DICKS SPORTING GOODS INC
Form 10-Q
August 28, 2007

Table of Contents

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

FORM 10-Q

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

For the Quarterly Period Ended August 4, 2007

OR

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

For the transition period from __________ to __________.

Commission File No. 001-31463

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

Delaware	**16-1241537**
(State or Other Jurisdiction of incorporation or Organization)	*(I.R.S. Employer Identification No.)*

300 Industry Drive, RIDC Park West, Pittsburgh, Pennsylvania 15275
(Address of Principal Executive Offices)
(724) 273-3400
(Registrant s Telephone Number, including Area Code)

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 þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The number of shares of common stock, par value $0.01 per share, and Class B common stock, par value $0.01 per share, outstanding as of August 24, 2007 was 42,033,054 and 13,248,840, respectively.

INDEX TO FORM 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME UNAUDITED
(Amounts in thousands, except per share data)

	13 Weeks Ended		26 Weeks Ended	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Net sales	$ 1,013,421	$ 734,047	$ 1,836,975	$ 1,379,545
Cost of goods sold, including occupancy and distribution costs	714,761	526,650	1,293,896	994,482
GROSS PROFIT	298,660	207,397	543,079	385,063
Selling, general and administrative expenses	212,747	159,239	410,755	311,474
Pre-opening expenses	2,719	2,451	9,840	6,604
INCOME FROM OPERATIONS	83,194	45,707	122,484	66,985
Interest expense, net	3,629	2,906	6,835	5,155
INCOME BEFORE INCOME TAXES	79,565	42,801	115,649	61,830
Provision for income taxes	31,635	17,120	46,017	24,732
NET INCOME	$ 47,930	$ 25,681	$ 69,632	$ 37,098
EARNINGS PER COMMON SHARE:				
Basic	$ 0.88	$ 0.51	$ 1.29	$ 0.73
Diluted	$ 0.83	$ 0.47	$ 1.21	$ 0.68
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	54,290	50,746	53,920	50,583
Diluted	57,764	54,887	57,493	54,742

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS UNAUDITED
(Dollars in thousands)

	August 4, 2007	February 3, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 50,489	$ 135,942
Accounts receivable, net	62,514	39,687
Income taxes receivable		15,671
Inventories, net	791,654	641,464
Prepaid expenses and other current assets	41,811	37,015
Deferred income taxes	1,079	
Total current assets	947,547	869,779
Property and equipment, net	499,109	433,071
Construction in progress leased facilities	7,681	13,087
Goodwill	320,156	156,628
Other assets	71,658	51,700
TOTAL ASSETS	$ 1,846,151	$ 1,524,265
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 357,184	$ 286,668
Accrued expenses	208,061	190,365
Deferred revenue and other liabilities	74,631	87,798
Income taxes payable	2,717	
Current portion of other long-term debt and capital leases	152	152
Total current liabilities	642,745	564,983
LONG-TERM LIABILITIES:		
Senior convertible notes	172,500	172,500
Revolving credit borrowings	52,307	
Other long-term debt and capital leases	8,320	8,365
Non-cash obligations for construction in progress leased facilities	7,681	13,087
Deferred revenue and other liabilities	187,994	144,780
Total long-term liabilities	428,802	338,732
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Preferred stock		
Common stock	419	397
Class B common stock	133	134

Additional paid-in capital	387,977	302,766
Retained earnings	383,570	315,453
Accumulated other comprehensive income	2,505	1,800
Total stockholders equity	774,604	620,550
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,846,151	$ 1,524,265

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME UNAUDITED
(Dollars in thousands)

	13 Weeks Ended		26 Weeks Ended	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
NET INCOME	$ 47,930	$ 25,681	$ 69,632	$ 37,098
OTHER COMPREHENSIVE INCOME:				
Unrealized (loss) gain on available-for-sale securities, net of tax	(69)	(576)	643	(561)
Foreign currency translation adjustment, net of tax	28		62	
COMPREHENSIVE INCOME	$ 47,889	$ 25,105	$ 70,337	$ 36,537

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
UNAUDITED
(Dollars in thousands)

	Common Stock Shares	Common Stock Dollars	Class B Common Stock Shares	Class B Common Stock Dollars	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE, January 28, 2006	36,545,332	$ 365	13,730,945	$ 137	$ 209,526	$ 202,842	$ 1,923	$ 414,793
Exchange of Class B common stock for common stock	337,105	3	(337,105)	(3)				
Sale of common stock under stock plan	122,982	2			3,732			3,734
Exercise of stock options	2,685,858	27			23,015			23,042
Tax benefit on convertible note bond hedge					2,686			2,686
Net income						112,611		112,611
Stock-based compensation					24,303			24,303
Total tax benefit from exercise of stock options					39,504			39,504
Unrealized loss on securities available-for-sale, net of taxes of $66							(123)	(123)
BALANCE, February 3, 2007	39,691,277	$ 397	13,393,840	$ 134	$ 302,766	$ 315,453	$ 1,800	$ 620,550
Cumulative effect of adoption of FIN 48						(1,515)		(1,515)
ADJUSTED BALANCE, February 3, 2007	39,691,277	$ 397	13,393,840	$ 134	$ 302,766	$ 313,938	$ 1,800	619,035
Exchange of Class B common stock for common stock	135,000	1	(135,000)	(1)				
Stock options issued for					8,647			8,647

acquisition								
Sale of common stock under stock plan	59,201	1			2,465			2,466
Exercise of stock options	2,056,274	20			24,692			24,712
Tax benefit on convertible note bond hedge					1,370			1,370
Net income						69,632		69,632
Stock-based compensation					14,781			14,781
Total tax benefit from exercise of stock options					33,256			33,256
Foreign currency translation adjustment, net of taxes of $41							62	62
Unrealized gain on securities available-for-sale, net of taxes of $346							643	643
BALANCE, August 4, 2007	41,941,752	$ 419	13,258,840	$ 133	$ 387,977	$ 383,570	$ 2,505	$ 774,604

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED
(Dollars in thousands)

	26 Weeks Ended	
	August 4, 2007	July 29, 2006 (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 69,632	$ 37,098
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,036	26,246
Deferred income taxes	(10,391)	(10,419)
Stock-based compensation	14,781	12,525
Excess tax benefit from stock-based compensation	(30,592)	(4,419)
Tax benefit from exercise of stock options	3,745	609
Tax benefit from convertible bond hedge	1,370	1,288
Changes in assets and liabilities:		
Accounts receivable	(12,056)	(5,179)
Income taxes payable/receivable	46,551	(8,196)
Inventories	(79,217)	(101,141)
Prepaid expenses and other assets	(2,550)	(9,024)
Accounts payable	57,967	49,135
Accrued expenses	1,527	15,015
Deferred construction allowances	22,593	4,967
Deferred revenue and other liabilities	(8,460)	(6,485)
Net cash provided by operating activities	112,936	2,020
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(76,884)	(63,712)
Proceeds from sale-leaseback transactions	9,226	4,583
Payment for purchase of Golf Galaxy, net of $4,859 cash acquired	(221,461)	
Net cash used in investing activities	(289,119)	(59,129)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Revolving credit borrowings, net	52,307	41,430
Payments on other long-term debt and capital leases	(97)	(116)
Construction allowance receipts	2,699	5,799
Proceeds from sale of common stock under employee stock purchase plan	2,466	2,098
Proceeds from exercise of stock options	24,712	6,150
Excess tax benefit from stock-based compensation	30,592	4,419
Decrease in bank overdraft	(22,013)	(6,309)
Net cash provided by financing activities	90,666	53,471
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	64	

NET DECREASE IN CASH AND CASH EQUIVALENTS	(85,453)	(3,638)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	135,942	36,564
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 50,489	$ 32,926
Supplemental non-cash investing and financing activities:		
Construction in progress leased facilities	$ (5,406)	$ 3,916
Accrued property and equipment	$ 1,027	$ 15,223
Cash paid for interest	$ 7,509	$ 4,551
Cash paid for income taxes	$ 5,426	$ 42,083
Stock options issued for acquisition	$ 8,647	$

See accompanying notes to unaudited condensed consolidated financial statements.

DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Company

Dick s Sporting Goods, Inc. (together with its subsidiaries, the Company) is a specialty retailer selling sporting goods, footwear and apparel through its 315 stores in 34 states.

On February 13, 2007, a wholly owned subsidiary of Dick s Sporting Goods, Inc. completed the acquisition of Golf Galaxy Inc., a multi-channel golf specialty retailer operating 77 stores in 29 states as of August 4, 2007. The Unaudited Condensed Consolidated Statements of Income for the 13 and 26 weeks ended August 4, 2007 reflect the results of Golf Galaxy from the date of acquisition forward for 2007.

Unless otherwise specified, any reference to year is to our fiscal year and when used in this Form 10-Q and unless the context otherwise requires, the terms Dick s, we, us, the Company and our refer to Dick s Sporting Goods, Inc wholly owned subsidiaries.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by us, in accordance with the requirements for Form 10-Q and do not include all the disclosures normally required in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. The interim financial information as of August 4, 2007 and for the 13 and 26 weeks ended August 4, 2007 and July 29, 2006 is unaudited and has been prepared on the same basis as the audited financial statements. In the opinion of management, such unaudited information includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the interim financial information. This financial information should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K/A for the year ended February 3, 2007 as filed with the Securities and Exchange Commission on June 5, 2007. Operating results for the 13 and 26 weeks ended August 4, 2007 are not necessarily indicative of the results that may be expected for the year ending February 2, 2008 or any other period.

3. Correction to Previously Reported Amounts

Certain corrections have been made for the reporting of the Company s cash flows related to the receipt of construction allowances. Our condensed consolidated statements of cash flows for the 26 weeks ended July 29, 2006 have been revised to correct an immaterial error in our accounting for the receipt of construction allowances, which should have been presented as financing activities when such construction allowances related to stores where the Company is considered the owner at the time of receipt, rather than as operating or investing activities, as previously reported. The effect of this correction was to decrease cash provided by operating activities by $1.8 million, increase cash used in investing activities by $4.0 million and increase cash provided by financing activities by $5.8 million for the 26 weeks ended July 29, 2006. The correction did not affect the previously reported results of operations of the Company nor did it change the amount of total cash flows for the Company. The Company believes that the effect of this misstatement was not material, either quantitatively or qualitatively, to the statement of cash flows previously reported for the 26 weeks ended July 29, 2006 or any prior year.

	26 Weeks Ended July 29, 2006		
	As previously reported	Correction	As corrected
Net cash provided by operating activities	$ 3,819	$(1,799)	$ 2,020
Net cash used in investing activities	(55,129)	(4,000)	(59,129)
Net cash provided by financing activities	$ 47,672	$ 5,799	$ 53,471

Construction Allowances The Company conducts a substantial portion of its business in leased properties. The Company may receive reimbursement from a landlord for some of the cost of the structure, subject to satisfactory fulfillment of applicable lease provisions. These reimbursements may be referred to as tenant allowances, construction allowances, or landlord reimbursements (construction allowances).

The Company s accounting for construction allowances differs if a store lease is accounted for under the provisions of EITF 97-10, The Effect of Lessee Involvement in Asset Construction . Some of the Company s leases have a cap on the construction allowance which places the Company at risk for cost overruns and causes the Company to be deemed the owner during the construction period. In cases where the Company is deemed to be the owner during the construction period, a sale and leaseback of the asset occurs when construction of the asset is complete and the lease term begins, if relevant sale-leaseback accounting criteria are met. Any gain or loss from the transaction is deferred and amortized as rent expense on a straight-line basis over the base term of the lease. The Company reports the amount of cash received for the construction allowance as Construction Allowance Receipts within the financing activities section of its consolidated statements of cash flows when such allowances are received prior to completion of the sale-leaseback transaction. The Company reports the amount of cash received from construction allowances as Proceeds from sale leaseback transactions within the investing activities section of its consolidated statements of cash flows when such amounts are received after the sale-leaseback accounting criteria have been achieved.

In instances where the Company is not deemed to be the owner during the construction period, reimbursement from a landlord for tenant improvements is classified as an incentive and included in deferred revenue and other liabilities on the consolidated balance sheets. The deferred rent credit is amortized as rent expense on a straight-line basis over the base term of the lease. Landlord reimbursements from these transactions are included in cash flows from operating activities as a change in Deferred construction allowances .

4. Newly Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements; however, SFAS 157 does not require any new fair value measurements. SFAS 157 is effective as of the beginning of our 2008 fiscal year. We are currently evaluating the impact, if any, that SFAS 157 will have on our financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact, if any, that SFAS 159 will have on our financial statements.

5. Acquisition

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. The Company paid $226.3 million which was financed using approximately $79 million of cash and cash equivalents and the balance from borrowings under our Second Amended and Restated Credit Agreement (the Credit Agreement), as amended to date.

The acquisition is being accounted for using the purchase method in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, with Dick s as the accounting acquirer. Accordingly, the purchase price has been preliminarily allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the date of the acquisition. The excess of the purchase price over the fair value of net assets acquired was recorded as goodwill. Goodwill and identifiable intangible assets recorded in the acquisition will be tested periodically for impairment as required by SFAS No. 142, Goodwill and Other Intangible Assets . The preliminary allocation of the purchase price to specific assets and liabilities is based, in part, upon internal estimates of assets and liabilities. The Company is in the process of obtaining an independent appraisal for certain assets, including intangibles not yet identified, and refining its internal fair value estimates; therefore, the allocation of the purchase price is preliminary and the final allocation will likely differ. Based on the preliminary purchase price allocation, the Company has recorded $163.3 million of goodwill as a result of the acquisition. The following table summarizes estimated fair values of the assets acquired and liabilities assumed (in thousands):

Table of Contents

Inventory	$ 70,975
Other current assets (including cash)	13,585
Property and equipment, net	48,886
Other long term assets, excluding goodwill	7,560
Goodwill	163,332
Accounts payable	(34,000)
Accrued expenses	(13,197)
Other current liabilities	(9,759)
Other long-term liabilities	(17,729)
Fair value of net assets acquired, including intangibles	$ 229,653

The following unaudited proforma summary presents information as if Golf Galaxy had been acquired at the beginning of the periods presented. The proforma amounts include certain reclassifications to Golf Galaxy s amounts to conform them to the Company s reporting calendar and an increase in pre-tax interest expense of $2,853 and $5,620 for the 13 and 26 weeks ended July 29, 2006, respectively, to reflect the increase in borrowings under the amended credit facility to finance the acquisition as if it had occurred at the beginning of each period presented. The proforma amounts do not reflect any benefits from economies which might be achieved from combining the operations.
The proforma information does not necessarily reflect the actual results that would have occurred had the companies been combined during the periods presented, nor is it necessarily indicative of the future results of operations of the combined companies.

	13 Weeks Ended July 29, 2006	26 Weeks Ended July 29, 2006
	(Unaudited, in thousands, except per share amounts)	
Net sales	$ 834,218	$ 1,543,844
Net income	$ 30,553	$ 41,554