Reference: Part III of this Form 10-K/A incorporates certain information from the registrant's definitive proxy statement for its Annual Meeting of Stockholders to be held on June 6, 2007 (the 2007 Proxy Statement).

Table of Contents

Explanatory Note

We are filing this amendment to our Annual Report on Form 10-K to restate our consolidated statements of cash flows for the years ended February 3, 2007 and January 28, 2006 as described in Note 18 of the Notes to the Consolidated Financial Statements. Due to a mathematical error, we did not properly report in the statements of cash flows tenant allowances received from landlords for the construction of our new stores during 2006. In addition, we have reclassified certain tenant allowances within the statements of cash flows for fiscal 2006 and fiscal 2005 so that the amounts reported as changes in deferred construction allowances represent monies received by the Company as tenant allowances from landlords at stores where the Company is not considered the owner during the construction period. This restatement resulted in a reduction of cash flows used in investing activities with an equal reduction of cash flows provided by operating activities. This restatement did not impact our previously reported balance sheets, statements of income, comprehensive income, or changes in stockholders' equity. We are also filing amendments to our Quarterly Reports on Form 10-Q for the quarters ended April 29, July 29, and October 29, 2006 to correct this error. Further, we reclassified certain tenant allowances from increases or decreases in recoverable costs from developed properties to other captions within the cash flows from investing activities section of the statements of cash flows to enhance reporting of our capital expenditures. As a result, capital expenditures now include the Company's investment in stores where it is considered the owner during the construction period. Proceeds from sale-leaseback transactions now include monies received by the Company for tenant allowances from landlords at stores where the Company is considered the owner during the construction period.

Unless otherwise indicated, this report speaks only as of the date that the original report was filed. No attempt has been made in this Form 10-K/A to update other disclosures presented in the original report on Form 10-K, except as required to reflect the effects of the restatement. This Form 10-K/A does not reflect events occurring after the filing of the original Form 10-K or modify or update those disclosures, including the exhibits to the Form 10-K affected by subsequent events; however, this Form 10-K/A includes as exhibits 31.1, 31.2, 32.1, and 32.2 new certifications by our principal executive officer and principal financial officer as required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended. Accordingly, this Form 10-K/A should be read in conjunction with our filings made with the SEC subsequent to the filing of the original Form 10-K for the year ended February 3, 2007, including any amendments to those filings.

Table of Contents

TABLE OF CONTENTS

	Page Number
<u>Part I</u>	5
<u>Item 1. Business</u>	5
<u>Item 1A. Risk Factors</u>	13
<u>Item 1B. Unresolved Staff Comments</u>	19
<u>Item 2. Properties</u>	20
<u>Item 3. Legal Proceedings</u>	21
<u>Item 4. Submissions of Matters To a Vote of Security Holders</u>	21
<u>Part II</u>	21
<u>Item 5. Market for Registrant's Common Stock and Related Stockholder Matters</u>	21
<u>Item 6. Selected Consolidated Financial and Other Data</u>	22
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	33
<u>Item 8. Financial Statements and Supplementary Data</u>	34
<u>Item 9. Changes In and Disagreements With Independent Registered Public Accounting Firm On Accounting and Financial Disclosure</u>	34
<u>Item 9A. Controls and Procedures</u>	35
<u>Item 9B. Other Information</u>	38
<u>Part III</u>	38
<u>Item 10. Directors and Executive Officers of the Registrant</u>	38
<u>Item 11. Executive Compensation</u>	38
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u>	38
<u>Item 13. Certain Relationships and Related Transactions</u>	39
<u>Item 14. Principal Accountant Fees and Services</u>	39
Table of Contents	5

<u>Part IV</u>	39
<u>Item 15. Exhibits and Financial Statement Schedules</u>	39
<u>SIGNATURES</u>	64
<u>CERTIFICATIONS</u>	74
<u>EX-10.33</u>	
<u>EX-12</u>	
<u>EX-21</u>	
<u>EX-23.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

Forward-Looking Statements

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

The following factors, among others, in some cases have affected and in the future could affect our financial performance and actual results and could cause actual results for fiscal 2007 and beyond to differ materially from those expressed or implied in any forward-looking statements included in this report or otherwise made by our management: the intense competition in the sporting goods industry and actions by our competitors; our inability to manage our growth, open new stores on a timely basis and expand successfully in new and existing markets; the availability of retail store sites on terms acceptable to us; the cost of real estate and other items related to our stores; our ability to access adequate capital; changes in consumer demand; risks relating to product liability claims and the availability of sufficient insurance coverage relating to those claims; our relationships with our suppliers, distributors and manufacturers and their ability to provide us with sufficient quantities of products; any serious disruption at our distribution or return facilities; the seasonality of our business; the potential impact of natural disasters or national and international security concerns on us or the retail environment; risks related to the economic impact or the effect on the U.S. retail environment relating to instability and conflict in the Middle East or elsewhere; risks relating to the regulation of the products we sell, such as hunting rifles; risks associated with relying on foreign sources of production; risks relating to the operation and implementation of new management information systems; risks relating to operational and financial restrictions imposed by our Credit Agreement; factors associated with our pursuit of strategic acquisitions (including our merger with Golf Galaxy); risks and uncertainties associated with assimilating acquired companies; the loss of our key executives, especially Edward W. Stack, our Chairman and Chief Executive Officer; our ability to meet our labor needs; changes in general economic and business conditions and in the specialty retail or sporting goods industry in particular; regional risks because our stores are generally concentrated in the eastern half of the United States; our ability to repay or make the cash payments under our senior convertible notes; the outcome of litigation or legal actions against us; changes in our business strategies and other factors discussed in other reports or filings filed by us with the Securities and Exchange Commission.

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

On February 13, 2007, Dick's Sporting Goods, Inc. acquired Golf Galaxy, Inc. (Golf Galaxy) which became a wholly owned subsidiary of Dick's by means of a merger of Dick's subsidiary with and into Golf Galaxy. Due to this acquisition, additional risks and uncertainties arise that could affect our financial performance and actual results and could cause actual results for fiscal 2007 and beyond to differ materially from those expressed or implied in any forward-looking statements included in this report or otherwise made by our management. Such risks, which are difficult to predict with a level of certainty and may be greater than expected, include, among others, risk associated with combining businesses and/or with assimilating Golf Galaxy.

Table of Contents

PART I

ITEM 1. BUSINESS

Acquisition of Golf Galaxy

On February 13, 2007, the Company acquired Golf Galaxy by means of merger of our wholly owned subsidiary with and into Golf Galaxy, with each Golf Galaxy shareholder receiving \$18.82 per share in cash, without interest and Golf Galaxy became a wholly owned subsidiary of the Company. The Company paid approximately \$226.0 million which was financed using approximately \$79 million of cash and cash equivalents and the balance from borrowings under our revolving line of credit. At closing, Golf Galaxy operated 65 stores in 24 states, ecommerce websites and catalog operations. Golf Galaxy had net sales totaling \$274.7 million for the 12 month period ending February 3, 2007. Golf Galaxy's results of operations will be included in the Company's consolidated statements of income beginning February 13, 2007.

Unless otherwise noted, none of the discussion contained within this Annual Report on Form 10-K/A includes the impact of this acquisition.

General

Dick's Sporting Goods, Inc. (referred to as the Company or Dick's or in the first person notations we, us, and unless specified otherwise) is an authentic full-line sporting goods retailer offering a broad assortment of brand name sporting goods equipment, apparel, and footwear in a specialty store environment. On July 29, 2004, a wholly owned subsidiary of Dick's Sporting Goods, Inc. completed the acquisition of Galyan's. The Consolidated Statements of Income include the operation of Galyan's from the date of acquisition forward for the year ended January 29, 2005 and thereafter. Our core focus is to be an authentic sporting goods retailer by offering a broad selection of high-quality, competitively-priced brand name sporting goods equipment, apparel and footwear that enhances our customers performance and enjoyment of their sports activities.

As of February 3, 2007 we operated 294 stores, with approximately 16.7 million square feet, in 34 states, the majority of which are located primarily throughout the eastern half of the United States. Dick's was founded in 1948 when Richard Dick Stack, the father of Edward W. Stack, our Chairman and Chief Executive Officer, opened his original bait and tackle store in Binghamton, New York. Edward W. Stack joined his father's business full-time in 1977, and, upon his father's retirement in 1984, became President and Chief Executive Officer of the then two-store chain.

We were incorporated in 1948 in New York under the name Dick's Clothing and Sporting Goods, Inc. In November 1997, we reincorporated as a Delaware corporation, and in April 1999 we changed our name to Dick's Sporting Goods, Inc. Our executive office is located at 300 Industry Drive, RIDC Park West, Pittsburgh, PA 15275 and our phone number is (724) 273-3400. Our website is located at www.dickssportinggoods.com. The information on our website does not constitute a part of this annual report. We include on our website, free of charge, copies of our prior annual and quarterly reports filed on Forms 10-K and 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended.

Dick's, Dick's Sporting Goods, DicksSportingGoods.com, Galyan's Trading Company, Inc., Northeast Outfitters, PowerBolt, Fitness Gear, Ativa, Walter Hagen, DBX, Highland Games, Acuity, Field & Stream (footwear only) and Quest are our primary trademarks. Each trademark, trade name or service mark of any other company appearing in this annual report belongs to its holder.

Acquisition of Galyan's

On July 29, 2004, Dick's Sporting Goods, Inc. acquired all of the common stock of Galyan's for \$16.75 per share in cash, and Galyan's became a wholly owned subsidiary of Dick's. The Company recorded \$156.6 million of goodwill as the excess of the purchase price of \$369.6 million over the fair value of the net amounts assigned to assets acquired and liabilities assumed. The Company obtained approximately \$193 million of these funds from cash, cash equivalents and investments and the balance from borrowings under our revolving line of credit.

Table of Contents

Business Strategy

The key elements of our business strategy are:

Authentic Sporting Goods Retailer. Our history and core foundation is as a retailer of high quality authentic athletic equipment, apparel and footwear, intended to enhance our customers' performance and enjoyment of athletic pursuits, rather than focusing our merchandise selection on the latest fashion trend or style. We believe our customers seek genuine, deep product offerings, and ultimately this merchandising approach positions us with advantages in the market, which we believe will continue to benefit from new product offerings with enhanced technological features.

Competitive Pricing. We position ourselves to be competitive in price, but we do not attempt to be a price leader. We maintain a policy of matching our competitors' advertised prices. If a customer finds a competitor with a lower price on an item, we will match the lower price. Additionally, under our Right Price Promise, if within 30 days of purchasing an item from us, a customer finds a lower advertised price by us or a competitor, we will refund the difference. We seek to offer value to our customers and develop and maintain a reputation as a provider of value at each price point.

Broad Assortment of Brand Name Merchandise. We carry a wide variety of well-known brands, including Nike, North Face, Columbia, Adidas, Callaway and Under Armour, as well as private label products sold under names such as Ativa and Walter Hagen, which are available only in our stores. The breadth of our product selections in each category of sporting goods offers our customers a wide range of price points and enables us to address the needs of sporting goods consumers, from the beginner to the sport enthusiast.

Expertise and Service. We enhance our customers' shopping experience by providing knowledgeable and trained customer service professionals and value added services. For example, we were the first full-line sporting goods retailer to have active members of the Professional Golfers' Association (PGA) working in our stores, and as of February 3, 2007 employed 279 PGA professionals in our golf departments. We also had 325 bike mechanics to sell and service bicycles and 243 certified fitness trainers who provide advice on the best fitness equipment for our customers. All of our stores also provide support services such as golf club grip replacement, bicycle repair and maintenance and home delivery and assembly of fitness equipment.

Interactive Store-Within-A-Store. Our stores typically contain five stand-alone specialty stores. We seek to create a distinct look and feel for each specialty department to heighten the customer's interest in the products offered. A typical store has the following in-store specialty shops: (i) the Pro Shop, a golf shop with a putting green and hitting area and video monitors featuring golf tournaments and instruction on the Golf Channel or other sources; (ii) the Footwear Center, featuring hardwood floors, a track for testing athletic shoes and a bank of video monitors playing sporting events; (iii) the Cycle Shop, designed to sell and service bikes, complete with a mechanics' work area and equipment on the sales floor; (iv) the Sportsman's Lodge for the hunting and fishing customer, designed to have the look of an authentic bait and tackle shop; and (v) Total Sports, a seasonal sports area displaying sports equipment and athletic apparel associated with specific seasonal sports, such as football and baseball. Our stores provide interactive opportunities by allowing customers to test golf clubs in an indoor driving range, shoot bows in our archery range, or run on our footwear track.

Exclusive Brand Offerings. We offer our customers high-quality products at competitive prices marketed under exclusive brands. We have invested in a development and procurement staff that continually sources performance-based products generally targeted to the sporting enthusiast for sale under brands such as Ativa, Acuity, Walter Hagen, Northeast Outfitters, PowerBolt, Fitness Gear, Highland Games, DBX, Field & Stream and Quest. Many of our products incorporate technical features such as GORE-TEX, a waterproof breathable fabric, and CoolMax, a fabric that wicks moisture away from the skin to the fabric where the moisture evaporates faster, that are typically available only through well-known brand names. Our private label products offer value to our customers at each price point and provide us with higher gross margins than comparable products we sell. Private label products have grown to 14.1% in fiscal 2006 from 11.9% in fiscal 2005 of net sales on a combined company basis. We expect to continue to grow our exclusive private label offerings.

Merchandising

We offer a full range of sporting goods and active apparel at each price point in order to appeal to the beginner, intermediate and enthusiast sports consumer. The merchandise we carry includes one or more of the

Table of Contents

leading manufacturers in each category. Our objective is not only to carry leading brands, but a full range of products within each brand, including the premium items for the sports enthusiast. As beginners and intermediates move to higher levels in their sports, we expect to be prepared to meet their needs.

We believe that the range of the merchandise we offer, particularly for the enthusiast sports consumer, distinguishes us from other large format sporting goods stores. We also believe that the range of merchandise we offer allows us to compete effectively against all of our competitors, from traditional independent sporting goods stores and specialty shops to other large format sporting goods stores and mass merchant discount retailers.

The following table sets forth the approximate percentage of sales attributable to apparel, footwear and hardlines for the periods presented:

Merchandise Category	Fiscal Year		
	2006	2005	2004
Apparel	26%	26%	25%
Footwear	17%	17%	17%
Hardlines (1)	57%	57%	58%
Total	100%	100%	100%

(1) Includes items such as hunting and fishing gear, sporting goods equipment and golf equipment.

Apparel: This category consists of athletic apparel, outerwear and sportswear designed for a broad range of activities and performance levels as well as apparel designed and fabricated for specific sports, in men's, women's and children's assortments. Technical and performance specific apparel includes offerings for sports such as golf, tennis, running, fitness, soccer, baseball, football, hockey, swimming, cycling and licensed products. Basic sportswear includes T-shirts, shorts, sweats and warm-ups.

Footwear: The Footwear Center, featuring hardwood floors and a track for testing athletic shoes, offers a diverse selection of athletic shoes for running and walking, tennis, fitness and cross training, basketball, and hiking. In addition, we also carry specialty footwear including a complete line of cleated shoes for baseball, football, soccer and golf. Other important categories within the footwear department are boots, socks and accessories.

Hardlines:

Exercise and Team Sports. Our product lines include a diverse selection of fitness equipment including treadmills, elliptical trainers, stationary bicycles, home gyms, free weights, and weight benches. A full range of equipment and accessories are available for team sports such as football, baseball, basketball, hockey, soccer, bowling and lacrosse. Family recreation offerings include lawn games and table games such as ping-pong, foosball, and air hockey.

Outdoor Recreation. The Sportsman's Lodge, designed to have the look of an authentic bait and tackle shop, caters to the outdoorsman and includes a diverse offering of equipment for hunting, fishing, camping, and water sports. Hunting products include rifles, shotguns, ammunition, global positioning systems, hunting apparel, boots and optics including binoculars and scopes, knives and cutlery, archery equipment and accessories. Fishing gear such as rods, reels, tackle and accessories are offered along with camping equipment, including tents and sleeping bags. Equipment offerings for marine and water sports include navigational electronics, water skis, rafts, kayaks, canoes and accessories.

Golf. The Pro Shop, a golf shop with a putting green and indoor driving range, includes a complete assortment of golf clubs and club sets, bags, balls, shoes, teaching aids and accessories. We carry a full range of products

featuring major golf suppliers such as TaylorMade, Callaway, Titleist, Cleveland and Nike Golf as well as our exclusive brands, Walter Hagen, Slazenger and Acuity.

Cycling. Our Cycle Shop, which is designed to sell and service bicycles, complete with a mechanics work area, features a broad selection of BMX, all-terrain, freestyle, touring bicycles, scooters and skateboards. In addition, we also offer a full range of cycling accessories including helmets, bicycle carrier racks, gloves, water bottles and repair and maintenance parts.

Table of Contents**Our Stores**

Each of our stores typically contains five specialty stores. We believe our store-within-a-store concept creates a unique shopping environment by combining the convenience, broad assortment and competitive prices of large format stores with the brand names, deep product selection and customer service of a specialty store.

Store Design. We design our stores to create an exciting shopping environment with distinct departments that can stand on their own as authentic sporting goods specialty shops. Our primary prototype store is approximately 50,000 square feet. Signs and banners are located throughout the store allowing customers to quickly locate the various departments. A wide aisle through the middle of the store displays seasonal or special-buy merchandise. Video monitors throughout the store provide a sense of entertainment with videos of championship games, instructional sessions or live sports events. We also have another prototype two-level store of approximately 75,000 square feet as a growth vehicle for those trade areas that have sufficient in-profile customers to support it. The following table summarizes store openings and closings for 2006 and 2005:

	Fiscal 2006	Fiscal 2005
Beginning stores	255	234
New:		
50,000 square foot prototype	37	20
Two-level stores	2	6
Total new stores	39	26
Closed		(5)
Ending stores	294	255
Relocated stores	2	4

In fiscal 2005, the five store closures were due to overlapping trade areas as a result of the Galyan's acquisition. In most of our stores, approximately 82% of store space is used for selling and approximately 18% is used for backroom storage of merchandise, receiving area and office space.

We seek to encourage cross selling and impulse buying through the layout of our departments. We provide a bright, open shopping environment through the use of glass, lights and lower shelving which enables customers to see the array of merchandise offered throughout our stores. We avoid the warehouse store look featured by some of our large format competitors.

Our stores are typically open seven days a week, generally from 9:00 a.m. to 9:30 p.m. Monday through Saturday, and 10:00 a.m. to 7:00 p.m. on Sunday.

New Store Openings. Future openings will depend upon several factors, including but not limited to general economic conditions, consumer confidence in the economy, unemployment trends, interest rates and inflation, the availability of retail store sites, real estate prices and the availability of adequate capital. Because our new store openings rely on many factors, they are subject to risks and uncertainties described below under Part I, Item 1A, Risks and Uncertainties.

Store Associates. We strive to complement our merchandise selection and innovative store design with superior customer service. We actively recruit sports enthusiasts to serve as sales associates because we believe that they are more knowledgeable about the products they sell. For example, we currently employ PGA golf professionals to work in our golf departments, bike mechanics to sell and service bicycles and certified fitness trainers to provide advice on the best fitness equipment for the individual. We believe that our associates' enthusiasm and ability to demonstrate and explain the advantages of the products lead to increased sales. We believe our prompt, knowledgeable and enthusiastic service fosters the confidence and loyalty of our customers and differentiates us from other large format sporting

goods stores.

We emphasize product knowledge at both the hiring and training stages. We hire most of our sales associates for a specific department or category. As part of our interview process, we test each prospective sales associate for knowledge specific to the department or category in which he or she is to work. We train new sales

Table of Contents

associates through a self-study and testing program that we have developed for each of our categories. We also use mystery shoppers to shop at each store at least monthly and encourage customer comments by making comment cards available for customers to complete and return. These programs allow us to identify stores in which improvements need to be made at the sales associate or managerial levels.

We typically staff our stores with a store manager, two sales managers, a sales support manager, six sales leaders, and approximately 50 full-time and part-time sales associates for a single-level store and proportionately more supervisory roles and associates for a two-level store, depending on store volume and time of year. The operations of each store are supervised by one of 37 district managers, each of whom reports to one of five regional vice-presidents of store operations who are located in the field. The vice president of field operations reports directly to the senior vice president of operations.

Support Services. We believe that we further differentiate our stores from other large-format sporting goods stores by offering support services for the products we sell. We offer a complete range of expert golf services, from club repair, to re-gripping, to private lessons with our PGA professionals. Although we do not receive a share of income from these lessons, allowing our PGA professionals to offer lessons not only helps us in recruiting them to work for us but also provides a benefit to our customers.

Our prototype stores feature bicycle maintenance and repair stations on the sales floor, allowing our bicycle mechanics to service bicycles in addition to assisting customers. We believe that these maintenance and repair stations are one of our most effective selling tools by enhancing the credibility of our specialty store concept and giving assurance to our customers that we can repair and tune the bicycles they purchase.

We also string tennis rackets, sharpen ice skates, provide home delivery and assembly of fitness equipment, provide scope mounting and bore sighting services, cut arrows, sell hunting and fishing licenses and fill CO₂ tanks for paintball.

Site Selection and Store Locations. We select geographic markets and store sites on the basis of demographic information, quality and nature of neighboring tenants, store visibility and accessibility. Key demographics include population density, household income, age and average number of occupants per household. We seek to locate our stores in primary retail centers with an emphasis on co-tenants including major discount retailers such as Wal-Mart or Target, or specialty retailers from other categories such as Barnes & Noble, Best Buy or Staples.

We seek to balance our store expansion between new and existing markets. In our existing markets, we add stores as necessary to cover appropriate market areas. By clustering stores, we seek to take advantage of economies of scale in advertising, promotion, distribution and supervisory costs. We seek to locate stores within separate trade areas within each metropolitan area, in order to establish long-term market penetration. We generally seek to expand in geographically contiguous areas to build on our experience in the same or nearby regions. We believe that local knowledge is an important part of success. In considering new markets, we locate our stores in areas we believe are underserved. In addition to larger metropolitan markets, we also target smaller population centers in which we locate single stores, generally in regional shopping centers with a wide regional draw.

Marketing and Advertising

Our marketing program is designed to promote our selection of brand name products at competitive prices. The program is centered on newspaper advertising supplemented by direct mail and seasonal use of local and national television and radio. The advertising strategy is focused on national television and other national media campaigns, weekly newspaper advertising utilizing multi-page, color inserts and standard run of press advertising, with emphasis on key shopping periods, such as the Christmas season, Father's Day, and back-to-school, and on specific sales and promotional events, including our annual Golf-a-thon sale.

We cluster stores in major markets to enable us to employ our advertising strategy on a cost-effective basis through the use of newspaper and local and national television and radio advertising. We advertise in major metropolitan newspapers as well as in regional newspapers circulated in areas surrounding our store locations. Our newspaper advertising typically consists of weekly promotional advertisements with full-color inserts. Our television advertising is generally concentrated during a promotional event or key shopping period. At other times, we advertise on television and radio nationally to highlight seasonal sports initiatives. Radio advertising is used primarily to publicize specific promotions in conjunction with newspaper advertising or to announce a public relations promotion

or grand opening. Vendor payments under cooperative advertising arrangements with us, as

Table of Contents

well as vendor participation in sponsoring sporting events and programs, have contributed to our advertising leverage.

Our advertising is designed to create an event in the stores and to drive customer traffic with advertisements promoting a wide variety of merchandise values appropriate for the current holiday or event.

We also sponsor professional sports teams, tournaments and amateur competitive events in an effort to align ourselves with both the serious sports enthusiast and the community in general.

Our Scorecard loyalty program provides reward certificates to customers based on purchases. After a customer registers, reward points build as a percentage of purchases. These rewards are systematically tracked, and once a customer reaches a minimum threshold purchase level of \$300 within a program year, a merchandise credit is mailed to the customer's home. This database is then used in conjunction with our direct marketing program. The direct marketing program consists of several direct mail pieces sent during holidays throughout the year. Additionally, several customer focused mailings are sent to members based on their past purchasing history.

Information Systems

We use the JDA Merchandising System and a new data warehouse that interfaces with all Merchandising Systems. We also use the E-3 Replenishment and Arthur Allocation retail software systems. These systems operate on a combination of IBM iSeries and Unix computers. We utilize Fujitsu, NCR, IBM, HP and Dell point-of-sale hardware that incorporates scanning and price look-up features that are supported by the RSA point-of-sale software. Our fully integrated management information systems track purchasing, sales and inventory transfers down to the stock keeping unit or SKU level and have allowed us to improve overall inventory management by identifying individual SKU activity and projecting trends and replenishment needs on a timely basis. We believe that these systems enable us to increase margins by reducing inventory investment, strengthening in-stock positions, and creating store level perpetual inventories and automatic inventory replenishment on basic items of merchandise.

We have a merchandise planning and allocation system that optimizes the distribution of most products to the stores through a combination of historical sales data and forecasted data at an individual store and item level. We believe this minimizes markdowns taken on merchandise and improves sales on these products. Our distribution centers utilize a suite of products from Manhattan Associates which are fully integrated with our JDA systems. Our store operations personnel in every location have online access to product signage, advertising information and e-mail through our wide area network. PeopleSoft Software is used for Payroll, Human Resource Management and Financial Systems.

Purchasing and Distribution

In addition to merchandise procurement, our buying staff is also responsible for determining initial pricing and product marketing plans and working with our allocation and replenishment groups to establish stock levels and product mix. Our buying staff also regularly communicates with our store operations personnel to monitor shifts in consumer tastes and market trends.

Our planning, replenishment, allocation, and merchandise control groups are responsible for merchandise allocation, inventory control, and the E-3 automatic replenishment systems. These groups act as the central processing intermediary between our buying staff and our stores. These groups also coordinate the inventory levels necessary for each advertising promotion with our buying staff and our advertising department, tracking the effectiveness of each advertisement to allow our buying staff and our advertising department to determine the relative success of each promotional program. In addition, these groups' other duties include implementation of price changes, creation of vendor purchase orders and determination of the adequate amount of inventory for each store.

We purchase merchandise from nearly 1,200 vendors, and we have no long-term purchase commitments. During fiscal 2006, Nike, our largest vendor, represented approximately 12% of our merchandise purchases. No other vendor represented 10% or more of our fiscal 2006 merchandise purchases. We do not have long-term contracts with any of our vendors and all of our purchases from vendors are done on a short-term purchase order basis.

We operate a 601,000 square foot distribution center in Smithton, Pennsylvania and we expanded our distribution center in Plainfield, Indiana from 364,000 to 725,000 square feet. The expansion in Plainfield was

Table of Contents

completed in January 2007. Vendors directly ship merchandise, including price tickets, to these distribution centers, where it is processed as necessary, before being shipped to the stores. We believe that our distribution system has the following advantages as compared to a direct delivery or drop shipping system utilized by some other retailers: reduced individual store inventory investment, more timely replenishment of store inventory needs, better use of store floor space, reduced transportation costs and easier vendor returns.

We also have a 75,000 square foot return center in Conklin, New York. Damaged or defective merchandise being returned to vendors is consolidated for cost efficient return at this return center. Inventory arriving at our distribution center is allocated directly to our stores, to the distribution center for temporary storage, or to both locations.

We have contracted with a dedicated fleet for the delivery of merchandise from our Smithton distribution center to our stores within a 300-mile radius of Smithton. We contract with common carriers to deliver merchandise from our Plainfield distribution center to our stores as well as any store outside of a 300-mile radius from Smithton.

Competition

The market for sporting goods retailers is highly fragmented and intensely competitive. The retail sporting goods industry comprises five principal categories of retailers:

Sporting goods stores (large format stores);

Traditional sporting goods retailers;

Specialty retailers;

Mass merchants; and

Catalog and Internet retailers.

Large Format Sporting Goods Stores. The large format stores generally range from 20,000 to 100,000 square feet and offer a broad selection of sporting goods merchandise. We believe that our strong performance with the large format store in recent years is due in part to our unique approach in blending the best attributes of a large format store with the best attributes of a specialty shop.

Traditional Sporting Goods Stores. These stores generally range in size from 5,000 square feet to 20,000 square feet and are frequently located in regional malls and multi-store shopping centers. They typically carry a varied assortment of merchandise. Compared to our stores, they offer a more limited product assortment. We believe these stores do not cater to the sports enthusiast.

Specialty Stores. These stores generally range in size from approximately 2,000 to 20,000 square feet. These retailers typically focus on a specific category, such as athletic footwear, or an activity, such as golf or skiing. While they may offer a deep selection of products within their specialty, they lack the wide range of products that we offer. We believe prices at these stores typically tend to be higher than prices at the large format sporting goods stores and traditional sporting goods stores.

Mass Merchants. These stores generally range in size from approximately 50,000 to over 200,000 square feet and are primarily located in shopping centers, freestanding sites or regional malls. Sporting goods merchandise and apparel represent a small portion of the total merchandise in these stores and the selection is often more limited than in other sporting goods retailers. We believe that this limited selection, particularly with well-known brand names, combined with the reduced service levels typical of a mass merchandiser, limit their ability to meet the needs of sporting goods customers. However, Wal-Mart is by far the largest retailer of sporting goods as measured by sales.

Catalog and Internet-Based Retailers. We believe that the relationships that we have developed with our suppliers and customers through our retail stores provide us with a significant advantage over catalog-based and Internet-only retailers. These retailers sell a full line of sporting goods through the use of catalogs and/or the Internet.

Employees

As of February 3, 2007, we had a total of approximately 8,359 full-time and approximately 11,561 part-time associates (less than 30 hours per week). Due to the seasonal nature of our business, total employment will fluctuate

during the year, which typically peaks in the fourth quarter. None of our associates are covered by a collective bargaining agreement. We believe that our relations with our associates are good.

Table of Contents

Proprietary Rights

Each of Dick's, Dick's Sporting Goods, DicksSportingGoods.com, Walter Hagen, Northeast Outfitters, PowerBolt, Fitness Gear, Ativa, Acuity, Highland Games, DBX, Field & Stream (footwear only) and Qu registered as a service mark or trademark with the United States Patent and Trademark Office. In addition, we have numerous pending applications for trademarks. We have entered into licensing agreements for names that we do not own, which provide for exclusive rights to use names such as Slazenger and Umbro for specified product categories. The earliest that any of our licenses for these private label products expires, including extensions, is 2016. These licenses contain customary termination provisions at the option of the licensor including, in some cases, termination upon our failure to sell a minimum volume of private label products covered by the license. Our licenses are also subject to risks and uncertainties common to licensing arrangements that are described below under the heading Risks and Uncertainties.

Governmental Regulation

We must comply with federal, state and local regulations, including the federal Brady Handgun Violence Prevention Act, which require us, as a federal firearms licensee, to perform a pre-sale background check of purchasers of long guns. We perform this background check using either the FBI-managed National Instant Criminal Background Check System (NICS), or a state government-managed system that relies on NICS and any additional information collected by the state. These background check systems either confirm that a sale can be made, deny the sale, or require that the sale be delayed for further review, and provide us with a transaction number for the proposed sale. We are required to record the transaction number on Form 4473 of the Bureau of Alcohol, Tobacco and Firearms and retain a copy for our records for 5 years for auditing purposes for each denied sale. After all of these procedures are complete, we complete the sale.

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

Executive Officers of the Company

The executive officers of the Company, and their prior business experience, are as follows:

Edward W. Stack, 52, has served as our Chairman and Chief Executive Officer since 1984 when the founder and Edward Stack's father, Richard Dick Stack, retired from our then two store chain. Mr. Stack has served us full time since 1977 in a variety of positions, including President, Store Manager and Merchandise Manager.

William J. Colombo, 51, became our President and a board member in 2002 in addition to being Chief Operating Officer. From late in 1998 to 2000, Mr. Colombo served as President of dsports.com LLC, our Internet commerce subsidiary. Mr. Colombo served as Chief Operating Officer and an Executive Vice President from 1995 to 1998. Mr. Colombo joined us in 1988. From 1977 to 1988, he held various field and district positions with J.C. Penney Company, Inc. (a retailing company listed on the NYSE). He is also on the board of directors of Gibraltar Industries (a leading processor, manufacturer and provider of high value-added, high margin steel products and services listed on NASDAQ).

William R. Newlin, 66, joined us in October 2003 as our Executive Vice President and Chief Administrative Officer. Prior to that, he served as Chairman and CEO of Buchanan Ingersoll PC (law firm) for more than five years. Mr. Newlin is also a director (formerly the Chairman) of Kennametal Inc. (global manufacturer of cutting tools and systems listed on the NYSE). He also is on the board of directors of Arvin Meritor, Inc. (vehicle modules and components listed on the NYSE) and Calgon Carbon Corporation (solutions for making air and water safer listed on the NYSE). Mr. Newlin announced that he will retire in March 2007.

Michael F. Hines, 50, has been our Executive Vice President and Chief Financial Officer since 2001 and joined us in 1995 as the Chief Financial Officer. From 1990 to 1995, Mr. Hines was employed by Staples, Inc. (an office supply retailer listed on the NYSE), most recently as Vice President of Finance. Prior to that, Mr. Hines spent 12 years in public accounting, the last eight years with Deloitte & Touche LLP. Mr. Hines announced that he will retire during March 2007.

Gwendolyn K. Manto, 52, joined us in January 2006 as our Executive Vice President and Chief Merchandising Officer. Ms. Manto was employed by Sears Holding Co. (broadline retailer listed on the NYSE), as Executive Vice President and General Merchandise Manager, Apparel since February 2004. Prior to joining Sears, she was Vice Chairman/Chief Merchandising Officer of Stein Mart (an off-price specialty retailer listed on NASDAQ).

Table of Contents

ITEM 1A. RISK FACTORS

Risks and Uncertainties

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

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

large format sporting goods stores;

traditional sporting goods stores and chains;

specialty sporting goods shops and pro shops;

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

catalog and Internet-based retailers.

Pressure from our competitors could require us to reduce our prices or increase our spending for advertising and promotion. Increased competition in markets in which we have stores or the adoption by competitors of innovative store formats, aggressive pricing strategies and retail sale methods, such as the Internet, could cause us to lose market share and could have a material adverse effect on our business, financial condition and results of operations.

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

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

In addition, our expansion in new and existing markets may present competitive, distribution and merchandising challenges that differ from our current challenges, including competition among our stores, diminished novelty of our store design and concept, added strain on our distribution center, additional information to be processed by our management information systems and diversion of management attention from operations, such as the control of inventory levels in our existing stores, to the opening of new stores and markets. New stores in new markets, where we are less familiar with the target customer and less well-known, may face different or additional risks and increased costs compared to stores operated in existing markets, or new stores in existing markets. Expansion into new markets could also bring us into direct competition with retailers with whom we have no past experience as direct competitors. To the extent that we become increasingly reliant on entry into new markets in order to grow, we may face additional risks and our net income could suffer. To the extent that we are not able to meet these new challenges, our sales could decrease and our operating costs could increase.

There also can be no assurance that our new stores will generate sales levels necessary to achieve store-level profitability or profitability comparable to that of existing stores. New stores also may face greater competition and have lower anticipated sales volumes relative to previously opened stores during their comparable years of operation. We may not be able to advertise cost-effectively in new or smaller markets in which we have less store density, which could slow sales growth at such stores. We also cannot guarantee that we will be able to obtain and distribute adequate product supplies to our stores or maintain adequate warehousing and distribution capability at acceptable costs.

Table of Contents

If we are unable to predict or react to changes in consumer demand, we may lose customers and our sales may decline.

Our success depends in part on our ability to anticipate and respond in a timely manner to changing consumer demand and preferences regarding sporting goods. Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to change. We often make commitments to purchase products from our vendors several months in advance of the proposed delivery. If we misjudge the market for our merchandise our sales may decline significantly. We may overstock unpopular products and be forced to take significant inventory markdowns or miss opportunities for other products, both of which could have a negative impact on our profitability. Conversely, shortages of items that prove popular could reduce our net sales. In addition, a major shift in consumer demand away from sporting goods or sport apparel could also have a material adverse effect on our business, results of operations and financial condition.

We may be subject to claims and our insurance may not be sufficient to cover damages related to those claims.

We may be subject to lawsuits resulting from injuries associated with the use of sporting goods equipment that we sell. In addition, although we do not sell hand guns, assault weapons or automatic firearms, we do sell hunting rifles which are products that are associated with an increased risk of injury and related lawsuits. We may also be subject to lawsuits relating to the design, manufacture or distribution of our private label products. We may incur losses relating to these claims or the defense of these claims. We may also incur losses due to lawsuits relating to our performance of background checks on hunting rifle purchasers as mandated by state and federal law or the improper use of hunting rifles sold by us, including lawsuits by municipalities or other organizations attempting to recover costs from hunting rifle manufacturers and retailers relating to the misuse of hunting rifles. In addition, in the future there may be increased federal, state or local regulation, including taxation, of the sale of hunting rifles in our current markets as well as future markets in which we may operate. Commencement of these lawsuits against us or the establishment of new regulations could reduce our sales and decrease our profitability. There is a risk that claims or liabilities will exceed our insurance coverage. In addition, we may be unable to retain adequate liability insurance in the future. Although we have entered into product liability indemnity agreements with many of our vendors, we cannot assure you that we will be able to collect payments sufficient to offset product liability losses or in the case of our private label products, collect anything at all. In addition, we are subject to regulation by the Consumer Product Safety Commission and similar state regulatory agencies. If we fail to comply with government and industry safety standards, we may be subject to claims, lawsuits, fines and adverse publicity that could have a material adverse effect on our business, results of operations and financial condition.

If our suppliers, distributors or manufacturers do not provide us with sufficient quantities of products, our sales and profitability will suffer.

We purchase merchandise from nearly 1,200 vendors. In fiscal 2006, purchases from Nike represented approximately 12% of our merchandise purchases. Although in fiscal 2006, purchases from no other vendor represented more than 10% of our total purchases, our dependence on our principal suppliers involves risk. If there is a disruption in supply from a principal supplier or distributor, we may be unable to obtain the merchandise that we desire to sell and that consumers desire to purchase. Moreover, many of our suppliers provide us with incentives, such as return privileges, volume purchasing allowances and cooperative advertising. A decline or discontinuation of these incentives could reduce our profits.

We believe that a significant portion of the products that we purchase, including those purchased from domestic suppliers, is manufactured abroad in countries such as China, Taiwan and South Korea. In addition, we believe most, if not all, of our private label merchandise is manufactured abroad. Foreign imports subject us to the risks of changes in import duties, quotas, loss of most favored nation or MFN status with the United States for a particular foreign country, work stoppages, delays in shipment, freight cost increases and economic uncertainties (including the United States imposing antidumping or countervailing duty orders, safeguards, remedies or compensation and retaliation due to illegal foreign trade practices). If any of these or other factors were to cause a disruption of trade from the countries in which the suppliers of our vendors are located, our inventory levels may be reduced or the cost of our products may increase. In addition, to the extent that any foreign manufacturers from whom we purchase products directly or indirectly utilize labor and other practices that vary from those commonly accepted in the United States, we could be

hurt by any resulting negative publicity or, in some cases, face potential liability. To date, we have not experienced any difficulties of this nature.

Historically, instability in the political and economic environments of the countries in which our vendors or we obtain our products has not had a material adverse effect on our operations. However, we cannot predict the

Table of Contents

effect that future changes in economic or political conditions in such foreign countries may have on our operations. In the event of disruptions or delays in supply due to economic or political conditions in foreign countries, such disruptions or delays could adversely affect our results of operations unless and until alternative supply arrangements could be made. In addition, merchandise purchased from alternative sources may be of lesser quality or more expensive than the merchandise we currently purchase abroad.

Countries from which our vendors obtain these new products may, from time to time, impose new or adjust prevailing quotas or other restrictions on exported products, and the United States may impose new duties, quotas and other restrictions on imported products. The United States Congress periodically considers other restrictions on the importation of products obtained by our vendors and us. The cost of such products may increase for us if applicable duties are raised, or if import quotas with respect to such products are imposed or made more restrictive, we may not be able to obtain certain goods.

Problems with our information system software could disrupt our operations and negatively impact our financial results and materially adversely affect our business operations.

We utilize a suite of applications for our merchandise system that includes JDA Merchandising and Arthur Allocation. This system, if not functioning properly, could disrupt our ability to track, record and analyze the merchandise that we sell and cause disruptions of operations, including, among others, an inability to process shipments of goods, process financial information or credit card transactions, deliver products or engage in similar normal business activities, particularly if there are any unforeseen interruptions after implementation. Any material disruption, malfunction or other similar problems in or with this system could negatively impact our financial results and materially adversely affect our business operations.

We rely on two distribution centers along with a smaller return facility, and if there is a natural disaster or other serious disruption at one of these facilities, we may lose merchandise and be unable to effectively deliver it to our stores.

We operate a 601,000 square foot distribution center in Smithton, Pennsylvania and we expanded our distribution center in Plainfield, Indiana from 364,000 to 725,000 square feet. The expansion in Plainfield was completed in January 2007. We also operate a 75,000 square foot return center in Conklin, New York. Any natural disaster or other serious disruption to one of these facilities due to fire, tornado or any other cause would damage a significant portion of our inventory, could impair our ability to adequately stock our stores and process returns of products to vendors and could negatively affect our sales and profitability. Our growth could cause us to seek alternative facilities. Such expansion of the current facility or alternatives could affect us in ways we cannot predict.

Our business is seasonal and our annual results are highly dependent on the success of our fourth quarter sales.

Our business is highly seasonal in nature. Our highest sales and operating income historically occur during the fourth fiscal quarter, which is due, in part, to the holiday selling season and, in part, to our strong sales of cold weather sporting goods and apparel. The fourth quarter generated approximately 33% of our net sales and approximately 60% of our net income for fiscal 2006. Any decrease in our fourth quarter sales, whether because of a slow holiday selling season, unseasonable weather conditions, or otherwise, could have a material adverse effect on our business, financial condition and operating results for the entire fiscal year.

Our business is dependent on the general economic conditions in our markets.

In general, our sales depend on discretionary spending by our customers. A deterioration of current economic conditions or an economic downturn in any of our major markets or in general could result in declines in sales and impair our growth. General economic conditions and other factors that affect discretionary spending in the regions in which we operate are beyond our control and are affected by:

interest rates and inflation;

the impact of an economic recession;

the impact of natural disasters;

consumer credit availability;

consumer debt levels;

15

Table of Contents

consumer confidence in the economy;

tax rates and tax policy;

unemployment trends; and

other matters that influence consumer confidence and spending.

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

Because our stores are generally concentrated in the eastern half of the United States, we are subject to regional risks.

Many of our stores are located primarily in the eastern half of the United States. Because of this, we are subject to regional risks, such as the regional economy, weather conditions, increasing costs of electricity, oil and natural gas, natural disasters, as well as government regulations specific to the states in which we operate. If the region were to suffer an economic downturn or other adverse regional event, our net sales and profitability could suffer.

Our results of operations may be harmed by unseasonably warm winter weather conditions. Many of our stores are located in geographic areas that experience seasonably cold weather. We sell a significant amount of winter merchandise. Abnormally warm weather conditions could reduce our sales of these items and hurt our profitability. Additionally, abnormally wet or cold weather in the spring or summer months could reduce our sales of golf or other merchandise and hurt our profitability.

The Company may be subject to periodic litigation, including Fair Labor Standards Act and state wage and hour lawsuits that may adversely affect the Company's business and financial performance.

From time to time the Company or its subsidiaries may be involved in lawsuits, including class action lawsuits brought against the Company or its subsidiaries for alleged violations of the Fair Labor Standards Act and state wage and hour laws. Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of any such proceedings. We may incur losses relating to these claims. In addition, these proceedings could cause us to incur costs and may require us to devote resources to defend against these claims. For a description of current legal proceedings, see Part II, Item 3, Legal Proceedings.

The terms of our senior secured revolving credit facility impose operating and financial restrictions on us, which may impair our ability to respond to changing business and economic conditions. This impairment could have a significant adverse impact on our business.

Our current senior secured revolving credit facility contains provisions which restrict our ability to, among other things, incur additional indebtedness, issue additional shares of capital stock in certain circumstances, make particular types of investments, incur certain types of liens, pay dividends, redeem capital stock, consummate mergers and consolidations, enter into transactions with affiliates or make substantial asset sales. In addition, our obligations under the senior secured revolving credit facility are secured by interests in substantially all of our personal property excluding store and distribution center equipment and fixtures. In the event of our insolvency, liquidation, dissolution or reorganization, the lenders under our senior secured revolving credit facility would be entitled to payment in full from our assets before distributions, if any, were made to our stockholders.

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

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

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

Table of Contents

Our ability to expand our business will be dependent upon the availability of adequate capital.

The rate of our expansion will also depend on the availability of adequate capital, which in turn will depend in large part on cash flow generated by our business and the availability of equity and debt capital. We cannot assure you that we will be able to obtain equity or debt capital on acceptable terms or at all. Our current senior secured revolving credit facility contains provisions which restrict our ability to incur additional indebtedness, to raise capital through the issuance of equity or make substantial asset sales, which might otherwise be used to finance our expansion. Our obligations under the senior secured revolving credit facility are secured by interests in substantially all of our personal property excluding store and distribution center equipment and fixtures, which may further limit our access to certain capital markets or lending sources. Moreover, the actual availability under our credit facility is limited to the lesser of 70% of our eligible inventory or 85% of our inventory's liquidation value, in each case net of specified reserves and less any letters of credit outstanding, and opportunities for increased cash flows from reduced inventories would be partially offset by reduced availability through our senior secured revolving credit facility. As a result, we cannot assure you that we will be able to finance our current plans for the opening of new retail stores.

The loss of our key executives, especially Edward W. Stack, our Chairman of the Board and Chief Executive Officer, could have a material adverse effect on our business due to the loss of their experience and industry relationships.

Our success depends on the continued services of our senior management, particularly Edward W. Stack, our Chairman of the Board and Chief Executive Officer. If we were to lose any key senior executive, our business could be materially adversely affected.

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

Our success depends on hiring and retaining quality managers and sales associates in our stores. We plan to expand our employee base to manage our anticipated growth. Competition for personnel, particularly for employees with retail expertise, is intense. Additionally, our ability to maintain consistency in the quality of customer service in our stores is critical to our success. Also, many of our store-level employees are in entry-level or part-time positions that historically have high rates of turnover. We are also dependent on the employees who staff our distribution and return centers, many of whom are skilled. We may be unable to meet our labor needs and control our costs due to external factors such as unemployment levels, minimum wage legislation and wage inflation. Although none of our employees are currently covered under collective bargaining agreements, we cannot guarantee that our employees will not elect to be represented by labor unions in the future. If we are unable to hire and retain sales associates capable of providing a high level of customer service, our business could be materially adversely affected.

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

Among the chief uncertainties facing our nation and world and, as a result, our business is the instability and conflict in the Middle East. Obviously, no one can predict with certainty what the overall economic impact will be as a result of these circumstances. Clearly, events or series of events in the Middle East or elsewhere could have a very serious adverse impact on our business.

Terrorist attacks may cause damage or disruption to our Company, our employees, our facilities and our customers, which could significantly impact our net sales, costs and expenses, and financial condition. The potential for future terrorist attacks, the national and international responses to terrorist attacks, and other acts of war or hostility may cause greater uncertainty and cause our business to suffer in ways that we currently cannot predict. Our geographic focus in the eastern United States may make us more vulnerable to such uncertainties than other comparable retailers who may not have a similar geographic focus.

We are controlled by our Chief Executive Officer and his relatives, whose interests may differ from other stockholders.

We have two classes of common stock. The common stock has one vote per share and the Class B common stock has 10 votes per share. As of February 3, 2007, Mr. Edward W. Stack, our Chairman and Chief Executive Officer, and his relatives controlled approximately 77% of the combined voting power of our common stock and Class B common stock and would control the outcome of any corporate transaction or other matter submitted to the stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets. Mr.

Table of Contents

Stack may also acquire additional shares of common stock upon the exercise of stock options. They will also have the power to prevent or cause a change in control. The interests of Mr. Stack and his relatives may differ from the interests of the other stockholders and they may take actions with which you disagree.

Our quarterly operating results may fluctuate substantially, which may adversely affect our business and the market price of our common stock.

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

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

lockouts or strikes involving professional sports teams;

retirement of sports superstars used in marketing various products;

costs related to the closures of existing stores;

litigation;

pricing and other actions taken by our competitors;

adverse weather conditions in our markets; and

general economic conditions.

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

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

competition;

our new store openings;

general regional and national economic conditions;

actions taken by our competitors;

consumer trends and preferences;

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

new product introductions and changes in our product mix;

timing and effectiveness of promotional events;

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

weather.

We cannot assure you that comparable store sales will continue to increase at the rates achieved in our last fiscal year. Moreover, our comparable store sales may decline. Our comparable store sales may vary from quarter to quarter, and an unanticipated decline in revenues or comparable store sales may cause the price of our common stock to

fluctuate significantly.

The market price of our common stock is likely to be highly volatile as the stock market in general has been highly volatile. Factors that could cause fluctuation in the stock price may include, among other things:

actual or anticipated variations in quarterly operating results;

changes in financial estimates by securities analysts;

our inability to meet or exceed securities analysts' estimates or expectations;

conditions or trends in our industry;

changes in the market valuations of other retail companies;

announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;

Table of Contents

capital commitments;

additions or departures of key personnel; and

sales of common stock.

Many of these factors are beyond our control. These factors may cause the market price of our common stock to decline, regardless of our operating performance.

Our anti-takeover provisions could prevent or delay a change in control of our company, even if such change of control would be beneficial to our stockholders.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws as well as provisions of Delaware law could discourage, delay or prevent a merger, acquisition or other change in control of our Company, even if such change in control would be beneficial to our stockholders. These provisions include: authorizing the issuance of Class B common stock; classifying the board of directors such that only one-third of directors are elected each year; authorizing the issuance of blank check preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt; prohibiting the use of cumulative voting for the election of directors; limiting the ability of stockholders to call special meetings of stockholders; if our Class B common stock is no longer outstanding, prohibiting stockholder action by partial written consent and requiring all stockholder actions to be taken at a meeting of our stockholders or by unanimous written consent; and establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, the Delaware General Corporation Law, to which we are subject, prohibits, except under specified circumstances, us from engaging in any mergers, significant sales of stock or assets or business combinations with any stockholder or group of stockholders who own at least 15% of our common stock.

We may not have the ability to purchase convertible notes at the option of the holders or upon a change in control or to raise the funds necessary to finance the purchases.

On February 18, 2004, the Company completed a private offering of \$172.5 million issue price of senior unsecured convertible notes in transactions pursuant to Rule 144A under the Securities Act of 1933, as amended.

On February 18, 2009, February 18, 2014 and February 18, 2019, holders of the convertible notes may require us to purchase their convertible notes. However, it is possible that we would not have sufficient funds at that time to make the required purchase of convertible notes or would otherwise be prohibited under our senior secured revolving credit facility or other future debt instruments from making such payments in cash. We may only pay the purchase price in cash and not in shares of our common stock.

In addition, upon the occurrence of certain specific kinds of change in control events, holders may require us to purchase for cash all or any portion of their convertible notes. However, it is possible that, upon a change in control, we may not have sufficient funds at that time to make the required purchase of convertible notes, and we may be unable to raise the funds necessary. In addition, the issuance of our shares upon a conversion of convertible notes could result in a default under our senior secured revolving credit facility to the extent that the issuance creates a change of control event under our credit facility. Such a default under the senior secured credit facility could in turn create a cross default under the convertible notes.

The terms of our senior secured revolving credit facility and of any future indebtedness we incur may also restrict our ability to fund the purchase of convertible notes upon a change in control or if we are otherwise required to purchase convertible notes at the option of the holder. If such restrictions exist, we would have to seek the consent of the lenders or repay those borrowings. If we were unable to obtain the necessary consent or unable to repay those borrowings, we would be unable to purchase the convertible notes and, as a result, would be in default under the convertible notes.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Table of Contents**ITEM 2. PROPERTIES**

Our corporate headquarters is located at 300 Industry Drive, RIDC Park West, Pittsburgh, PA 15275, where we lease approximately 200,000 square feet of office space. The lease for this office space is for a term of 20 years through 2024.

We currently lease a 601,000 square foot distribution center in Smithton, Pennsylvania and a 725,000 square foot distribution center in Plainfield, Indiana. The term of these leases expire in 2019 and 2020, respectively. We also lease a 75,000 square foot return center in Conklin, New York, which is utilized for freight consolidation and the handling of damaged and defective merchandise. The term of this lease expires in 2009.

We lease all of our stores. Initial lease terms are generally for 10 to 25 years, and most leases contain multiple five-year renewal options and rent escalation provisions. We believe that our leases, when entered into, are at market rate rents. We generally select a new store site six to 18 months before its opening. Our stores are primarily located in shopping centers in regional shopping areas, as well as in freestanding locations and in malls. We currently have substantially all of our leases signed for the stores planned to open in fiscal 2007, and five signed leases for the stores planned to open in fiscal 2008.

As of February 3, 2007 we operated 294 stores in 34 states. The following table sets forth the number of stores by state:

State	
Alabama	4
Colorado	7
Connecticut	8
Delaware	2
Florida	2
Georgia	8
Illinois	16
Indiana	15
Iowa	2
Kansas	6
Kentucky	6
Maine	4
Maryland	9
Massachusetts	14
Michigan	14
Minnesota	5
Missouri	5
Nebraska	2
Nevada	1
New Hampshire	3
New Jersey	11
New York	26
North Carolina	20
Ohio	33
Pennsylvania	30
Rhode Island	2
South Carolina	5
Tennessee	5
Texas	2
Utah	1
Vermont	2

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Virginia	15
West Virginia	4
Wisconsin	5
Total	294

Table of Contents**ITEM 3. LEGAL PROCEEDINGS**

The Company is a defendant in three cases which make claims concerning alleged failures to pay overtime wages as required by the Fair Labor Standards Act (FLSA) and applicable state labor law. The cases were filed in May and November of 2005, and April of 2006, and are currently pending in the U.S. District Court for the Western District of New York (Tamara Barrus v. Dick's Sporting Goods, Inc. and Galyan's Trading Company, Inc. (Barrus) and Daniel Parks v. Dick's Sporting Goods, Inc. (Parks)) and the U.S. Third Circuit Court of Appeals (James Premick v. Dick's Sporting Goods, Inc. (Premick)). Because until September 2006 none of these cases were certified as class actions, we deemed them to be claims that were incidental to our business. In September and October 2006, respectively, a magistrate judge for the U.S. District Court for the Western District of New York conditionally certified classes for notice purposes under the FLSA in the Barrus and Parks cases. We have appealed these conditional certifications by the magistrate judge in the Barrus and Parks cases to the U.S. District Court in the Western District of New York. The U.S. District Court has denied our appeal as to conditional class certification in the Barrus case. The parties and the Court agreed to stop the actions pending an attempt to resolve all claims through mediation. Mediation is scheduled for April 2007. The Premick case is on appeal following a favorable dismissal of all claims against the Company in the trial court.

We currently believe that none of these cases properly represent class actions, and we plan to vigorously defend these cases. Our management believes that the final resolution of these matters would not have a material effect on our consolidated financial position or liquidity.

In addition to the above matters, various claims and lawsuits arising in the normal course of business are pending against us. The subject matter of these proceedings primarily includes commercial disputes and employment issues not relating to the FLSA. The results of those other proceedings are not expected to have a material adverse effect on our consolidated financial position, liquidity or results of operations.

ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2006 through the solicitation of proxies or otherwise.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS**

The shares of Dick's Sporting Goods, Inc. common stock are listed and traded on the New York Stock Exchange (NYSE), under the symbol DKS . The shares of the Company's Class B common stock are neither listed nor traded on any stock exchange or other market. These shares of Class B common stock can be converted to common stock at the holder's option and are automatically convertible upon other events. Our common stock began trading on October 16, 2002, following the Company's initial public offering. Set forth below, for the applicable periods indicated, are the high and low closing sales prices per share of the Company's common stock as reported by the NYSE.

Fiscal Quarter Ended	High	Low
April 29, 2006	\$42.25	\$35.66
July 29, 2006	\$44.03	\$35.24
October 28, 2006	\$49.50	\$36.26
February 3, 2007	\$55.79	\$48.23

Fiscal Quarter Ended	High	Low
April 30, 2005	\$36.73	\$30.66
July 30, 2005	\$40.13	\$30.56
October 29, 2005	\$40.08	\$27.00
January 28, 2006	\$37.36	\$29.93

Table of Contents

The number of holders of record of shares of the Company's common stock and Class B common stock as of March 21, 2007 was 179 and 9, respectively.

We currently intend to retain our earnings for the development of our business. We have never paid any cash dividends since our inception, and we do not anticipate paying any cash dividends in the future.

The information set forth under Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters is incorporated herein.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated financial data for fiscal years 2006, 2005, 2004, 2003 and 2002 presented below under the captions Statement of Income Data , Other Data and Balance Sheet Data have been derived from our consolidated financial statements for those periods. The following selected consolidated financial data for fiscal years 2006, 2005, 2004, 2003 and 2002 presented below under the caption Store Data have been derived from internal records of our operations.

Our fiscal year consists of 52 or 53 weeks, ends on the Saturday nearest to the last day in January and is named for the calendar year ending closest to that date. All fiscal years presented include 52 weeks of operations except fiscal 2006, which includes 53 weeks. You should read the information set forth below in conjunction with other sections of this report, including Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes.

Table of Contents

	Fiscal Year				
	2006	2005	2004	2003	2002
	(Dollars in thousands, except per share and sales per square foot data)				
Statement of Income Data:					
Net sales	\$ 3,114,162	\$ 2,624,987	\$ 2,109,399	\$ 1,470,845	\$ 1,272,584
Cost of goods sold (1)	2,217,463	1,887,347	1,522,873	1,062,820	934,956
Gross profit	896,699	737,640	586,526	408,025	337,628
Selling, general and administrative expenses	682,625	556,320	443,776	314,885	262,755
Merger integration and store closing costs		37,790	20,336		
Pre-opening expenses	16,364	10,781	11,545	7,499	6,000
Income from operations	197,710	132,749	110,869	85,641	68,873
(Gain) on sale / loss on write-down of non-cash investment (2) (3)		(1,844)	(10,981)	(3,536)	2,447
Interest expense, net	10,025	12,959	8,009	1,831	2,864
Other income			(1,000)		
Income before income taxes	187,685	121,634	114,841	87,346	63,562
Provision for income taxes	75,074	48,654	45,936	34,938	25,425
Net income	\$ 112,611	\$ 72,980	\$ 68,905	\$ 52,408	\$ 38,137
Earnings per Common Share (4):					
Net income per common share Basic	\$ 2.20	\$ 1.47	\$ 1.44	\$ 1.17	\$ 1.08
Net income per common share Diluted	\$ 2.03	\$ 1.35	\$ 1.30	\$ 1.04	\$ 0.93
Weighted average number of common shares outstanding (in thousands):					
Basic	51,256	49,792	47,978	44,774	35,458
Diluted	55,395	53,979	52,921	50,280	40,958
Store Data:					
Comparable store net sales increase (5)	6.0%	2.6%	2.6%	2.1%	5.1%
Number of stores at end of period	294	255	234	163	141
Total square feet at end of period	16,724,171	14,650,459	13,514,869	7,919,138	6,807,021
Net sales per square foot (6)	\$ 197	\$ 188	\$ 195	\$ 193	\$ 192

Other Data:

Gross profit margin	28.8%	28.1%	27.8%	27.7%	26.5%
Selling, general and administrative percentage of net sales	21.9%	21.2%	21.0%	21.4%	20.7%
Operating margin	6.3%	5.1%	5.3%	5.8%	5.4%
Inventory turnover (7)	3.34x	3.42x	3.56x	3.69x	3.83x
Depreciation and amortization	\$ 54,929	\$ 49,861	\$ 37,621	\$ 17,554	\$ 14,420

Balance Sheet Data:

Inventories	\$ 641,464	\$ 535,698	\$ 457,618	\$ 254,360	\$ 233,497
Working capital (8)	\$ 304,796	\$ 142,748	\$ 128,388	\$ 136,679	\$ 55,102
Total assets	\$ 1,524,265	\$ 1,187,789	\$ 1,085,048	\$ 543,360	\$ 413,529
Total debt including capital lease obligations	\$ 181,017	\$ 181,201	\$ 258,004	\$ 3,916	\$ 3,577
Retained earnings	\$ 315,453	\$ 202,842	\$ 129,862	\$ 60,957	\$ 8,549
Total stockholders equity	\$ 620,550	\$ 414,793	\$ 313,667	\$ 240,894	\$ 138,823

(1) Cost of goods sold includes the cost of merchandise, occupancy, freight and distribution costs, and shrink expense.

(2) Gain on sale of investment resulted from the sale of a portion of the Company's non-cash investment in its third-party Internet commerce service provider. We converted to an equity ownership in that provider in lieu of royalties until Internet sales reached a predefined amount that

resulted in this
non-cash
investment.

- (3) The loss on
write-down of
non-cash
investment
resulted from a
write-down of
the investment
in our
third-party
Internet
commerce
service provider
due to a decline
in the value of
that company's
publicly traded
stock.

Table of Contents

- (4) Earnings per share data gives effect to the two-for-one stock split, in the form of a stock dividend, which became effective on April 5, 2004.

- (5) Comparable store sales begin in a store's 14th full month of operations after its grand opening. Comparable store sales are for stores that opened at least 13 months prior to the beginning of the period noted. Stores that were closed or relocated during the applicable period have been excluded from comparable store sales. Each relocated store is returned to the comparable store base after its 14th full month of operations. The former Galyan's stores will be included in the full year comparable store base beginning in

2007.

- (6) Calculated using net sales and gross square footage of all stores open at both the beginning and the end of the period. Gross square footage includes the storage, receiving and office space that generally occupies approximately 18% of total store space.
- (7) Calculated as cost of goods sold divided by the average monthly ending inventories of the last 13 months.
- (8) Defined as current assets less current liabilities.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with Selected Consolidated Financial and Other Data and our consolidated financial statements and related notes appearing elsewhere in this report. This Annual Report on Form 10-K/A contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See PART I- Forward Looking Statements and PART I-Item 1A, Risks and Uncertainties .

Restatement

The following Management Discussion and Analysis gives effect to the restatement as discussed in Note 18 to the accompanying consolidated financial statements.

Overview

The Company is an authentic full-line sporting goods retailer offering a broad assortment of brand-name sporting goods equipment, apparel and footwear in a specialty store environment. On July 29, 2004, a wholly owned subsidiary of Dick's Sporting Goods, Inc. completed the acquisition of Galyan's. The Consolidated Statements of Income include the operation of Galyan's from the date of acquisition forward for the year ended January 29, 2005.

As of February 3, 2007 we operated 294 stores, with approximately 16.7 million square feet, in 34 states, the majority of which are located primarily throughout the eastern half of the United States.

Executive Summary

The Company reported net income for the year ended February 3, 2007 of \$112.6 million or \$2.03 per diluted share as compared to net income of \$73.0 million and earnings per diluted share of \$1.35 in 2005. The increase in earnings was attributable to an increase in sales as a result of a 6.0% increase in comparable store sales, new store sales and an increase in gross profit margins partially offset by an increase in selling, general and administrative expenses as a percentage of sales.

Table of Contents

Net sales increased 19% to \$3,114 million in 2006 from \$2,625 million in 2005. This increase resulted primarily from a comparable store sales increase of 6.0%, or \$105.9 million on a 52 week to 52 week basis, and \$383.1 million from the net addition of new stores in the last five quarters which are not included in the comparable store base and the inclusion of a 53rd week of sales.

Income from operations increased 49% to \$197.7 million in 2006 from \$132.7 million in 2005 due primarily to the increase in gross profit, and the inclusion of merger integration and store closing costs in 2005 partially offset by an increase in selling, general and administrative costs.

As a percentage of net sales, gross profit increased to 28.79% in 2006 from 28.10% in 2005. The gross profit percentage increased primarily due to an increase in the merchandise margin percentage, lower freight and distribution costs as a percentage of sales and lower occupancy costs as a percentage of sales.

Selling, general and administrative expenses increased by 73 basis points. The increase as a percentage of sales was due primarily to recording stock compensation expense in fiscal 2006 upon the Company's adoption of SFAS 123R on January 29, 2006, an increase in net advertising expense and higher bonus expense this year.

We ended the year with no borrowings on our line of credit and excess borrowing availability totaled \$333.5 million as of February 3, 2007.

Results of Operations

The following table presents for the periods indicated selected items in the consolidated statements of income as a percentage of the Company's net sales, as well as the basis point change in percentage of net sales from the prior year's period:

	Fiscal Year			Changes in Percentage of Net Sales from Prior Year	Changes in Percentage of Net Sales from Prior Year
	2006^A	2005^A	2004^A	2005-2006^A	2004-2005^A
Net sales (1)	100.00%	100.00%	100.00%	N/A	N/A
Cost of goods sold, including occupancy and distribution costs (2)	71.21	71.90	72.19	(69)	(29)
Gross profit	28.79	28.10	27.81	69	29
Selling, general and administrative expenses (3)	21.92	21.19	21.04	73	15
Merger integration and store closing costs (4)		1.44	0.96	(144)	48
Pre-opening expenses (5)	0.53	0.41	0.55	12	(14)
Income from operations	6.35	5.06	5.26	129	(20)
Gain on sale of investment (6)		(0.07)	(0.52)	(7)	(45)
Interest expense, net (7)	0.32	0.49	0.38	(17)	11
Other income			(0.05)		(5)
Income before income taxes	6.03	4.63	5.44	140	(81)
Provision for income taxes	2.41	1.85	2.18	56	(33)
Net income	3.62%	2.78%	3.27%	84	(49)

A: Column does not add due to rounding

(1) Revenue from retail sales is recognized at the point of sale, net of sales tax. A provision for anticipated merchandise returns is provided through a reduction of sales and cost of sales in the period that the related sales are recorded. Revenue from gift cards and returned merchandise credits (collectively the cards), are deferred and recognized upon the redemption of the cards. These cards have no expiration date. Income from unredeemed cards is recognized in the consolidated statements of income in selling, general and administrative expenses at the point at which redemption becomes remote. The Company performs an

evaluation of the aging of the unredeemed cards, based on the elapsed time from the date of original issuance, to determine when redemption is remote.

Revenue from layaway sales is recognized upon receipt of final payment from the customer.

- (2) Cost of goods sold includes the cost of merchandise, inventory shrinkage, freight, distribution and store occupancy costs. Store occupancy costs include rent, common area maintenance charges, real estate and other asset based taxes, store maintenance, utilities, depreciation, fixture lease expenses and certain insurance expenses.

Table of Contents

- (3) Selling, general and administrative expenses include store and field support payroll and fringe benefits, advertising, bank card charges, information systems, marketing, legal, accounting, other store expenses and all expenses associated with operating the Company's corporate headquarters.
- (4) Merger integration and store closing costs all pertain to the Galyan's acquisition and include the expense of closing Dick's stores in overlapping markets, advertising the re-branding of Galyan's stores, duplicative administrative costs, recruiting and system conversion costs. Beginning in the third quarter of 2005,

the balance of the merger integration and store closing costs, which relate primarily to accretion of discounted cash flows on future lease payments on closed stores, was included in rent expense.

- (5) Pre-opening expenses consist primarily of rent, marketing, payroll and recruiting costs incurred prior to a new store opening.
- (6) Gain on sale of investment resulted from the sale of a portion of the Company's non-cash investment in its third-party Internet commerce provider.
- (7) Interest expense, net, results primarily from interest on our senior convertible notes and Credit Agreement borrowings partially offset by interest income.

**Fiscal 2006 (53 weeks) Compared to Fiscal 2005 (52 weeks)
Net Income**

Net income increased to \$112.6 million in 2006 from \$73.0 million in 2005. This represented an increase in diluted earnings per share of \$0.68, or 50% to \$2.03 from \$1.35. The increase in earnings was attributable to an increase in net sales and gross profit margin percentage, partially offset by an increase in selling, general and administrative expenses as a percentage of sales.

Net Sales

Net sales increased 19% to \$3,114 million in 2006 from \$2,625 million in 2005. This increase resulted primarily from a comparable store sales increase of 6.0%, or \$105.9 million on a 52 week to 52 week basis, and \$383.1 million from the net addition of new stores in the last five quarters which are not included in the comparable store base and the inclusion of a 53rd week of sales.

The increase in comparable store sales is mostly attributable to sales increases in men's and women's apparel, kids, athletic and casual footwear, licensed merchandise, baseball, hunting, camping and guns, partially offset by lower sales of bikes, boots, snow sports and outerwear accessories.

Private Label Sales

For the year ended February 3, 2007, private label product sales in total for all stores represented 14.1% of sales, an increase from last year's 11.9% of sales. These private label sales are for the merchandise developed by Dick's.

Store Count

During 2006, we opened 39 stores and relocated two stores. As of February 3, 2007 we operated 294 stores, with approximately 16.7 million square feet, in 34 states.

Table of Contents**Income from Operations**

Income from operations increased 49% to \$197.7 million in 2006 from \$132.7 million in 2005 due primarily to the increase in gross profit, partially offset by an increase in selling, general and administrative costs.

Gross profit increased 22% to \$896.7 million in 2006 from \$737.6 million in 2005. As a percentage of net sales, gross profit increased to 28.79% in 2006 from 28.10% in 2005. The gross profit percentage increased primarily due to improved merchandise margins in the majority of the Company's product categories, lower freight and distributions costs as a percentage of sales (14 basis points) due to cost minimization practices at our distribution centers and lower occupancy costs as a percentage of sales (14 basis points) due to the leverage from higher sales.

Selling, general and administrative expenses increased to \$682.6 million in 2006 from \$556.3 million in 2005 due primarily to an increase in store count and continued investment in corporate and store infrastructure.

The 73 basis point increase over fiscal 2005 was due primarily to an increase in net advertising expense (29 basis points), the recording of stock compensation expense in fiscal 2006 due to the Company's adoption of FAS 123R (78 basis points) and higher bonus expense (19 basis points) partially offset by a decrease in store payroll (40 basis points) due to the leverage from higher sales.

Merger integration and store closing costs associated with the purchase of Galyan's of \$37.8 million were recognized in 2005. The cost relates primarily to closing Dick's stores in overlapping markets and advertising the re-branding and re-grand opening of the former Galyan's stores.

Pre-opening expenses increased by \$5.6 million to \$16.4 million in 2006 from \$10.8 million in 2005. Pre-opening expenses were for the opening of 39 new stores and relocation of two stores in 2006 compared to the opening of 26 new stores and relocation of four stores in 2005. Pre-opening expenses in any year fluctuate depending on the timing and number of store openings and relocations. During 2006, Dick's recognized rental costs associated with its operating leases that were incurred during the construction period in accordance with FSP 13-1, Accounting for Rental Costs Incurred during a Construction Period.

Gain on Sale of Investment

Gain on sale of investment was \$1.8 million in 2005. The gain resulted from the sale of a portion of the Company's non-cash investment in its third-party Internet commerce provider.

Interest Expense, net

Interest expense, net, decreased by \$3.0 million to \$10.0 million in 2006 from \$13.0 million in 2005 due primarily to lower average borrowings on the Company's senior secured revolving credit facility.

Fiscal 2005 Compared to Fiscal 2004**Net Income**

Net income increased to \$73.0 million in 2005 from \$68.9 million in 2004. This represented an increase in diluted earnings per share of \$0.05, or 4% to \$1.35 from \$1.30. The increase in earnings was attributable to an increase in net sales and gross profit margin percentage, partially offset by an increase in selling, general and administrative expenses as a percentage of sales, a \$5.5 million after tax decrease in the gain on sale of investment and a \$10.5 million after tax increase in merger integration and store closing costs associated with the acquisition of Galyan's.

Net Sales

Net sales increased 24% to \$2,625 million in 2005 from \$2,109 million in 2004. This increase resulted primarily from a comparable store sales increase of 2.6%, or \$36.7 million, and \$478.9 million from the net addition of new stores in the last five quarters which are not included in the comparable store base and the former Galyan's stores which were included in the comparable store base beginning in the second quarter of 2006.

The increase in comparable store sales is mostly attributable to sales increases in men's and women's apparel, exercise, athletic and casual footwear, socks, licensed merchandise, baseball and accessories and guns, partially offset by lower sales of paintball, in-line skates, bikes, hockey and hunting.

Table of Contents

Private Label Sales

For the year ended January 28, 2006, private label product sales in total for all stores represented 11.9% of sales, an increase from last year's 8.6% of proforma sales. These private label sales are for the merchandise developed by Dick's, and do not include any remaining private label products developed by Galyan's.

Store Count

During 2005, we opened 26 stores, relocated four stores and closed five stores. The store closures were a result of the Galyan's acquisition. As of January 28, 2006 we operated 255 stores, with approximately 14.7 million square feet, in 34 states.

Income from Operations

Income from operations increased 20% to \$132.7 million in 2005 from \$110.9 million in 2004 due primarily to the increase in gross profit, partially offset by an increase in merger integration and store closing costs and an increase in selling, general and administrative costs.

Gross profit increased 26% to \$737.6 million in 2005 from \$586.5 million in 2004. As a percentage of net sales, gross profit increased to 28.10% in 2005 from 27.81% in 2004. The gross profit percentage increased primarily due to improved merchandise margins in the majority of the Company's product categories, partially offset by higher occupancy costs as a percentage of sales (50 basis points) due primarily to higher occupancy costs in the former Galyan's stores, and higher freight expense as a percentage of sales (39 basis points). The increase in freight expense was primarily due to an increase in the fuel surcharge charged by our carriers.

Selling, general and administrative expenses increased to \$556.3 million in 2005 from \$443.8 million in 2004 due primarily to an increase in store count and continued investment in corporate and store infrastructure.

The 15 basis point increase over last year was due primarily to an increase in store payroll costs (64 basis points), a portion of which is due to the negative leverage from lower sales in the former Galyan's stores, partially offset by lower bonus expense (28 basis points) and a decrease in corporate payroll expense (12 basis points), a portion of which is due to the synergies obtained from the acquisition of Galyan's.

Merger integration and store closing costs associated with the purchase of Galyan's increased to \$37.8 million in 2005 from \$20.3 million in 2004. The increase is primarily due to closing Dick's stores in overlapping markets and advertising the re-branding and re-grand opening of the former Galyan's stores.

Pre-opening expenses decreased by \$0.7 million to \$10.8 million in 2005 from \$11.5 million in 2004. Pre-opening expenses were for the opening of 26 new stores and relocation of four stores in 2005 compared to the opening of 29 new stores and relocation of three stores in 2004. Pre-opening expenses in any year fluctuate depending on the timing and number of store openings and relocations.

Gain on Sale of Investment

Gain on sale of investment was \$1.8 million in 2005 as compared to \$11.0 million in 2004. The gain resulted from the sale of a portion of the Company's non-cash investment in its third-party Internet commerce provider.

Interest Expense, net

Interest expense, net, increased by \$5.0 million to \$13.0 million in 2005 from \$8.0 million in 2004 due primarily to higher interest rates and higher average borrowings on the Company's senior secured revolving credit facility.

Other Income

Other income in 2004 included a \$1.0 million break-up fee related to our unsuccessful effort to acquire the assets of a bankrupt retailer.

Table of Contents**Liquidity and Capital Resources**

Our primary capital requirements are for working capital, capital improvements and to support expansion plans, as well as for various investments in store remodeling, store fixtures and ongoing infrastructure improvements. The Company's main source of liquidity in 2006 and 2005 was our net cash provided by operating activities.

The change in cash and cash equivalents is as follows:

	Fiscal Year Ended		
	February 3, 2007	January 28, 2006	January 29, 2005
Net cash provided by operating activities	\$ 142,568	\$ 161,427	\$ 107,841
Net cash used in investing activities	(115,543)	(85,615)	(414,772)
Net cash provided (used in) by financing activities	72,353	(58,134)	232,143
Net increase (decrease) in cash and cash equivalents	\$ 99,378	\$ 17,678	\$ (74,788)

Operating Activities

Cash flow from operations is seasonal in our business. Typically, we use cash flow from operations to increase inventory in advance of peak selling seasons, with the pre-Christmas inventory increase being the largest. In the fourth quarter, inventory levels are reduced in connection with Christmas sales and this inventory reduction, combined with proportionately higher net income, typically produces significantly positive cash flow.

Cash provided by operating activities decreased by \$18.9 million in 2006 to \$142.6 million which consists primarily of a decrease in the change in assets and liabilities of \$38.2 million.

Changes in Assets and Liabilities

The primary factors contributing to the decrease in the change in assets and liabilities were the change in inventory, prepaid expenses and income tax receivable, partially offset by an increase in the change in accrued expenses and deferred construction allowances.

The decrease in the change in inventory was primarily due to an increase in inventory, attributed to higher store count and business initiatives that accelerated inventory receipts at the end of 2006 compared to 2005. Prepaid expenses increased as a result of the 53rd week, which caused the first week of February 2007 to fall into fiscal January 2006. Income tax receivable increased due to the timing of estimated payments made during the fiscal year. Partially offsetting these cash outflows was the increase in accrued expenses due primarily to higher bonus expense and an increase in advertising accruals and an increase in deferred construction allowances, due primarily to higher tenant allowances associated with our 2006 stores compared to 2005.

The cash flows from operating the Company's stores is a significant source of liquidity, and will continue to be used in 2007 primarily to purchase inventory, make capital improvements and open new stores. All of the Company's revenues are realized at the point-of-sale in the stores.

Investing Activities

Cash used in investing activities increased by \$29.9 million in 2006 to \$115.5 million. Capital expenditures increased \$13.3 million and sale-leaseback proceeds decreased \$14.6 million.

Purchases of property and equipment were \$163.0 million in fiscal 2006, \$149.7 million in fiscal 2005 and \$135.6 million in fiscal 2004. Capital expenditures in fiscal 2006 relate primarily to the opening of 39 new stores and the relocation of two stores, information systems and administrative and distribution facilities. The Company generated proceeds from the sale and leaseback of property and equipment totaling \$47.5 million, \$62.1 million and \$60.3 million in fiscal 2006, 2005 and 2004, respectively.

During 2006, we opened 39 stores and relocated two stores compared to opening 26 stores and the relocation of four stores during 2005. Sale-leaseback transactions covering store fixtures, buildings and information

Table of Contents

technology assets also have the effect of returning to the Company cash previously invested in these assets.

The Company also generated \$1.9 million in proceeds from the sale of a portion of the Company's non-cash investment in its third-party Internet commerce service provider during 2005.

Financing Activities

Cash provided in financing activities increased by \$130.5 million to \$72.4 million primarily due to a decrease in revolving credit payments of \$76.1 million as the Company had no outstanding borrowings at February 3, 2007 or January 28, 2006. In addition, the Company received \$23.0 million of proceeds from the exercise of stock options, an increase of \$15.6 million in 2006 compared to 2005.

The Company's liquidity and capital needs have generally been met by cash from operating activities, the proceeds from the convertible notes and borrowings under the \$350 million Credit Agreement. Borrowing availability under the Credit Agreement is generally limited to the lesser of 70% of the Company's eligible inventory or 85% of the Company's inventory's liquidation value, in each case net of specified reserves and less any letters of credit outstanding. Interest on outstanding indebtedness under the Credit Agreement currently accrues, at the Company's option, at a rate based on either (i) the prime corporate lending rate or (ii) at the LIBOR rate plus 1.25% to 1.75% based on the level of total borrowings during the prior three months. The Credit Agreement's term expires May 30, 2008.

There were no outstanding borrowings under the Credit Agreement as of February 3, 2007 and January 28, 2006. Total remaining borrowing capacity, after subtracting letters of credit as of February 3, 2007 and January 28, 2006 was \$333.5 million and \$275.6 million, respectively.

The Credit Agreement contains restrictions regarding the Company's and related subsidiary's ability, among other things, to merge, consolidate or acquire non-subsidiary entities, to incur certain specified types of indebtedness or liens in excess of certain specified amounts, to pay dividends or make distributions on the Company's stock, to make certain investments or loans to other parties, or to engage in lending, borrowing or other commercial transactions with subsidiaries, affiliates or employees. Under the Credit Agreement, the Company is obligated to maintain a fixed charge coverage ratio of not less than 1.0 to 1.0 in certain circumstances. The obligations of the Company under the Credit Agreement are secured by interests in substantially all of the Company's personal property excluding store and distribution center equipment and fixtures. As of February 3, 2007, the Company was in compliance with the terms of the Credit Agreement.

Cash requirements in 2007, other than normal operating expenses, are expected to consist primarily of capital expenditures related to the addition of new stores, enhanced information technology and improved distribution infrastructure. The Company plans to open 45 new stores and relocate one store during 2007. The Company also anticipates incurring additional expenditures for Dick's remodeling or relocating certain existing stores. The Company also plans to open 17 new Golf Galaxy stores during 2007. While there can be no assurance that current expectations will be realized, the Company expects capital expenditures, net of deferred construction allowances and proceeds from sale leaseback transactions, to be approximately \$130 million in 2007, including Golf Galaxy capital expenditure requirements.

The Company believes that cash flows generated from operations and funds available under our credit facility will be sufficient to satisfy our capital requirements through fiscal 2007. Other new business opportunities or store expansion rates substantially in excess of those presently planned may require additional funding.

Off-Balance Sheet Arrangements

The Company's off-balance sheet contractual obligations and commercial commitments as of February 3, 2007 relate to operating lease obligations, future minimum guaranteed contractual payments and letters of credit. The Company has excluded these items from the balance sheet in accordance with generally accepted accounting principles.

Contractual Obligations and Other Commercial Commitments

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