DICKS SPORTING GOODS INC
Form 10-K/A
June 05, 2007

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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	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)	*(Zip Code)*

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

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

Title of each class	*Name of Each Exchange on which Registered*
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 þ No o
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 o No þ
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 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. þ
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 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 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).

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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.

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Forward-Looking Statements

We caution that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Annual Report on Form 10-K/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.

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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 , ar 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.

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

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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:

	Fiscal Year		
Merchandise Category	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.

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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 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 CO_2 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 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 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.

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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).

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.

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 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;

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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.

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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.

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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;

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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.

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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

Virginia	15
West Virginia	4
Wisconsin	5
Total	294

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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

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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.

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	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.

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(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.

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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 2006 A	Fiscal Year 2005 A	Fiscal Year 2004 A	Changes in Percentage of Net Sales from Prior Year 2005-2006 A	Changes in Percentage of Net Sales from Prior Year 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.

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(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.

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.

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.

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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 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

The following table summarizes the Company s material contractual obligations, including both on- and off-balance sheet arrangements in effect at February 3, 2007, and the timing and effect that such commitments are expected to have on the Company s liquidity and capital requirements in future periods:

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	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
		Payments Due by Period (Dollars in thousands)			
Contractual obligations:					
Senior convertible notes (see Note 7)	$ 255,085	$	$	$	$ 255,085
Capital lease obligations (see Note 7)	7,809	106	329	454	6,920
Other long-term debt (see Note 7)	708	46	97	105	460
Interest payments	17,194	4,879	5,625	1,452	5,238
Operating lease obligations (see Note 8)	2,819,035	230,830	472,452	463,983	1,651,770
Future minimum guaranteed contractual payments (see Note 15)	31,350	1,000	2,750	3,600	24,000
Total contractual obligations	$ 3,131,181	$ 236,861	$ 481,253	$ 469,594	$ 1,943,473

The note references above are to the Notes to Consolidated Financial Statements.

The following table summarizes the Company s other commercial commitments, including both on-and off-balance sheet arrangements, in effect at February 3, 2007:

	Total	Less than 1 year
	(Dollars in thousands)	
Other commercial commitments:		
Documentary letters of credit	$ 2,901	$ 2,901
Standby letters of credit	13,613	13,613
Total other commercial commitments	$ 16,514	$ 16,514

The Company expects to fund these commitments primarily with operating cash flows generated in the normal course of business.

OUTLOOK

Full Year 2007 (52-Week Year) Comparisons to Fiscal 2006 (53-Week Year)

Based on an estimated 58 million shares outstanding, the Company anticipates reporting earnings per diluted share of approximately $2.37 2.40. This represents an approximate 18% increase over earnings per diluted share for the full year 2006 of $2.03 and includes the expected results of Golf Galaxy.

Comparable store sales are expected to increase approximately 2% at Dick s Sporting Goods stores.

The Company expects to open 45 new Dick s stores, 17 new Golf Galaxy stores and relocate one Dick s store in 2007.

First Quarter 2007

Based on an estimated 57 million shares outstanding, the Company anticipates reporting earnings per diluted share of $0.35 0.38 as compared to first quarter 2006 earnings per diluted share of $0.21.

Comparable store sales at Dick s Sporting Goods stores are expected to increase approximately 4-6%, or approximately 3%, adjusting for the shifted retail calendar due to the 53rd week in 2006.

The Company expects to open 11 new Dick s stores and 10 new Golf Galaxy stores in the first quarter.

Newly Issued Accounting Standards

In June 2006, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-3 (EITF 06-3), Disclosure Requirements for Taxes Assessed by a Governmental Authority on Revenue-Producing Transactions, which provides that entities should present such taxes on either a gross or net basis based on their accounting policies. The Company s accounting policy is to record such taxes on a net basis. EITF 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006. The implementation of EITF 06-3 in the first quarter of fiscal 2007 will not have a material impact on our financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 is an interpretation of FASB Statement No. 109, Accounting for Income Taxes, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 requires expanded disclosure with respect to the uncertainty in income taxes and is effective as of the beginning of our 2007 fiscal year. The cumulative effect, if any, of adopting FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of fiscal 2007. The Company expects that the financial impact of applying the provisions of FIN 48 to all tax positions will not be material upon the initial adoption of FIN 48.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, established 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.

Critical Accounting Policies and Use of Estimates

The Company s significant accounting policies are described in Note 1 of the Consolidated Financial Statements, which were prepared in accordance with accounting principles generally accepted in the United States of America. Critical accounting policies are those that the Company believes are both most important to the portrayal of the Company s financial condition and results of operations, and require the Company s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions.

The Company considers the following policies to be the most critical in understanding the judgments that are involved in preparing its consolidated financial statements.

Inventory Valuation

The Company values inventory using the lower of weighted average cost or market method. Market price is generally based on the current selling price of the merchandise. The Company regularly reviews inventories to determine if the carrying value of the inventory exceeds market value and the Company records a reserve to reduce the carrying value to its market price, as necessary. Historically, the Company has rarely experienced significant occurrences of obsolescence or slow moving inventory. However, future changes such as customer merchandise preference, unseasonable weather patterns, or business trends could cause the Company s inventory to be exposed to obsolescence or slow moving merchandise.

Shrink expense is accrued as a percentage of merchandise sales based on historical shrink trends. The Company performs physical inventories at the stores and distribution centers throughout the year. The reserve for shrink represents an estimate for shrink for each of the Company s locations since the last physical inventory date through the reporting date. Estimates by location and in the aggregate are impacted by internal and external factors and may vary significantly from actual results.

Vendor Allowances

Vendor allowances include allowances, rebates and cooperative advertising funds received from vendors. These funds are determined for each fiscal year and the majority are based on various quantitative contract terms. Amounts expected to be received from vendors relating to the purchase of merchandise inventories are treated as a reduction of inventory and reduce cost of goods sold as the merchandise is sold. Amounts that represent a reimbursement of costs incurred, such as advertising, are recorded as a reduction to the related expense in the period that the related expense is incurred. The Company records an estimate of earned allowances based on the latest projected purchase volumes and advertising forecasts. On an annual basis at the end of the year, the Company confirms earned allowances with vendors to ensure the amounts are recorded in accordance with the terms of the contract.

Goodwill, Intangible Assets and Impairment of Long-Lived Assets

Goodwill and other finite-lived intangible assets are tested for impairment on an annual basis. Our evaluation of goodwill for impairment requires accounting judgments and financial estimates in determining the fair value of the reporting unit. If these judgments or estimates change in the future, we may be required to record impairment charges for these assets.

The Company reviews long-lived assets whenever events and circumstances indicate that the carrying value of these assets may not be recoverable based on estimated undiscounted future cash flows. Assets are reviewed at the lowest level for which cash flows can be identified, which is the store level. In determining future cash flows, significant estimates are made by the Company with respect to future operating results of each store over its remaining lease term. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Business Combinations

Our acquisitions are accounted for under the purchase method of accounting. The assets and liabilities are adjusted to their fair values and the excess of the purchase price over the net assets acquired is recorded as goodwill. The determination of fair value involves of the use of an independent appraisal, estimates and assumptions which we believe provided a reasonable basis for determining fair value.

Self-Insurance

The Company is self-insured for certain losses related to health, workers compensation and general liability insurance, although we maintain stop-loss coverage with third-party insurers to limit our liability exposure. Liabilities associated with these losses are estimated in part by considering historical claims experience, industry factors, severity factors and other actuarial assumptions.

Stock-Based Compensation

Beginning in fiscal 2006, the Company accounts for stock-based compensation in accordance with the fair value recognition provisions of SFAS 123R. The Company uses the Black-Scholes option-pricing model which requires the input of assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (expected term), the estimated volatility of the Company s common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements (forfeitures). Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amount recognized in the consolidated statements of income.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company s net exposure to interest rate risk will consist primarily of borrowings under the senior secured revolving credit facility. The Company s senior secured revolving credit facility bears interest at rates that are benchmarked either to U.S. short-term floating rate interest rates or one-month LIBOR rates, at the Company s election. There were no borrowings outstanding under the senior secured revolving credit facility as of February 3, 2007 and January 28, 2006. The impact on the Company s annual net income of a hypothetical one percentage point interest rate change on the average outstanding balances under the senior secured revolving credit facility would be approximately $0.3 million based upon fiscal 2006 average borrowings.

Credit Risk

In February 2004, the Company sold $172.5 million issue price of senior unsecured convertible notes due 2024 (convertible notes). In conjunction with the issuance of these convertible notes, we also entered into a five-year convertible bond hedge and a five-year separate warrant transaction with one of the initial purchasers (the counterparty) and/or certain of its affiliates. Subject to the movement in our common stock price, we could be exposed to credit risk arising out of net settlement of the convertible bond hedge and separate warrant transaction in our favor. Based on our review of the possible net settlements and the credit strength of the counterparty and its affiliates, we believe that we do not have a material exposure to credit risk as a result of these share option transactions.

Impact of Inflation

The Company does not believe that operating results have been materially affected by inflation during the preceding three fiscal years. There can be no assurance, however, that operating results will not be adversely affected by inflation in the future.

Tax Matters

Presently, the Company does not believe that there are any tax matters that could materially affect the consolidated financial statements.

Seasonality and Quarterly Results

The Company s business is subject to seasonal fluctuations. Significant portions of the Company s net sales and profits are realized during the fourth quarter of the Company s fiscal year, which is due, in part, to the holiday selling season and, in part, to our sales of cold weather sporting goods and apparel. Any decrease in fiscal 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required to be filed hereunder are set forth on pages 40 through 63 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the chief executive officer and the chief financial officer, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act). The Company s disclosure controls and procedures have been designed to ensure that material information relating to the Company, including its consolidated subsidiaries, required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

In connection with the restatement described in Note 18 to the Company s consolidated financial statements, the Company s management determined that there was a material weakness in the Company s internal control over financial reporting as of February 3, 2007, as more fully described below in *Report of Management on Internal Control Over Financial Reporting* (as revised). Based on this evaluation and because of the material weakness described in the Report of Management on Internal Control Over Financial Reporting (as revised), the principal executive officer and principal financial officer have concluded that the Company s disclosure controls and procedures were not effective as of February 3, 2007.

Report of Management on Internal Control over Financial Reporting (as revised)

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of February 3, 2007, based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Subsequent to filing the Annual Report on Form 10-K for the year ended February 3, 2007, management became aware of a misstatement in our consolidated statements of cash flows as described in Note 18 to the consolidated financial statements included in this Form 10-K/A. As a result of this misstatement, management, after consultation with the Audit Committee, determined that the audited financial statements included in our Form 10-K for the year ended February 3, 2007 should be restated to correct this misstatement.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management has concluded that as of February 3, 2007, the Company did not maintain effective controls over the preparation and review of our consolidated statement of cash flows. Specifically, the Company did not maintain effective controls to appropriately report tenant allowances received from landlords for construction of our new stores in the consolidated statement of cash flows. This error resulted in a misstatement of cash flows from investing and operating activities. This control deficiency resulted in the restatement of the Company s consolidated financial statements for the years ended February 3, 2007 and January 28, 2006. Further, if not remediated, this control deficiency could result in a misstatement of the consolidated statement of cash flows that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has determined this control deficiency constitutes a material weakness.

Management previously concluded that the Company maintained effective internal control over financial reporting as of February 3, 2007. In connection with the restatement of the Company s consolidated financial

statements described in Note 18 to the Company s consolidated financial statements, management has determined the material weakness described above existed as of February 3, 2007. Accordingly, management has revised its report on internal control over financial reporting. Because of this material weakness, management has concluded that the Company did not maintain effective internal control over financial reporting as of February 3, 2007 based on the criteria established in *Internal Control Integrated Framework* issued by the COSO.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of February 3, 2007 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing on page 37.

Changes in Internal Control Over Financial Reporting

There was no change in internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

To remediate the material weakness in the Company s internal control over financial reporting described above, management has subsequently implemented a revised process to reconcile the cash received by the Company and the amounts owed to the Company from landlords for tenant allowances to ensure tenant allowances are properly reflected in the statement of cash flows in accordance with SFAS 95. Accordingly, management believes this process will remediate the material weakness discussed above.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Dicks Sporting Goods, Inc.

We have audited management s assessment, included in the accompanying *Report of Management on Internal Control Over Financial Reporting* (as revised), that Dick s Sporting Goods, Inc. and subsidiaries (the Company) did not maintain effective internal control over financial reporting as of February 3, 2007, because of the effect of the material weakness identified in management s assessment based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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

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

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

In our report dated March 20, 2007, we expressed an unqualified opinion on management s assessment that the Company maintained effective internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting. As described in the following paragraph, the Company subsequently identified a material misstatement related to its reporting of tenant allowances received from landlords for construction of new stores in the consolidated statement of cash flows, which required the consolidated statements of cash flows to be restated. Management subsequently revised its assessment due to the identification of the material weaknesses, described in the following paragraph, in connection with the financial statement restatement. Accordingly, our opinion on the effectiveness of the Company s internal control over financial reporting as of February 3, 2007, expressed herein, is different from that expressed in our previous report. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management s revised assessment:

The Company did not maintain effective controls over the application of Statement of Financial Accounting Standards No. 95. Specifically, the Company did not ensure the proper reporting in the statement of cash flows of amounts owned to the Company by landlords related to tenant allowances. This control deficiency resulted in the restatement of the Company s consolidated financial statements for the year ended February 3, 2007 and for all interim periods in the fiscal year 2006. Further, if not remediated, this control deficiency could result in a misstatement of the consolidated financial statements of cash flows that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected.

In our opinion, management s revised assessment that the Company did not maintain effective internal control over financial reporting as of February 3, 2007, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of February 3, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the fiscal year ended February 3, 2007 of the Company and our reports dated March 20, 2007 (June 5, 2007 as to the effect of the restatement discussed in Note 18) expressed an unqualified opinion on those financial statements and financial statement schedule and included explanatory paragraphs regarding the Company s adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, on January 29, 2006 and the Company s restatement of the consolidated statements of cash flows discussed in Note 18.

/s/ Deloitte & Touche LLP
Pittsburgh, Pennsylvania
March 20, 2007
(June 5, 2007 as to the
effects of the material
weakness discussed in
Report of Management on
Internal Control Over Financial
Reporting (as revised))

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item other than the following information concerning the Company s code of ethics is included under Item 1 Business Executive Officers of the Company in this Form 10-K/A, and is incorporated by reference to the information under the captions Election of Directors- Directors Standing for Election , Election of Directors Other Directors Not Standing for Election at this Meeting , Election of Directors- What Committees Has the Board Established , Election of Directors How does the Board select nominees for the Board , Election of Directors- Does the Company Have a Code of Ethics and Section 16(a) Beneficial Ownership Reporting Compliance in the Company s 2007 Proxy Statement.

The Company adopted a Code of Business Conduct and Ethics applicable to its associates, officers and directors, which is a code of ethics as defined by applicable rules of the Securities and Exchange Commission. The Company has also adopted charters for its audit committee, compensation committee and governance and nominating committee, as well as corporate governance guidelines. The code of ethics, committee charters and corporate governance guidelines are publicly available on the Company s website at http://www.dickssportinggoods.com/ and are available in print, free of charge, to any stockholder who requests it. If the Company makes any amendments to this code other than technical, administrative, or other non-substantive amendments, or grants any waivers, including implicit waivers, from a provision of this code applicable to the Company s principal executive officers, principal financial officer, principal accounting officer or controller or persons performing similar functions the Company will disclose the nature of the amendment or waiver, its effective date and to whom it applies on its website or in a report on Form 8-K filed with the Securities and Exchange Commission.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the information under the captions Executive Compensation- Compensation Committee Report , Executive Compensation - Compensation Discussion and Analysis , Summary Compensation Table 2006 , Grants of Plan-Based Awards 2006 , Understanding Our Summar Compensation and Grants of Plan-Based Awards Tables , Outstanding Equity Awards at Fiscal Year End 2006 , Options Exercises and Stock Vested 2006 , Pension Benefits 2006 , Nonqualified Deferred Compensation 2006 , Potential Payments Upon Termination or Change-in-Control and Compensation Committee Interlocks and Insider Participation in the Company s 2007 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Part of the information required by this Item is incorporated by reference to the information under the caption Stock Ownership in the Company s 2007 Proxy Statement. The following table summarizes information, as of February 3, 2007, relating to equity compensation plans of the Company pursuant to which grants of options, restricted stock, restricted stock units or other rights to acquire shares may be granted from time to time.

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Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders [(1)]	9,816,414(2)	$ 19.76	9,561,313(2)
Equity compensation plans not approved by security holders			
Total	9,816,414		9,561,313

(1) Includes the 1992 Stock Option Plan, 2002 Stock Plan and Employee Stock Purchase Plan.

(2) Represents shares of common stock. Under the 2002 Stock Plan and the Employee Stock Purchase Plan, no options have been granted that are exerciseable for Class B common stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the information under the caption Certain Relationships and Transactions with Related Persons and How does the Board determine which directors are considered independent? in the Company s 2007 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the information under the caption Audit and Non-Audit Fees and Independent Public Accountants in the Company s 2007 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Form 10-K/A:

(1) Financial Statements. The Financial Statements required to be filed hereunder are listed in the Index to Consolidated Financial Statements on page 41 of this Form 10-K/A.

(2) Financial Statement Schedules. The consolidated financial statement schedule to be filed hereunder is included on page 66 of this Form 10-K/A.

(3) Exhibits. The Exhibits listed in the Index to Exhibits, which appears on pages 67 to 70 and is incorporated herein by reference, are filed as part of this Form 10-K/A. Certain Exhibits are incorporated by reference from documents previously filed by the Company with the SEC pursuant to Rule 12b-32 under the Securities Exchange Act of 1934, as amended.

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Dick s Sporting Goods, Inc.

We have audited the accompanying consolidated balance sheets of Dick s Sporting Goods, Inc. and subsidiaries (the Company) as of February 3, 2007 and January 28, 2006, and the related consolidated statements of income, comprehensive income, changes in stockholders equity, and cash flows for each of the three fiscal years in the period ended February 3, 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Dick s Sporting Goods, Inc. and subsidiaries as of February 3, 2007 and January 28, 2006, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 3, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, on January 29, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

As discussed in Note 18, the accompanying consolidated statements of cash flows for the years ended February 3, 2007 and January 28, 2006, respectively, have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of February 3, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 20, 2007 (June 5, 2007 as to the effect of the material weakness discussed in Report of Management on Internal Control Over Financial Reporting (as revised)) expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an adverse opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP
Pittsburgh, Pennsylvania
March 20, 2007 (June 5,
2007 as to the effects of
the restatement discussed
in Note 18)

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

	Fiscal Year Ended		
	February 3, 2007	**January 28, 2006**	**January 29, 2005**
Net sales	$ 3,114,162	$ 2,624,987	$ 2,109,399
Cost of goods sold, including occupancy and distribution costs	2,217,463	1,887,347	1,522,873
GROSS PROFIT	896,699	737,640	586,526
Selling, general and administrative expenses	682,625	556,320	443,776
Merger integration and store closing costs		37,790	20,336
Pre-opening expenses	16,364	10,781	11,545
INCOME FROM OPERATIONS	197,710	132,749	110,869
Gain on sale of investment		(1,844)	(10,981)
Interest expense, net	10,025	12,959	8,009
Other income			(1,000)
INCOME BEFORE INCOME TAXES	187,685	121,634	114,841
Provision for income taxes	75,074	48,654	45,936
NET INCOME	$ 112,611	$ 72,980	$ 68,905
EARNINGS PER COMMON SHARE:			
Basic	$ 2.20	$ 1.47	$ 1.44
Diluted	$ 2.03	$ 1.35	$ 1.30
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	51,256	49,792	47,978
Diluted	55,395	53,979	52,921

See notes to consolidated financial statements.

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	February 3, 2007	January 28, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 135,942	$ 36,564
Accounts receivable, net	39,687	29,365
Income tax receivable	15,671	
Inventories, net	641,464	535,698
Prepaid expenses and other current assets	37,015	11,961
Deferred income taxes		429
Total current assets	869,779	614,017
PROPERTY AND EQUIPMENT, NET	433,071	370,277
CONSTRUCTION IN PROGRESS LEASED FACILITIES	13,087	7,338
GOODWILL	156,628	156,628
OTHER ASSETS:		
Deferred income taxes	17,440	8,959
Investments	3,008	3,197
Other	31,252	27,373
Total other assets	51,700	39,529
TOTAL ASSETS	$ 1,524,265	$ 1,187,789
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 286,668	$ 253,395
Accrued expenses	190,365	136,520
Deferred revenue and other liabilities	87,798	62,792
Income taxes payable		18,381
Current portion of other long-term debt and capital leases	152	181
Total current liabilities	564,983	471,269
LONG-TERM LIABILITIES:		
Senior convertible notes	172,500	172,500
Revolving credit borrowings		
Other long-term debt and capital leases	8,365	8,520
Non-cash obligations for construction in progress leased facilities	13,087	7,338
Deferred revenue and other liabilities	144,780	113,369
Total long-term liabilities	338,732	301,727

COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Preferred stock, par value $.01 per share, authorized shares 5,000,000; none issued and outstanding		
Common stock, par value $.01 per share, authorized shares 200,000,000; issued and outstanding shares 39,691,277 and 36,545,332, at February 3, 2007 and January 28, 2006, respectively	397	365
Class B common stock, par value, $.01 per share, authorized shares 40,000,000; issued and outstanding shares 13,393,840 and 13,730,945, at February 3, 2007 and January 28, 2006, respectively	134	137
Additional paid-in capital	302,766	209,526
Retained earnings	315,453	202,842
Accumulated other comprehensive income	1,800	1,923
Total stockholders equity	620,550	414,793
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,524,265	$ 1,187,789

See notes to consolidated financial statements.

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

	Fiscal Year Ended		
	February 3, 2007	**January 28, 2006**	**January 29, 2005**
NET INCOME	$ 112,611	$ 72,980	$ 68,905
OTHER COMPREHENSIVE INCOME:			
Unrealized (loss) gain on securities available-for-sale, net of tax	(123)	1,126	5,417
Reclassification adjustment for gains realized in net income due to the sale of available-for-sale securities, net of tax		(1,199)	(7,138)
COMPREHENSIVE INCOME	$ 112,488	$ 72,907	$ 67,184

See notes to consolidated financial statements.

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

	Common Stock		Class B Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	
	Shares	Dollars	Shares	Dollars	Capital	Earnings	Income	Total
BALANCE, January 31, 2004	33,052,882	331	14,107,644	141	175,748	60,957	3,717	240,894
Exchange of Class B common stock for common stock	68,115	1	(68,115)	(1)				
Sale of common stock under stock plans	137,240	1			3,232			3,233
Exercise of stock options, including tax benefit of $15,868	1,532,121	15			20,870			20,885
Purchase of bond hedge net of sale of warrant, including tax benefit of $2,171					(18,529)			(18,529)
Net income						68,905		68,905
Unrealized gain on securities available-for-sale, net of taxes of $2,917							5,417	5,417
Reclassification adjustment for gains realized in net income due to the sale of securities available-for- sale, net of taxes of $3,843							(7,138)	(7,138)
BALANCE, January 29, 2005	34,790,358	348	14,039,529	140	181,321	129,862	1,996	313,667
Exchange of Class B common stock for common stock	308,584	3	(308,584)	(3)				
Sale of common stock under stock	125,989	1			3,675			3,676

plans								
Exercise of stock options, including tax benefit of $14,678	1,320,401	13			22,078			22,091
Tax benefit on convertible note bond hedge					2,452			2,452
Net income						72,980		72,980
Unrealized gain on securities available-for-sale, net of taxes of $606							1,126	1,126
Reclassification adjustment for gains realized in net income due to the sale of securities available-for- sale, net of taxes of $645							(1,199)	(1,199)
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 plans	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
Unrealized loss on securities available-for-sale, net of taxes of $66							(123)	(123)
Stock -based compensation					24,303			24,303
Total tax benefit from exercise of stock options					39,504			39,504
BALANCE, February 3, 2007	39,691,277	$ 397	$ 13,393,840	$ 134	$ 302,766	$ 315,453	$ 1,800	$ 620,550

See notes to consolidated financial statements.

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

	Fiscal Year Ended		
	February 3, 2007 (as restated, see Note 18)	January 28, 2006 (as restated, see Note 18)	January 29, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 112,611	$ 72,980	$ 68,905
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	54,929	49,861	37,621
Deferred income taxes	(1,110)	1,559	18,124
Stock based compensation	24,303		
Excess tax benefit from stock-based compensation	(36,932)		
Tax benefit from exercise of stock options	2,572	14,678	15,868
Gain on sale of investment		(1,844)	(10,981)
Other non-cash items	2,686	2,452	2,171
Changes in assets and liabilities:			
Accounts receivable	817	6,277	(3,470)
Income tax receivable	(15,671)		
Inventories	(105,766)	(77,872)	(44,813)
Prepaid expenses and other assets	(29,039)	(2,589)	(2,177)
Accounts payable	24,444	35,119	(4,260)
Accrued expenses	42,479	(193)	(4,707)
Income taxes payable	20,421	19,144	
Deferred construction allowances	19,264	12,654	29,072
Deferred revenue and other liabilities	26,560	29,201	6,488
Net cash provided by operating activities	142,568	161,427	107,841
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Capital expenditures	(162,995)	(149,659)	(135,554)
Proceeds from sale-leaseback transactions	47,452	62,122	60,335
Payment for the purchase of Galyan s, net of $17,931 cash acquired			(351,554)
Purchase of held-to-maturity securities			(57,942)
Proceeds from sale of held-to-maturity securities			57,942
Proceeds from sale of investment		1,922	12,001
Net cash used in investing activities	(115,543)	(85,615)	(414,772)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of convertible notes			172,500
Revolving credit (payments) borrowings, net		(76,094)	76,094

Payments on long-term debt and capital leases	(184)	(560)	(537)
Payment for purchase of bond hedge			(33,120)
Proceeds from issuance of warrant			12,420
Transaction costs for convertible notes			(6,239)
Proceeds from sale of common stock under employee stock purchase plan	3,734	3,676	3,233
Proceeds from exercise of stock options	23,042	7,413	5,017
Excess tax benefit from stock-based compensation	36,932		
Increase in bank overdraft	8,829	7,431	2,775
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)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	36,564	18,886	93,674
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 135,942	$ 36,564	$ 18,886
Supplemental disclosure of cash flow information:			
Construction in progress leased facilities	$ 5,749	$ (7,895)	$ 4,306
Accrued property and equipment	$ 11,475	$ (4,969)	$ 13,855
Cash paid during the year for interest	$ 9,286	$ 12,345	$ 5,862
Cash paid during the year for income taxes	$ 68,483	$ 4,569	$ 15,818

See notes to consolidated financial statements.

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED 2006, 2005 AND 2004

1. Summary of Significant Accounting Policies

Operations Dick s Sporting Goods, Inc. (together with its subsidiaries, the Company) is a specialty retailer selling sporting goods, footwear and apparel through its 294 stores, the majority of which are located throughout the eastern half of the United States. On July 29, 2004, a wholly owned subsidiary of Dick s Sporting Goods, Inc. completed the acquisition of Galyan s Trading Company, Inc (Galyan s). The Consolidated Statements of Income include the operation of Galyan s from the date of acquisition forward.

Fiscal Year The Company s fiscal year ends on the Saturday closest to the end of January. Fiscal years 2006, 2005 and 2004 ended on February 3, 2007, January 28, 2006 and January 29, 2005, respectively. All fiscal years presented include 52 weeks of operations except fiscal 2006, which includes 53 weeks.

Principles of Consolidation The consolidated financial statements include Dick s Sporting Goods, Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

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

Cash and Cash Equivalents Cash and cash equivalents consist of cash on hand and all highly liquid instruments purchased with a maturity of three months or less at the date of purchase. Interest income was $0.8 million, $0.2 million and $1.1 million for fiscal 2006, 2005 and 2004, respectively.

Cash Management The Company s cash management system provides for the reimbursement of all major bank disbursement accounts on a daily basis. Accounts payable at February 3, 2007 and January 28, 2006 include $76.8 million and $68.0 million, respectively, of checks drawn in excess of cash balances not yet presented for payment.

Accounts Receivable Accounts receivable consists principally of amounts receivable from vendors. The allowance for doubtful accounts totaled $2.0 million and $1.9 million, as of February 3, 2007 and January 28, 2006, respectively.

Inventories Inventories are stated at the lower of weighted average cost or market. Inventory cost consists of the direct cost of merchandise including freight. Inventories are net of shrinkage, obsolescence, other valuations and vendor allowances totaling $52.3 million and $38.2 million at February 3, 2007 and January 28, 2006, respectively.

Property and Equipment Property and equipment are recorded at cost and include capitalized leases. For financial reporting purposes, depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Buildings	40 years
Leasehold improvements	10-25 years
Furniture, fixtures and equipment	3-7 years
Vehicles	5 years

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

For leasehold improvements and property and equipment under capital lease agreements, depreciation and amortization are calculated using the straight-line method over the shorter of the estimated useful lives of the assets or the lease term.

Renewals and betterments are capitalized and repairs and maintenance are expensed as incurred.

The Company periodically evaluates its long-lived assets to assess whether the carrying values have been impaired, using the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

Goodwill and Intangible Assets - In accordance with SFAS No. 142, Accounting for Goodwill and Other Intangible Assets, the Company will continue to assess on an annual basis during the fourth quarter whether goodwill is impaired. Additional impairment assessments may be performed on an interim basis if the Company deems it necessary. Finite-lived intangible assets are amortized over their estimated useful economic lives and are reviewed for impairment when factors indicate that an impairment may have occurred. No impairment of goodwill or intangible assets was recorded during fiscal 2006, 2005 or 2004.

Investments - Investments consist of shares of unregistered common stock and is carried at fair value within other assets in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Fair value at the acquisition date was based upon the publicly quoted equity price of GSI Commerce Inc. (GSI) stock, less a discount resulting from the unregistered character of the stock. This discount was based on an independent appraisal obtained by the Company. Unrealized holding gains and losses on the stock are included in other comprehensive income and are shown as a component of stockholders equity as of the end of each fiscal year (see Note 13).

Deferred Revenue and Other Liabilities - Deferred revenue and other liabilities is primarily comprised of gift cards, deferred rent, which represents the difference between rent paid and the amounts expensed for operating leases, deferred liabilities related to construction allowances, unamortized capitalized rent during construction that was previously capitalized prior to the adoption of FSP 13-1, amounts deferred relating to the investment in GSI (see Note 13) and advance payments under the terms of building sale-leaseback agreements. Deferred liabilities related to construction allowances and capitalized rent, net of related amortization, was $100.1 million at February 3, 2007 and $73.3 million at January 28, 2006. Deferred revenue related to gift cards at February 3, 2007 and January 28, 2006 was $72.3 million and $58.1 million, respectively.

Self-Insurance - The Company is self-insured for certain losses related to health, workers compensation and general liability insurance, although we maintain stop-loss coverage with third-party insurers to limit our liability exposure. Liabilities associated with these losses are estimated in part by considering historical claims experience, industry factors, severity factors and other actuarial assumptions.

Pre-opening Expenses - Pre-opening expenses, which consist primarily of rent, marketing, payroll and recruiting costs, are expensed as incurred.

Merger Integration and Store Closing Costs - Merger integration and store closing costs include the expense of closing Dick s stores in connection with the Galyan s acquisition, advertising the re-branding of Galyan s stores, duplicative administrative costs, recruiting and system conversion costs. These costs were $37.8 and $20.3 for fiscal 2005 and 2004, respectively.

Earnings Per Share The computation of basic earnings per share is based on the weighted average number of shares outstanding during the period. The computation of diluted earnings per share is based on the weighted average number of shares outstanding plus the incremental shares that would be outstanding assuming the exercise of dilutive stock options and warrants, calculated by applying the treasury stock method.

Stock-Based Compensation The Company grants stock options to purchase common stock under the Company s 2002 Stock Option Plan (the Plan). The Company also has an employee stock purchase plan (ESPP) which provides for eligible employees to purchase shares of the Company s common stock.

Prior to the January 29, 2006 adoption of the Financial Accounting Standards Board (FASB) Statement No. 123(R), Share-Based Payment (SFAS 123R), the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees and related interpretations. Accordingly, because the exercise price of the option was equal to or greater than the market value of the underlying common stock on the date of grant, and any purchase discounts

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

under the Company s ESPP plan were within statutory limits, no compensation expense was recognized by the Company for stock-based compensation. As permitted by SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), stock-based compensation was included as a proforma disclosure in the notes to the consolidated financial statements.

Effective January 29, 2006, the Company adopted the fair value recognition provisions of SFAS 123R, using the modified-prospective transition method. Under this transition method, stock-based compensation expense was recognized in the consolidated financial statements for granted, modified, or settled stock options and for expense related to the ESPP, since the related purchase discount exceeded the amount allowed under SFAS 123R for non-compensatory treatment. The provisions of SFAS 123R apply to new stock options and stock options outstanding, but not yet vested, on the effective date of January 29, 2006. Results for prior periods have not been restated, as provided for under the modified-prospective transition method.

Total stock-based compensation expense recognized for the year ended February 3, 2007 was $24.3 million before income taxes and consisted of stock option and ESPP expense of $23.1 million and $1.2 million, respectively. Based upon the nature of the employees to which it relates, the expense was recorded in selling, general and administrative expenses in the consolidated statements of income. The related total tax benefit was $9.3 million for the year ended February 3, 2007.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits resulting from the exercise of stock options as operating cash inflows in the consolidated statements of cash flows, in accordance with the provisions of the Emerging Issues Task Force (EITF) Issue No 00-15, Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of a Nonqualified Employee Stock Option. SFAS 123R requires the benefits of tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis. This amount is shown as Excess tax benefit from stock-based compensation on the consolidated statements of cash flows.

In November 2005, the FASB issued Staff Position No. FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards (FSP 123R-3). The Company has elected to adopt the alternative transition method provided in FSP 123R-3 for calculating the tax effects of stock-based compensation under SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of stock-based compensation, and for determining the impact on the APIC pool and consolidated statement of cash flows of the tax effects of stock-based compensation awards that are outstanding upon adoption of SFAS 123R.

The following table illustrates the effect on the net income and net income per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation (see Note 9) (dollars in thousands, except per share data):

	2005	**2004**
Net income, as reported	$ 72,980	$ 68,905
Deduct: stock-based compensation expense, net of tax of related tax effects	(13,484)	(11,761)
Proforma net income	$ 59,496	$ 57,144

Disclosures for fiscal 2006 are not presented because the amounts are recognized in the consolidated statement of income.

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The fair value of stock-based awards to employees is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Employee Stock Options			Employee Stock Purchase Plan		
	2006	Proforma 2005	Proforma 2004	2006	Proforma 2005	Proforma 2004
Black - Scholes Valuation Assumptions (1)						
Expected life (years) (2)	5.29	5.29	5	0.5	0.5	0.5
Expected volatility (3)	37% - 39%	39% - 41%	52% - 54%	24% - 32%	27% - 40%	26% - 30%
Weighted average volatility	38.79%	40.53%	53.32%	28.44%	35.10%	27.84%
Risk-free interest rate (4)	4.44% - 4.97%	3.63% - 4.44%	3.42% - 3.96%	5.09% - 5.31%	3.38% - 4.40%	1.69% - 2.61%
Expected dividend yield						
Weighted average fair values	$ 16.67	$ 15.26	$ 15.77	$ 10.24	$ 8.29	$ 7.21

(1) Beginning on the date of adoption of SFAS 123R, forfeitures are estimated based on historical experience, prior to the date of adoption, forfeitures were recorded as they occurred.

(2) The expected life of the options represents the

estimated period of time until exercise and is based on historical experience of the similar awards.

(3) Beginning on the date of adoption of SFAS 123R, expected volatility is based on the historical volatility of the Company s common stock since the inception of the Company s shares being publicly traded in October 2002; prior to the date of adoption, expected volatility was estimated using the Company s historical volatility and volatility of other publicly-traded retailers.

(4) The risk-free interest rate is based on the implied yield available on U.S. Treasury constant maturity interest rates whose term is consistent with

the expected life
of the stock
options

The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and experience. See Note 9 for additional details regarding stock-based compensation.

Income Taxes The Company utilizes the asset and liability method of accounting for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes, and provides deferred income taxes for temporary differences between the amounts reported for assets and liabilities for financial statement purposes and for income tax reporting purposes.

Revenue Recognition Revenue from retail sales is recognized at the point-of-sale. Revenue from cash received for gift cards is deferred, and the revenue is recognized upon the redemption of the gift card. Sales are recorded net of estimated returns. Revenue from layaway sales is recognized upon receipt of final payment from the customer.

Advertising Costs Production costs of advertising and the costs to run the advertisements are expensed the first time the advertisement takes place. Advertising expense, net of cooperative advertising was $122.9 million, $96.1 million and $78.3 million for fiscal 2006, 2005 and 2004, respectively.

Vendor Allowances Vendor allowances include allowances, rebates and cooperative advertising funds received from vendors. These funds are determined for each fiscal year and the majority are based on various quantitative contract terms. Amounts expected to be received from vendors relating to the purchase of merchandise inventories are treated as a reduction of inventory and reduce cost of goods sold as the merchandise is sold. Amounts that represent a reimbursement of costs incurred, such as advertising, are recorded as a reduction to the related expense in the period that the related expense is incurred. The Company records an estimate of earned allowances based on the latest projected purchase volumes and advertising forecasts. On an annual basis at the end of the fiscal year, the Company confirms earned allowances with vendors to determine that the amounts are recorded in accordance with the terms of the contract.

Fair Value of Financial Instruments The Company has financial instruments, which include long-term debt and revolving debt. The carrying amounts of the Company s debt instruments approximate their fair value, estimated using the Company s current incremental borrowing rates for similar types of borrowing arrangements.

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Segment Information The Company is a specialty retailer that offers a broad range of products in its specialty retail stores in the eastern United States. Given the economic characteristics of the store formats, the similar nature of the products sold, the type of customer, and method of distribution, the operations of the Company are one reportable segment. The following table sets forth the approximate amount of net sales attributable to hardlines, apparel and footwear for the periods presented (dollars in millions):

	Fiscal Year		
Merchandise Category	**2006**	**2005**	**2004**
Hardlines	$ 1,768	$ 1,497	$ 1,216
Apparel	811	672	530
Footwear	535	456	363
Total net sales	$ 3,114	$ 2,625	$ 2,109

Newly Issued Accounting Pronouncements In June 2006, the EITF reached a consensus on Issue No. 06-3 (EITF 06-3), Disclosure Requirements for Taxes Assessed by a Governmental Authority on Revenue-Producing Transactions, which provides that entities should present such taxes on either a gross or net basis based on their accounting policies. The Company s accounting policy is to record such taxes on a net basis. EITF 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006. The implementation of EITF 06-3 in the first quarter of fiscal 2007 will not have a material impact on our financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 is an interpretation of FASB Statement No. 109, Accounting for Income Taxes, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 requires expanded disclosure with respect to the uncertainty in income taxes and is effective as of the beginning of our 2007 fiscal year. The cumulative effect, if any, of adopting FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of fiscal 2007. The Company expects that the financial impact of applying the provisions of FIN 48 to all tax positions will not be material upon the initial adoption of FIN 48.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, established 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.

2. Acquisition

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 has recorded $156.6 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 received an independent appraisal for certain assets to determine their fair value. The purchase price allocation is final, except for any potential income tax changes that may arise. The following table summarizes the fair values of the assets acquired and liabilities assumed (in thousands):

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Inventory	$ 158,780
Other current assets (including cash)	65,603
Property and equipment, net	157,211
Other long-term assets, excluding goodwill	4,458
Goodwill	156,628
Favorable leases	5,310
Accounts payable	(93,944)
Accrued expenses	(61,223)
Other current liabilities	(9,937)
Long-term debt	(5,859)
Other long-term liabilities	(7,455)
Fair value of net assets acquired, including intangibles	$ 369,572

As of February 3, 2007, the Company had a net receivable of $0.7 million as our projected sublease cash flows exceed our anticipated rent payments for two of the closed former Galyan s stores. These costs were accounted for under Emerging Issues Task Force No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination .

The following table summarizes the activity in fiscal 2006, 2005 and 2004 (in thousands):

	Associate Severance, Retention and Relocation	Liabilities Established for the Closing of Galyan s stores and Corporate Headquarters	Inventory Reserve for Discontinued Galyan s Merchandise	Total
Liabilities and reserves established in conjuction with the Galyan s acquisition at July 31, 2004	$ 15,600	$ 15,838	$ 22,686	$ 54,124
Cash paid	(11,381)	(3,834)		(15,215)
Adjustments to the estimate	(599)	(8,331)		(8,930)
Clearance of discontinued Galyan s merchandise			(16,376)	(16,376)
Balance at January 29, 2005	$ 3,620	$ 3,673	$ 6,310	$ 13,603
Cash paid (net of sublease receipts)	(3,284)	(4,242)		(7,526)
Adjustments to the estimate	(216)			(216)
Clearance of discontinued Galyan s merchandise			(6,310)	(6,310)
Balance at January 28, 2006	$ 120	$ (569)	$	$ (449)

Cash paid (net of sublease receipts)		(120)		(85)				(205)
Balance at February 3, 2007	$		$	(654)	$		$	(654)

The $6.3 million and $16.4 million of inventory reserve utilized for the clearance of discontinued Galyan s merchandise in fiscal 2005 and 2004, respectively, was recognized as a reduction of cost of sales as inventory turned.

The following unaudited proforma summary presents information as if Galyan s had been acquired at the beginning of the period presented. The proforma amounts include certain reclassifications to Galyan s amounts to conform them to the Company s presentation, and an increase in interest expense of $3.9 million for the year ended

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

January 29, 2005, to reflect the increase in borrowings under the amended credit facility to finance the acquisition as if it had occurred at the beginning of the period presented.

The proforma amounts do not reflect any benefits from economies which may 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 period presented, nor is it necessarily indicative of the future results of operations of the combined companies (unaudited, in thousands, except per share amounts).

	Year Ended January 29, 2005
Net sales	$2,448,643
Net income	$ 56,452
Basic earnings per share	$ 1.18
Diluted earnings per share	$ 1.07

3. Goodwill and Other Intangible Assets

In connection with the acquisition of Galyan s on July 29, 2004, the Company recorded goodwill and other intangible assets in accordance with SFAS No. 141, Business Combinations. 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. In accordance with SFAS No. 142, Accounting for Goodwill and Other Intangible Assets, the Company will continue to assess, on an annual basis during the fourth quarter, whether goodwill is impaired. Additional impairment assessments may be performed on an interim basis if events or circumstances change that could cause the balance to be impaired. The Company has not recorded an impairment charge in fiscal 2006, 2005 or 2004. Finite-lived intangible assets are amortized over their estimated useful economic lives and reviewed for impairment when factors indicate that an impairment may have occurred. No amounts assigned to any intangible assets are deductible for tax purposes.

Acquired intangible assets subject to amortization at February 3, 2007 were as follows (in thousands):

	2006		2005		2004	
Intangible Assets Subject to Amortization:	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Favorable leases	$5,310	$ (186)	$5,310	$ (45)	$5,310	$ 1

The estimated weighted average economic useful life is 10 years. The annual amortization expense of the favorable leases recorded as of February 3, 2007 is expected to be as follows (in thousands):

Fiscal Years	Estimated Amortization Expense
2007	241
2008	345
2009	453
2010	590
2011	548
Thereafter	2,947

Total	$	5,124

DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

4. Store and Corporate Office Closings

At a store s closing or relocation date, estimated lease termination and other costs to close or relocate a store are recorded in cost of goods sold, including occupancy and distribution costs on the consolidated statements of income. The calculation of accrued lease termination and other costs primarily includes future minimum lease payments, maintenance costs and taxes from the date of closure or relocation to the end of the remaining lease term, net of contractual or estimated sublease income. The liability is discounted using a credit-adjusted risk-free rate of interest. The assumptions used in the calculation of the accrued lease termination and other costs are evaluated each quarter.

The following table summarizes the activity of the store closing reserves established due to Dick s store closings as a result of the Galyan s acquisition as well as the relocation of two stores during fiscal 2006 (in thousands):

	2006	2005
Accrued store closing and relocation reserves, beginning of period	$ 20,181	$ 3,191
Expense charged to earnings	4,328	21,545
Cash payments	(4,867)	(4,555)
Interest accretion and other changes in assumptions	261	
Accrued store closing and relocation reserves, end of period	19,903	20,181
Less current portion of accrued store closing and relocation reserves	(6,135)	(4,845)
Long-term portion of accrued store closing and relocation reserves	$ 13,768	$ 15,336

The $4.3 million of expense charged to earnings for fiscal 2006 was recorded in cost of goods sold, including occupancy and distribution costs in the consolidated statements of income. The current portion of accrued store closing and relocation reserves is recorded in accrued expenses and the long-term portion is recorded in long-term deferred revenue and other liabilities in the consolidated balance sheets.

5. Property and Equipment

Property and equipment, net are recorded at cost and consist of the following as of the end of the fiscal periods (in thousands):

	2006	2005
Buildings and land	$ 31,820	$ 31,820
Leasehold improvements	374,879	313,075
Furniture, fixtures and equipment	330,757	280,376
	737,456	625,271
Less: accumulated depreciation and amortization	(304,385)	(254,994)
Net property and equipment	$ 433,071	$ 370,277

6. Accrued Expenses

Accrued expenses consist of the following as of the end of the fiscal periods (in thousands):

	2006	2005
Accrued payroll, withholdings and benefits	$ 52,988	$ 36,859
Accrued property and equipment	34,537	23,062
Other accrued expenses	102,840	76,599

Total accrued expenses	$ 190,365	$ 136,520

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

7. Debt

The Company s outstanding debt at February 3, 2007 and January 28, 2006 was as follows (in thousands):

	2006	2005
Senior convertible notes	$ 172,500	$ 172,500
Revolving line of credit		
Capital leases	7,809	7,909
Third-party debt	708	752
Related party debt		40
Total debt	181,017	181,201
Less: current portion	(152)	(181)
Total long-term debt	$ 180,865	$ 181,020

Senior Convertible Notes On February 18, 2004, the Company completed a private offering of $172.5 million issue price of senior unsecured convertible notes due 2024 (senior convertible notes) in transactions pursuant to Rule 144A under the Securities Act of 1933, as amended. Net proceeds of $145.6 million to the Company are net of transaction costs associated with the offering of $6.2 million, and the net cost of a convertible bond hedge and a separate warrant transaction. The hedge and warrant transactions effectively increase the conversion price associated with the senior convertible notes during the term of these transactions from 40% to 100%, or from $39.31 to $56.16 per share, thereby reducing the potential dilutive economic effect to shareholders upon conversion.

The senior convertible notes bear interest at an annual rate of 2.375% of the issue price payable semi-annually on August 18th and February 18th of each year until February 18, 2009, with the first interest payment made on August 18, 2004. After February 18, 2009, the senior convertible notes will not pay cash interest, but the initial principal amount of the notes will accrete daily at an original issue discount rate of 2.625%, until maturity on February 18, 2024, when a holder will receive $1,000 per note. The senior convertible notes are convertible into the Company s common stock (the common stock) at an initial conversion price in each of the first 20 fiscal quarters following issuance of the notes of $39.31 per share, upon the occurrence of certain events. Thereafter, the conversion price per share of common stock increases each fiscal quarter by the accreted original issue discount for the quarter. Upon conversion of a note, the Company is obligated to pay cash in lieu of issuing some or all of the shares of common stock, in an amount up to the accreted principal amount of the note, and whether any shares of common stock are issuable in addition to this cash payment would depend upon the then market price of the Company s common stock. The senior convertible notes will mature on February 18, 2024, unless earlier converted or repurchased. The Company may redeem the notes at any time on or after February 18, 2009, at its option, at a redemption price equal to the sum of the issue price, accreted original discount and any accrued cash interest, if any. The total face amount of the senior convertible notes was $255.1 million prior to the original discount of $82.6 million.

Concurrently, with the sale of the senior convertible notes, the Company purchased a bond hedge designed to mitigate the potential dilution to shareholders from the conversion of the senior convertible notes. Under the five year term of the bond hedge, one of the initial purchasers (the counterparty) will deliver to the Company upon a conversion of the bonds a number of shares of common stock based on the extent to which the then market price exceeds $39.31 per share. The aggregate number of shares that the Company could be obligated to issue upon conversion of the senior convertible notes is 4,388,024 shares.

The cost of the purchased bond hedge was partially offset by the sale of warrants (the warrants) to acquire up to 8,775,948 shares of the common stock to the counterparty with whom the Company entered into the bond hedge. The warrants are exercisable in year five at a price of $56.16 per share. The warrants may be settled at the Company s option through a net share settlement or a net cash settlement, either of which would be based on the extent to which the then market price exceeds $56.16 per share.

The net effect of the purchased bond hedge and the warrants is to either reduce the potential dilution from the conversion of the senior convertible notes if the Company elects a net share settlement or to increase the net cash proceeds of the offering if a net cash settlement is elected if the senior convertible notes are converted at a time when the market price of the common stock exceeds $39.31 per share. There would be dilution from the conversion

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

of the senior convertible notes to the extent that the then market price per share of the common stock exceeds $56.16 at the time of conversion.

Revolving Credit Agreement On July 28, 2004, the Company executed its Second Amended and Restated Credit Agreement (the Credit Agreement), between Dick s and lenders named therein. The Credit Agreement became effective on July 29, 2004 and provides for a revolving credit facility in an aggregate outstanding principal amount of up to $350 million, including up to $75 million in the form of letters of credit. The Credit Agreement s term was extended to May 30, 2008.

As of February 3, 2007 and January 28, 2006, the Company s total remaining borrowing capacity, after subtracting letters of credit, under the Credit Agreement was $333.5 million and $275.6 million, respectively. Borrowing availability under the Company s 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 is based upon a formula at either (a) the prime corporate lending rate or (b) the one-month London Interbank Offering Rate (LIBOR), plus the applicable margin of 1.25% to 1.75% based on the level of excess borrowing availability. Borrowings are collateralized by the assets of the Company, excluding store and distribution center equipment and fixtures that have a net carrying value of $103.5 million as of February 3, 2007.

At February 3, 2007 and January 28, 2006, the prime rate was 8.25% and 7.25%, respectively, and LIBOR was 5.32% and 4.57%, respectively. There were no outstanding borrowings at February 3, 2007 and January 28, 2006.

The Credit Agreement contains restrictive covenants including the maintenance of a certain fixed charge coverage ratio of not less than 1.0 to 1.0 in certain circumstances and prohibits payment of any dividends. As of February 3, 2007, the Company was in compliance with the terms of the Credit Agreement.

The Credit Agreement provides for letters of credit not to exceed the lesser of (a) $75 million, (b) $350 million less the outstanding loan balance or (c) the borrowing base minus the outstanding loan balance. As of February 3, 2007 and January 28, 2006, the Company had outstanding letters of credit totaling $16.5 million and $17.8 million, respectively.

The following table provides information about the Credit Agreement borrowings as of and for the periods (dollars in thousands):

	2006	2005
Balance, fiscal period end	$	$
Average interest rate	6.57%	4.76%
Maximum outstanding during the year	$169,981	$251,963
Average outstanding during the year	$ 57,138	$134,610

Other Debt Other debt, exclusive of capital lease obligations, consists of the following as of the end of the fiscal periods (dollars in thousands):

	2006	2005
Third-Party:		
Note payable, due in monthly installments of approximately $4, including interest at 4%, through 2020	$ 708	$ 752
Related Party:		
Note payable to a former principal stockholder, due in monthly installments of approximately $14, including interest at 12%, through May 1, 2006		40
Total other debt	708	792
Less current portion of:		
Third-party	(46)	(44)

Related party		(40)
Total Other Long-Term Debt	$ 662	$ 708

Certain of the agreements pertaining to long-term debt contain financial and other restrictive covenants, none of which are more restrictive than those of the Credit Agreement as discussed herein.

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Scheduled principal payments on other long-term debt as of February 3, 2007 are as follows (in thousands):

Fiscal Year	
2007	$ 46
2008	48
2009	49
2010	52
2011	53
Thereafter	460
	$ 708

Capital Lease Obligations The Company leases two buildings from the estate of a former stockholder, who is related to current stockholders of the Company, under a capital lease entered into May 1, 1986 which expires in April 2021. In addition, the Company has a capital lease for a store location with a fixed interest rate of 10.6% that matures in 2024. The gross and net carrying values of assets under capital leases are approximately $8.2 million and $4.2 million, respectively as of February 3, 2007 and $8.2 million and $4.6 million, respectively as of January 28, 2006.

Scheduled lease payments under capital lease obligations as of February 3, 2007 are as follows (in thousands):

Fiscal Year	
2007	$ 888
2008	905
2009	953
2010	953
2011	953
Thereafter	12,157
	16,809
Less: amounts representing interest	(9,000)
Present value of net scheduled lease payments	7,809
Less: amounts due in one year	(106)
	$ 7,703

8. Operating Leases

The Company leases substantially all of its stores, office facilities, distribution centers and equipment, under noncancelable operating leases that expire at various dates through 2027. Certain of the store lease agreements contain renewal options for additional periods of five-to-ten years and contain certain rent escalation clauses. The lease agreements provide primarily for the payment of minimum annual rentals, costs of utilities, property taxes, maintenance, common areas and insurance, and in some cases contingent rent stated as a percentage of gross sales over certain base amounts. Rent expense under these operating leases was approximately $205.8 million, $196.3 million and $144.0 million for fiscal 2006, 2005 and 2004, respectively. The Company entered into sale-leaseback transactions related to store fixtures, buildings and equipment that resulted in cash receipts of $47.5 million, $62.1 million and $60.3 million for fiscal 2006, 2005 and 2004, respectively.

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Scheduled lease payments due (including lease commitments for 39 stores not yet opened at February 3, 2007) under noncancelable operating leases as of February 3, 2007 are as follows (in thousands):

Fiscal Year	
2007	$ 230,830
2008	236,681
2009	235,771
2010	235,007
2011	228,976
Thereafter	1,651,770
	$ 2,819,035

The Company has subleases related to certain of its operating lease agreements. The Company recognized sublease rental income of $1.2 million, $1.0 and $1.0 for fiscal 2006, 2005 and 2004, respectively.

9. Stock-Based Compensation and Employee Stock Plans

Stock Option Plans The Company grants stock options to purchase common stock under the Plan. Stock options generally vest over four years in 25% increments from the date of grant and expire 10 years from date of grant. As of February 3, 2007, there were 8,743,418 shares of common stock available for issuance pursuant to future stock option grants. The stock option activity during the year is presented in the following table:

	Shares Subject to Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding, January 31, 2004	13,641,226	$ 10.99	2.58	$ 189,477
Granted	380,010	31.60		
Exercised	(1,532,121)	3.24		
Cancelled	(384,705)	15.25		
Outstanding, January 29, 2005	12,104,410	$ 12.47	5.91	$ 259,398
Granted	1,243,944	35.79		
Exercised	(1,320,401)	5.65		
Cancelled	(388,566)	25.58		
Outstanding, January 28, 2006	11,639,387	$ 15.32	8.72	$ 249,432
Granted	1,378,458	39.22		
Exercised	(2,685,858)	8.59		
Cancelled	(515,573)	29.72		
Outstanding, February 3, 2007	9,816,414	$ 19.76	6.64	$ 324,610

Exercisable, February 3, 2007	5,527,184	$ 11.43	5.77	$ 228,852

The aggregate intrinsic value in the table above is based on the Company s closing stock prices for the last business day of the period indicated. The total intrinsic value for stock options exercised for 2006, 2005 and 2004 was $37.1 million, $40.2 million and $31.8 million, respectively. The total fair value of options vested for 2006, 2005 and 2004 was $26.2 million, $8.4 million and $6.6 million, respectively. The nonvested stock option activity for the year of the year ended February 3, 2007 is presented in the following table:

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

	Shares	Weighted Average Fair Value
Nonvested, January 28, 2006	7,767,647	$ 8.83
Granted	1,378,458	16.67
Vested	(4,342,906)	6.03
Forfeited	(513,969)	12.55
Nonvested, February 3, 2007	4,289,230	$ 13.74

As of February 3, 2007, total unrecognized stock-based compensation expense related to nonvested stock options was approximately $34.0 million, which is expected to be recognized over a weighted average period of approximately 2.37 years.

The Company issues new shares of common stock upon exercise of stock options.

Additional information regarding options outstanding as of February 3, 2007, is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$1.08 - $2.17	821,832	3.33	$ 1.97	821,832	$ 1.97
$6.00 - $10.48	2,970,288	5.72	6.35	2,970,288	6.35
$15.29 - $22.87	2,378,120	6.7	21.86	514,601	18.36
$25.07 - $34.68	1,379,702	7.05	25.82	1,010,745	25.45
$35.95 - $55.19	2,266,472	8.73	37.86	209,718	35.97
$1.08 - $55.19	9,816,414	6.64	$ 19.76	5,527,184	$ 11.43

Employee Stock Purchase Plan The Company has an employee stock purchase plan, which provides that eligible employees may purchase shares of the Company s common stock. There are two offering periods in a fiscal year, one ending on June 30 and the other on December 31, or as otherwise determined by the Company s compensation committee. The employee s purchase price is 85% of the lesser of the fair market value of the stock on the first business day or the last business day of the semi-annual offering period. Employees may purchase shares having a fair market value of up to $25,000 for all purchases ending within the same calendar year. The total number of shares issuable under the plan is 2,310,000. There were 122,982 and 125,989 shares issued under the plan during fiscal 2006 and 2005, respectively, leaving 817,895 shares available for future issuance. The fiscal 2006 shares were issued at an average price of $30.39.

Common Stock, Class B Common Stock and Preferred Stock During fiscal 2002, the Company amended its corporate charter to, among other things, provide for the authorization of the issuance of up to 100,000,000 shares of common stock, 20,000,000 shares of Class B common stock, and 5,000,000 shares of preferred stock. The holders of common stock generally have rights identical to holders of Class B common stock, except that holders of common stock are entitled to one vote per share and holders of Class B common stock are entitled to ten votes per share. A related party and relatives of the related party hold all of the Class B common stock. These shares can only be held by members of this group and are not publicly tradable. Class B common stock can be converted to common stock at the holder s option.

During fiscal 2004, the Company filed an amendment to its Amended and Restated Certificate of Incorporation to increase the number of authorized shares of our common stock, par value $0.01 per share from 100,000,000 to 200,000,000 and Class B common stock, par value $0.01 per share from 20,000,000 to 40,000,000.

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Income Taxes

The components of the provision for income taxes are as follows (in thousands):

	2006	2005	2004
Current:			
Federal	$ 62,573	$ 41,961	$ 22,645
State	11,247	7,295	7,280
	73,820	49,256	29,925
Deferred:			
Federal	631	(928)	15,603
State	623	326	408
	1,254	(602)	16,011
Total provision	$ 75,074	$ 48,654	$ 45,936

The provision for income taxes differs from the amounts computed by applying the federal statutory rate as follows for the following periods:

	2006	2005	2004
Federal statutory rate	35.0%	35.0%	35.0%
State tax, net of federal benefit	4.2%	4.6%	4.3%
Other permanent items	0.8%	0.4%	0.7%
Effective income tax rate	40.0%	40.0%	40.0%

Components of deferred tax assets (liabilities) consist of the following as of the fiscal periods ended (in thousands):

	2006	2005
Store closings expense	$ 7,772	$ 14,269
Stock option compensation	7,455	
Employee benefits	8,071	8,454
Other accrued expenses not currently deductible for tax purposes	10,331	8,273
Deferred rent	10,732	7,709
Insurance	3,595	3,491
State net operating loss carryforwards	2,931	2,242
Total deferred tax assets	50,887	44,438
Property and equipment	(12,281)	(16,288)
Inventory	(29,911)	(18,762)
Total deferred tax liabilities	(42,192)	(35,050)

Net deferred tax asset	$ 8,695	$ 9,388

The gross deferred tax asset from tax loss carryforwards of $2.9 million represents approximately $58.1 million of state net operating loss carryforwards, of which $1.6 million expires in the next ten years. The remaining $56.5 million expires between 2018 and 2026. As of February 3, 2007, of the $8.7 million net deferred tax asset, $17.4 million is recorded in other long-term assets and $8.7 million is recorded in deferred revenue and other current liabilities in the Consolidated Balance Sheet. As of January 28, 2006, of the $9.4 million net deferred tax asset, $0.4 million is recorded in current assets and $9.0 million is recorded in other long-term assets in the Consolidated Balance Sheet.

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Interest Expense, net

Interest expense, net is comprised of the following (in thousands):

	2006	2005	2004
Interest expense	$ 10,836	$ 13,196	$ 9,142
Interest income	(811)	(237)	(1,133)
Interest expense, net	$ 10,025	$ 12,959	$ 8,009

12. Earnings per Common Share

The computation of basic earnings per share is based on the number of weighted average common shares outstanding during the period. The computation of diluted earnings per share is based upon the weighted average number of shares outstanding plus the incremental shares that would be outstanding assuming exercise of dilutive stock options. The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. The aggregate number of shares, totaling 4,388,024, that the Company could be obligated to issue upon conversion of our $172.5 million issue price of senior convertible notes was excluded from calculations for the year ended February 3, 2007. The computations for basic and diluted earnings per share are as follows (in thousands, except per share data):

	Fiscal Year Ended		
	2006	2005	2004
Earnings per common share Basic:			
Net income	$ 112,611	$ 72,980	$ 68,905
Weighted average common shares outstanding	51,256	49,792	47,978
Earnings per common share	$ 2.20	$ 1.47	$ 1.44
Earnings per common share Diluted:			
Net income	$ 112,611	$ 72,980	$ 68,905
Weighted average common shares outstanding basic	51,256	49,792	47,978
Stock options	4,139	4,187	4,943
Weighted average common shares outstanding diluted	55,395	53,979	52,921
Earnings per common share	$ 2.03	$ 1.35	$ 1.30

Potential dilutive shares are excluded from the computation of earnings per share if their effect is anti-dilutive. Anti-dilutive options totaled 0.2 million for fiscal 2006. There were no anti-dilutive options in fiscal 2005 or 2004.

13. Investments

In April 2001, the Company entered into an Internet commerce agreement with GSI. Under the terms of this 10-year agreement, GSI is responsible for all financial and operational aspects of the Internet site, which operates under the domain name DicksSportingGoods.com, which name has been licensed to GSI by the Company. The Company and GSI entered into a royalty arrangement that permitted the Company, at its election, to purchase an equity ownership in GSI at a price that was less than the GSI market value per share in lieu of royalties until Internet sales reached a predefined amount. The equity ownership consists of unregistered common stock of GSI and warrants to purchase unregistered common stock of GSI (see Note 1). The Company recognized the difference between the fair value of the GSI stock and its cost as deferred revenue to be amortized over the 10-year term of the agreement. Deferred revenue at February 3, 2007 and January 28, 2006 was $1.9 million and $2.3 million, respectively. In total, the number of shares the Company holds represents less than 5% of GSI s outstanding common stock.

During fiscal 2005 and 2004, the Company realized a pre-tax gain of $1.8 million and $11.0 million, respectively, resulting from the sale of a portion of the Company s investment in GSI.

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DICK S SPORTING GOODS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Retirement Savings Plan

The Company s retirement savings plan, established pursuant to Section 401(k) of the Internal Revenue Code, covers all employees who have completed one year of service and have attained 21 years of age. Under the terms of the retirement savings plan, the Company provides a matching contribution equal to 50% of each participant s contribution up to 10% of the participant s compensation, and may make a discretionary contribution. Total expense recorded under the plan was $3.0 million, $2.6 million and $1.8 million for fiscal 2006, 2005 and 2004, respectively.

15. Commitments and Contingencies

The Company enters into licensing agreements for the exclusive rights to use certain trademarks extending through 2020. Under specific agreements, the Company is obligated to pay an annual guaranteed minimum royalty. The aggregate amount of required payments at February 3, 2007 is as follows (in thousands):

Fiscal Year	
2007	$ 1,000
2008	1,250
2009	1,500
2010	1,700
2011	1,900
Thereafter	24,000
	$ 31,350

In addition, certain agreements require the Company to pay additional royalties if the qualified purchases are in excess of the guaranteed minimum. The Company paid $0.7 million under agreements requiring minimum guaranteed contractual amounts during fiscal 2006. There were no payments made during fiscal 2005.

The Company is involved in legal proceedings incidental to the normal conduct of its business. Although the outcome of any pending legal proceedings cannot be predicted with certainty, management believes that adequate insurance coverage is maintained and that the ultimate resolution of these matters will not have a material adverse effect on the Company s liquidity, financial position or results of operations.

16. Subsequent Event

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 website 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.

In connection with the closing of the acquisition, Dick s executed its second amendment to its second amended and restated credit agreement to permit the acquisition of Golf Galaxy. There were no other significant changes to the credit agreement.

DICK S SPORTING GOODS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Quarterly Financial Information (Unaudited)

Summarized quarterly financial information in fiscal years 2006 and 2005 is as follows (in thousands, except earnings per share):

	2006				2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (1)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales (2)	$645,498	$734,047	$708,343	$1,026,275	$570,843	$621,972	$582,665	$849,507
Gross profit	177,665	207,397	191,335	320,302	151,972	174,416	153,454	257,798
Income (loss) from operations (2)	21,279	45,707	15,609	115,116	(9,423)	38,066	10,868	92,238
Net income (loss) (2)	11,418	25,681	7,795	67,718	(7,331)	22,098	4,183	54,030
Net earnings (loss) per diluted share	$ 0.23	$ 0.51	$ 0.15	$ 1.29	$ (0.15)	$ 0.41	$ 0.08	$ 1.00

(1) Fourth quarter of fiscal 2006 represents a 14 week period, as fiscal 2006 includes 53 weeks.

(2) Quarterly results for fiscal 2006 do not add to full year results due to rounding.

18. Restatement

The consolidated statements of cash flows for the years ended February 3, 2007 and January 28, 2006 have been restated. Due to a mathematical error, we did not properly report in the statement 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 statement 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
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Your note will not have a variable rate that is an objective rate, however, if it is reasonably expected that the average value of the rate during the first half of your note s term will be either significantly less than or significantly greater than the average value of the rate during the final half of your note s term.

An objective rate as described above is a qualified inverse floating rate if:

- the rate is equal to a fixed rate minus a qualified floating rate, and

- the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds.

Your note will also have a single qualified floating rate or an objective rate if interest on your note is stated at a fixed rate for an initial period of one year or less followed by either a qualified floating rate or an objective rate for a subsequent period, and either:

- the fixed rate and the qualified floating rate or objective rate have values on the issue date of the note that do not differ by more than 0.25 percentage points, or

- the value of the qualified floating rate or objective rate is intended to approximate the fixed rate.

Commercial paper rate notes, prime rate notes, LIBOR notes, EURIBOR rate notes, treasury rate notes, CMT rate notes, CD rate notes, CPI rate notes, and federal funds rate notes generally will be treated as variable rate notes under these rules.

In general, if your variable rate note provides for stated interest at a single qualified floating rate or objective rate, or one of those rates after a single fixed rate for an initial period, all stated interest on your note is qualified stated interest. In this case, the amount of OID, if any, is determined by using, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date of the qualified floating rate or qualified inverse floating rate, or, for any other objective rate, a fixed rate that reflects the yield reasonably expected for your note.

If your variable rate note does not provide for stated interest at a single qualified floating rate or a single objective rate, and also does not provide for interest payable at a fixed rate other than a single fixed rate for an initial period, you generally must determine the interest and OID accruals on your note by:

determining a fixed rate substitute for each variable rate provided under your variable rate note,

constructing the equivalent fixed rate debt instrument, using the fixed rate substitute described above,

determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument, and

adjusting for actual variable rates during the applicable accrual period.

When you determine the fixed rate substitute for each variable rate provided under the variable rate note, you generally will use the value of each variable rate as of the issue date or, for an objective rate that is not a qualified inverse floating rate, a rate that reflects the reasonably expected yield on your note.

If your variable rate note provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate, and also provides for stated interest at a single fixed rate other than at a single fixed rate for an initial period, you generally must determine interest and OID accruals by using the method described in the previous paragraph. However, your variable rate note will be treated, for purposes of the first three steps of the determination, as if your note had provided for a qualified floating rate, or a qualified inverse floating rate, rather than the fixed rate. The qualified floating rate, or qualified inverse floating rate, that replaces the fixed rate must be such that the fair market value of your variable rate note as of the issue date approximates the fair market value of an otherwise identical debt instrument that provides for the qualified floating rate, or qualified inverse floating rate, rather than the fixed rate.

Short-Term Notes. In general, if you are an individual or other cash basis United States holder of a short-term note, you are not required to accrue OID, as specially defined below for the purposes of this paragraph, for United States federal income tax purposes unless you elect to do so (although it is possible that you may be required to include any stated interest in income as you receive it). If you are an accrual basis taxpayer, a taxpayer in a special class, including, but not limited to, a regulated investment company, common trust fund, or a certain type of pass-through entity, or a cash basis taxpayer who so elects, you will be required to accrue OID on short-term notes on either a straight-line basis or under the constant-yield method, based on daily compounding. If you are not required and do not elect to include OID in income currently, any gain you realize on the sale or retirement of your short-term note will be ordinary income to the extent of the accrued OID, which will be determined on a straight-line basis unless you make an election to accrue the OID under the constant-yield method, through the date of sale or retirement. However, if you are not required and do not elect to accrue OID on your short-term notes, you will be required to defer deductions for interest on borrowings allocable to your short-term notes in an amount not exceeding the deferred income until the deferred income is realized.

When you determine the amount of OID subject to these rules, you must include all interest payments on your short-term note, including stated interest, in your short-term note s stated redemption price at maturity.

Foreign Currency Discount Notes. If your discount note is denominated in, or determined by reference to, a foreign currency, you must determine OID for any accrual period on your discount note in the foreign currency and then translate the amount of OID into U.S. dollars in the same manner as stated interest accrued by an accrual basis United States holder, as described under United States Holders Payments of

Interest . You may recognize ordinary income or loss when you receive an amount attributable to OID in connection with a payment of interest or the sale or retirement of your note.

Notes Purchased at a Premium

If you purchase your note for an amount in excess of its principal amount, you may elect to treat the excess as amortizable bond premium. If you make this election, you will reduce the amount required to be included in your income each year with respect to interest on your note by the amount of amortizable bond premium allocable to that year, based on your note s yield to maturity. If your note is denominated in, or determined by reference to, a foreign currency, you will compute your amortizable bond premium in units of the foreign currency and your amortizable bond premium will reduce your interest income in units of the foreign currency. Gain or loss recognized that is attributable to changes in exchange rates between the time your amortized bond premium offsets interest income and the time of the acquisition of your note is generally taxable as ordinary income or loss. If you make an election to amortize bond premium, it will apply to all debt instruments, other than debt instruments the interest on which is excludible from gross income, that you hold at the beginning of the first taxable year to which the election applies or that you thereafter acquire, and you may not revoke it without the consent of the Internal Revenue Service. See also Original Issue Discount Election to Treat All Interest as Original Issue Discount .

Notes Purchased with Market Discount

You will be treated as if you purchased your note, other than a short-term note, at a market discount, and your note will be a market discount note if:

- in the case of an initial purchaser, you purchase your note for less than its issue price as determined above under Original Issue Discount General , and

- the difference between the note s stated redemption price at maturity or, in the case of a discount note, the note s revised issue price, and the price you paid for your note is equal to or greater than $^1/4$ of 1 percent of your note s stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the note s maturity.

To determine the revised issue price of your note for these purposes, you generally add any OID that has accrued on your note to its issue price.

If your note s stated redemption price at maturity or, in the case of a discount note, its revised issue price, exceeds the price you paid for the note by less than $^1/4$ of 1 percent multiplied by the number of complete years to the note s maturity, the excess constitutes de minimis market discount, and the rules discussed below are not applicable to you.

You must treat any gain you recognize on the maturity or disposition of your market discount note as ordinary income to the extent of the accrued market discount on your note. Alternatively, you may elect to include market discount in income currently over the life of your note. If you make this election, it will apply to all debt instruments with market discount that you acquire on or after the first day of the first taxable year to which the election applies. You may not revoke this election without the consent of the Internal Revenue Service. If you own a market discount note and do not make this election, you will generally be required to defer deductions for interest on borrowings allocable to your note in an amount not exceeding the accrued market discount on your note until the maturity or disposition of your note.

You will accrue market discount on your market discount note on a straight-line basis unless you elect to accrue market discount using a constant-yield method. If you make this election, it will apply only to the note with respect to which it is made and you may not revoke it.

Purchase, Sale and Retirement of the Notes

Your tax basis in your note will generally be the U.S. dollar cost, as defined below, of your note, adjusted by:

- adding any OID or market discount, de minimis original issue discount and de minimis market discount previously included in income with respect to your note, and then
- subtracting any payments on your note that are not qualified stated interest payments and any amortizable bond premium applied to reduce interest on your note.

If you purchase your note with foreign currency, the U.S. dollar cost of your note will generally be the U.S. dollar value of the purchase price on the date of purchase. However, if you are a cash basis taxpayer, or an accrual basis taxpayer if you so elect, and your note is traded on an established securities market, as defined in the applicable Treasury regulations, the U.S. dollar cost of your note will be the U.S. dollar value of the purchase price on the settlement date of your purchase.

You will generally recognize gain or loss on the sale or retirement of your note equal to the difference between the amount you realize on the sale or retirement and your tax basis in your note. If your note is sold or retired for an amount in foreign currency, the amount you realize will be the U.S. dollar value of such amount on the date the note is disposed of or retired, except that in the case of a note that is traded on an established securities market, as defined in the applicable Treasury regulations, a cash basis taxpayer, or an accrual basis taxpayer that so elects, will determine the amount realized based on the U.S. dollar value of the foreign currency on the settlement date of the sale.

You will recognize capital gain or loss when you sell or retire your note, except to the extent:

- described above under Original Issue Discount Short-Term Notes or Notes Purchased with Market Discount ,
- attributable to accrued but unpaid interest,
- the rules governing contingent payment obligations apply, or
- attributable to changes in exchange rates as described below.

Capital gain of a noncorporate United States holder that is recognized before January 1, 2009 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year.

You must treat any portion of the gain or loss that you recognize on the sale or retirement of a note as ordinary income or loss to the extent attributable to changes in exchange rates. However, you take exchange gain or loss into account only to the extent of the total gain or loss you realize on the transaction.

Exchange of Amounts in Other Than U.S. Dollars

If you receive foreign currency as interest on your note or on the sale or retirement of your note, your tax basis in the foreign currency will equal its U.S. dollar value when the interest is received or at the time of the sale or retirement. If you purchase foreign currency, you generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of your purchase. If you sell or dispose of a foreign currency, including if you use it to purchase notes or exchange it for U.S. dollars, any gain or loss recognized generally will be ordinary income or loss.

Indexed Notes, Exchangeable Notes, and Contingent Payment Notes

The applicable pricing supplement will discuss any special United States federal income tax rules with respect to notes the payments on which are determined by reference to any index, notes that are exchangeable at our option or the option of the holder into securities of an issuer other than Wachovia or into other property, and other notes that are subject to the rules governing contingent payment obligations which are not subject to the rules governing variable rate notes.

United States Alien Holders

This subsection describes the tax consequences to a United States alien holder. You are a United States alien holder if you are the beneficial owner of a note and are, for United States federal income tax purposes:

- a nonresident alien individual,
- a foreign corporation, or
- an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a note.

If you are a United States holder, this subsection does not apply to you.

This discussion assumes that the note is not subject to the rules of Section 871(h)(4)(A) of the Internal Revenue Code, relating to interest payments that are determined by reference to the income, profits, changes in the value of property or other attributes of the debtor or a related party.

Under United States federal income and estate tax law, and subject to the discussion of backup withholding below, if you are a United States alien holder of a note:

- we and other U.S. payors generally will not be required to deduct United States withholding tax from payments of principal, premium, if any, and interest, including OID, to you if, in the case of payments of interest:

  1. you do not actually or constructively own 10% or more of the total combined voting power of all classes of stock of the Company entitled to vote,
  2. you are not a controlled foreign corporation that is related to the Company through stock ownership, and
  3. the U.S. payor does not have actual knowledge or reason to know that you are a United States person and:

a. you have furnished to the U.S. payor an Internal Revenue Service Form W-8BEN or an acceptable substitute form upon which you certify, under penalties of perjury, that you are (or, in the case of a United States alien holder that is a partnership or an estate or trust, such forms certifying that each partner in the partnership or beneficiary of the estate or trust is) a non-United States person,

b. in the case of payments made outside the United States to you at an offshore account (generally, an account maintained by you at a bank or other financial institution at any location outside the United States), you have furnished to the U.S. payor documentation that establishes your identity and your status as a non-United States person,

c. the U.S. payor has received a withholding certificate (furnished on an appropriate Internal Revenue Service Form W-8 or an acceptable substitute form) from a person claiming to be:

i. a withholding foreign partnership (generally a foreign partnership that has entered into an agreement with the Internal Revenue Service to assume primary withholding responsibility with respect to distributions and guaranteed payments it makes to its partners),

ii. a qualified intermediary (generally a non-United States financial institution or clearing organization or a non-United States branch or office of a United States financial institution or clearing organization that is a party to a withholding agreement with the Internal Revenue Service), or

iii. a U.S. branch of a non-United States bank or of a non-United States insurance company,

and the withholding foreign partnership, qualified intermediary or U.S. branch has received documentation upon which it may rely to treat the payment as made to a non-United States person that is, for United States federal income tax purposes, the beneficial owner of the payment on the notes in accordance with U.S. Treasury regulations (or, in the case of a qualified intermediary, in accordance with its agreement with the Internal Revenue Service),

d. the U.S. payor receives a statement from a securities clearing organization, bank or other financial institution that holds customers securities in the ordinary course of its trade or business,

i. certifying to the U.S. payor under penalties of perjury that an Internal Revenue Service Form W-8BEN or an acceptable substitute form has been received from you by it or by a similar financial institution between it and you, and

ii. to which is attached a copy of the Internal Revenue Service Form W-8BEN or acceptable substitute form, or

e. the U.S. payor otherwise possesses documentation upon which it may rely to treat the payment as made to a non-United States person that is, for United States federal income tax purposes, the beneficial owner of the payment on the notes in accordance with U.S. Treasury regulations; and

no deduction for any United States federal withholding tax will be made from any gain that you realize on the sale or exchange of your note.

Further, a note held by an individual who at death is not a citizen or resident of the United States will not be includible in the individual s gross estate for United States federal estate tax purposes if:

the decedent did not actually or constructively own 10% or more of the total combined voting power of all classes of stock of the Company entitled to vote at the time of death and

the income on the note would not have been effectively connected with a United States trade or business of the decedent at the same time.

Treasury Regulations Requiring Disclosure of Reportable Transactions

Recently-promulgated Treasury regulations require United States taxpayers to report certain transactions that give rise to a loss in excess of certain thresholds (a Reportable Transaction). Under these regulations, if the notes are denominated in a foreign currency, a United States holder (or a United States alien holder that holds the notes in connection with a U.S. trade or business) that recognizes a loss with respect to the notes that is characterized as an ordinary loss due to changes in currency exchange rates (under any of the rules discussed above) would be required to report the loss on Internal Revenue Service Form 8886

(Reportable Transaction Statement) if the loss exceeds the thresholds set forth in the regulations. For individuals and trusts, this loss threshold is $50,000 in any single taxable year. For other types of taxpayers and other types of losses, the thresholds are higher. You should consult with your tax advisor regarding any tax filing and reporting obligations that may apply in connection with acquiring, owning and disposing of notes.

Backup Withholding And Information Reporting

In general, if you are a noncorporate United States holder, we and other payors are required to report to the Internal Revenue Service all payments of principal, any premium and interest on your note, and the accrual of OID on a discount note. In addition, we and other payors are required to report to the Internal Revenue Service any payment of proceeds of the sale of your note before maturity within the United States. Additionally, backup withholding will apply to any payments, including payments of OID, if you fail to provide an accurate taxpayer identification number, or you are notified by the Internal Revenue Service that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

In general, if you are a United States alien holder, payments of principal, premium or interest, including OID, made by us and other payors to you will not be subject to backup withholding and information reporting, provided that the certification requirements described above under United States Alien Holders are satisfied or you otherwise establish an exemption. However, we and other payors are required to report payments of interest on your notes on Internal Revenue Service Form 1042-S even if the payments are not otherwise subject to information reporting requirements. In addition, payment of the proceeds from the sale of notes effected at a United States office of a broker will not be subject to backup withholding and information reporting provided that:

- the broker does not have actual knowledge or reason to know that you are a United States person and you have furnished to the broker:
  - an appropriate Internal Revenue Service Form W-8 or an acceptable substitute form upon which you certify, under penalties of perjury, that you are not a United States person, or
  - other documentation upon which it may rely to treat the payment as made to a non-United States person in accordance with U.S. Treasury regulations, or
- you otherwise establish an exemption.

If you fail to establish an exemption and the broker does not possess adequate documentation of your status as a non-United States person, the payments may be subject to information reporting and backup withholding. However, backup withholding will not apply with respect to payments made to an offshore account maintained by you unless the broker has actual knowledge that you are a United States person.

In general, payment of the proceeds from the sale of notes effected at a foreign office of a broker will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker will be subject to information reporting and backup withholding if:

- the proceeds are transferred to an account maintained by you in the United States,
- the payment of proceeds or the confirmation of the sale is mailed to you at a United States address, or

the sale has some other specified connection with the United States as provided in U.S. Treasury regulations,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above (relating to a sale of notes effected at a United States office of a broker) are met or you otherwise establish an exemption.

In addition, payment of the proceeds from the sale of notes effected at a foreign office of a broker will be subject to information reporting if the broker is:

- a United States person,
- a controlled foreign corporation for United States tax purposes,
- a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period, or
- a foreign partnership, if at any time during its tax year:
  - one or more of its partners are U.S. persons , as defined in U.S. Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership, or
  - such foreign partnership is engaged in the conduct of a United States trade or business,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above (relating to a sale of notes effected at a United States office of a broker) are met or you otherwise establish an exemption. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

EUROPEAN UNION DIRECTIVE ON TAXATION OF SAVINGS INCOME

On June 3, 2003, the Council of the European Union (Ecofin) approved a directive regarding the taxation of, and information exchange among member states of the European Union (EU Member States) with respect to, interest income. Accordingly, each EU Member State is required to implement provisions that will require paying agents (within the meaning of the directive) established within its territory to provide to the competent authority of this state information about the payment of interest made to any individual resident in another EU Member State as the beneficial owner of the interest. The competent authority of the EU Member State of the paying agent (within the meaning of the directive) is then required to communicate this information to the competent authority of the EU Member State of which the beneficial owner of the interest is a resident.

For a transitional period, however, and until a number of conditions are met, Austria, Belgium and Luxembourg may opt instead to withhold tax from interest payments within the meaning of the directive at a rate of 15% for the first three years from application of the provisions of the directive, of 20% for the subsequent three years, and of 35% from the seventh year after application of the provisions of the directive. Austria, Belgium and Luxembourg shall, however, provide for one or both of the procedures set forth in article 13 of the directive order to ensure that the beneficial owners may request that no tax be withheld.

The Council of the European Union agreed that the provisions to be enacted by the EU Member States for implementation of the directive shall be applied by the EU Member States as from July 1, 2005 provided that (i) Switzerland, Liechtenstein, San Marino, Monaco and Andorra apply from that same date measures equivalent to those contained in the directive, in accordance with agreements entered into by them with the European Community and (ii) also all the relevant dependent or associated territories (the Channel Islands, the Isle of Man and the dependent or associated territories in the Caribbean) apply from that same date an automatic exchange of information or, during the transitional period described above, apply a withholding tax in the described manner.

EMPLOYEE RETIREMENT INCOME SECURITY ACT

A fiduciary of a pension, profit-sharing or other employee benefit plan subject to the Employment Retirement Income Security Act of 1974, as amended (ERISA), should consider the fiduciary standards of ERISA in the context of the plan's particular circumstances before authorizing an investment in the notes. Among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code prohibit an employee benefit plan, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Internal Revenue Code, from engaging in certain transactions involving plan assets with persons who are parties in interest under ERISA or disqualified persons under the Internal Revenue Code with respect to the plan. A violation of these prohibited transaction rules may result in excise tax or other liabilities under ERISA and Section 4975 of the Internal Revenue Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption. Therefore, a fiduciary of an employee benefit plan should also consider whether an investment in the notes might constitute or give rise to a prohibited transaction under ERISA and the Internal Revenue Code. Employee benefit plans which are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and foreign plans (as described in Section 4(b)(4) of ERISA) generally are not subject to the requirements of ERISA or Section 4975 of the Internal Revenue Code.

Wachovia and certain of its affiliates may each be considered a party in interest or disqualified person with respect to many employee benefit plans. This could be the case, for example, if one of these companies is a service provider to a plan. Special caution should be exercised, therefore, before notes are purchased by an employee benefit plan. In particular, the fiduciary of the plan should consider whether exemptive relief is available under an applicable administrative exemption. The Department of Labor has issued five prohibited

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transaction class exemptions that could apply to exempt the purchase, sale and holding of notes from the prohibited transaction provisions of ERISA and the Internal Revenue Code. Those class exemptions are Prohibited Transaction Exemption 96-23 (for transactions determined by in-house asset managers), Prohibited Transaction Exemption 95-60 (for certain transactions involving insurance company general accounts), Prohibited Transaction Exemption 91-38 (for certain transactions involving bank investment funds), Prohibited Transaction Exemption 90-1 (for certain transactions involving insurance company separate accounts), and Prohibited Transaction Exemption 84-14 (for certain transactions determined by independent qualified asset managers).

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering the purchase of notes on behalf of or with plan assets of any employee benefit plan consult with their counsel regarding the consequences under ERISA and the Internal Revenue Code of the acquisition of the notes and the availability of exemptive relief under Prohibited Transaction Exemption 96-23, 95-60, 91-38, 90-1 or 84-14.

PLAN OF DISTRIBUTION

Unless otherwise indicated in any pricing supplement, the U.S. distribution agents shall be Wachovia Capital Markets, LLC, an indirect, wholly-owned subsidiary of Wachovia; ABN AMRO Incorporated; Barclays Capital Inc.; Bear, Stearns & Co. Inc.; Blaylock & Partners, L.P.; Citigroup Global Markets Inc.; Credit Suisse First Boston LLC; Goldman, Sachs & Co.; Greenwich Capital Markets, Inc.; Guzman & Company; J.P. Morgan Securities Inc.; Keefe, Bruyette & Woods, Inc.; Lehman Brothers Inc.; Loop Capital Markets, LLC; Merrill Lynch, Pierce, Fenner & Smith Inc.; Samuel A. Ramirez & Co. Inc.; Sandler O Neill & Partners, L.P.; UBS Securities LLC; Utendahl Capital Partners, L.P.; The Williams Capital Group, L.P.; and the European distribution agents shall be Wachovia Securities International Limited, an indirect, wholly-owned subsidiary of Wachovia; Barclays Bank PLC; Bear, Stearns International Limited; Citigroup Global Markets Limited; Credit Suisse First Boston (Europe) Limited; Goldman Sachs International; Guzman & Company; J.P. Morgan Securities Ltd.; Lehman Brothers International (Europe); Merrill Lynch International; UBS AG, acting through its business group UBS Securities and Utendahl Capital Partners, L.P. Under the terms of a Distribution Agreement among Wachovia and these agents, Wachovia may sell notes to an agent, acting as principal, for resale to one or more investors or other purchasers at varying prices related to prevailing market prices at the time of resale, as determined by any of these agents or, if so agreed, at a fixed offering price. A form of Distribution Agreement has been filed as an exhibit to the registration statement for this prospectus. Unless otherwise indicated in the relevant pricing supplement, any note sold to an agent as principal will be purchased by that agent at a price equal to 100% of the principal amount of that note, less a percentage not exceeding the maximum commission applicable to any agency sale of a note of identical maturity, and, subject to the restriction noted in the following sentence, may be resold by that Agent to investors and other purchasers. An agent may offer the notes it has purchased as principal to other brokers or dealers at a discount and, unless otherwise indicated in any pricing supplement, the discount allowed to any broker or dealer will not exceed the discount to be received by that agent from Wachovia. After the initial public offering of notes, the public offering price (in the case of notes to be resold on a fixed public offering price basis), the concession and the discount may be changed.

Wachovia may also offer the notes on a continuing basis through the agents, which have agreed to use their reasonable efforts to solicit offers to purchase the notes, on an agency basis. When Wachovia has sold notes through an agent on an agency basis, it will pay that agent a commission (or grant a discount) as agreed by Wachovia and that agent of from 0.125% to 8% of the principal amount of each note sold through that agent. Any agent will have the right, in its discretion reasonably exercised, without notice to Wachovia, to reject any offer to purchase notes received by it in whole or in part.

Unless otherwise mentioned in the relevant pricing supplement, the obligations of any agents to purchase the notes will be subject to certain conditions precedent, and each of the agents with respect to a sale of notes will be obligated to purchase all of its notes if any are purchased.

Wachovia has reserved the right to sell notes directly to investors on its own behalf in those jurisdictions where it is authorized to do so. No selling commission will be payable nor will a selling discount be allowed on any sales made directly by Wachovia.

Wachovia has reserved the right to withdraw, cancel or modify the offer made by this prospectus without notice and may reject orders in whole or in part whether placed directly with Wachovia or with an agent. No termination date has been established for the offering of the notes.

The notes are a new issue of securities with no established trading market. Wachovia has been advised by the agents that they intend to make a market in the notes but are not obligated to do so and may discontinue market-making at any time without notice. The agents may from time to time purchase and sell notes in the secondary market, but no agent is obligated to do so. We can give no assurance that the notes offered by this prospectus will be sold or that there will be a secondary market for the notes (or liquidity in such secondary market, if one develops).

We have applied to list on the Luxembourg Stock Exchange any notes issued under this prospectus during the twelve-month period after the date of this prospectus. We may also list any notes on any additional securities exchanges on which we and the agents agree in relation to each issuance. We may also issue unlisted notes.

Unless otherwise indicated in any pricing supplement, payment of the purchase price of notes, other than notes denominated in a non-U.S. dollar currency, will be required to be made in funds immediately available in The City of New York. The notes will be in the Same Day Funds Settlement System at DTC and, to the extent the secondary market trading in the notes is effected through the facilities of such depositary, such trades will be settled in immediately available funds. See Global Notes above.

In facilitating the sale of notes, agents may receive compensation from Wachovia or from purchasers of notes for whom they may act as agents in the form of discounts, concessions or commissions. Agents may sell notes to or through brokers or dealers, and these brokers and dealers may receive compensation in the form of discounts, concessions or commissions from the agents and/or commissions from the purchasers for whom they may act as agents. Agents, brokers and dealers that participate in the distribution of notes may be considered underwriters, and any discounts or commissions received by them from Wachovia and any profit on the resale of notes by them may be considered underwriting discounts and commissions under the Securities Act. Any such agent will be identified, and any such compensation received from Wachovia will be described, in the pricing supplement relating to those notes. Wachovia has agreed to indemnify the agents against and contribute toward certain liabilities, including liabilities under the Securities Act. Wachovia has also agreed to reimburse the agents for certain expenses.

If Wachovia offers and sells notes directly to a purchaser or purchasers in respect of which this prospectus is delivered, purchasers involved in the reoffer or resale of such notes, if these purchasers may be considered underwriters as that term is defined in the Securities Act, will be named and the terms of their reoffers or resales will be mentioned in the relevant pricing supplement. These purchasers may then reoffer and resell such notes to the public or otherwise at varying prices to be determined by such purchasers at the time of resale or as otherwise described in the relevant pricing supplement. Purchasers of notes directly from Wachovia may be entitled under agreements that they may enter into with Wachovia to indemnification by Wachovia against certain liabilities, including liabilities under the Securities Act, and may engage in transactions with or perform services for Wachovia in the ordinary course of their business or otherwise.

The agents may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit reclaiming a selling concession from a syndicate member when the notes originally sold by such syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. Such stabilizing transactions, syndicate covering transactions and penalty bids may stabilize, maintain or otherwise affect the market price of the notes, which may be higher than it would otherwise be in the absence of such transactions. The agents are not required to engage in these activities, and may end any of these activities at any time.

The participation of Wachovia Capital Markets, LLC or any other broker-dealer affiliate of Wachovia in the offer and sale of the notes must comply with the requirements of Rule 2720 of the National Association of Securities Dealers, Inc. regarding underwriting securities of an affiliate . Neither Wachovia Capital Markets, LLC nor any other broker-dealer affiliate of Wachovia will execute a transaction in the notes in a discretionary account without the prior specific written approval of such member s customer.

This prospectus and the related pricing supplements may be used by Wachovia Capital Markets, LLC or other broker-dealer affiliates of Wachovia for offers and sales related to market-making transactions in the

securities. Wachovia Capital Markets, LLC and other broker-dealer affiliates of Wachovia may act as principal or agent in these transactions. These sales will be made at prices related to prevailing market prices at the time of sale or otherwise.

From time to time the agents engage in transactions with Wachovia in the ordinary course of business. The agents or their affiliates may have performed investment banking services for Wachovia in the last two years and may have received fees for these services and may do so in the future. The agents and/or their affiliates may be customers of (including borrowers from), engage in transactions with, and/or perform services for the senior trustee and the subordinated trustee, in the ordinary course of business.

In addition to offering notes through the agents as discussed above, other medium-term notes that have terms substantially similar to the terms of the notes offered by this prospectus (but constituting one or more separate series of notes for purposes of the indentures) may in the future be offered, concurrently with the offering of the notes, on a continuing basis by Wachovia pursuant to the Distribution Agreement and directly to investors. Any of these notes sold pursuant to the Distribution Agreement or sold by Wachovia directly to investors will reduce the aggregate amount of notes which may be offered by this prospectus.

Selling Restrictions Outside the United States

Wachovia has taken no action that would permit a public offering of the notes or possession or distribution of this prospectus or any other offering material in any jurisdiction outside the United States where action for that purpose is required other than as described below. Accordingly, each agent has represented, warranted and agreed, and each other agent will be required to represent, warrant and agree, that it will comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells notes or possesses or distributes this prospectus or any other offering material and will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and Wachovia shall have no responsibility in relation to this.

With regard to each note, the relevant purchaser will be required to comply with those restrictions that Wachovia and the relevant purchaser shall agree and as shall be set out in the relevant pricing supplement.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each agent has represented and agreed, and each other agent will be required to represent and agree, that with effect from and including the date on which the EU Prospectus Directive is implemented in that Member State (the Relevant Implementation Date) it has not made and will not make an offer of the notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the notes to the public in that Relevant Member State:

in the period beginning on the date of publication of this prospectus which has been approved by the competent authority in that Relevant Member State in accordance with the EU Prospectus Directive or, where appropriate, published in another Member State and notified to the competent authority in that Relevant Member State in accordance with Article 18 of the EU Prospectus Directive and ending on the date which is twelve months after the date of such publication;

at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

at any time in any other circumstances which do not require the publication by Wachovia of a prospectus pursuant to Article 3 of the EU Prospectus Directive.

For the purposes of the above, the expression of an offer of the notes to the public in relation to the notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State and the expression of the EU Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each agent has represented and agreed, and each other agent will be required to represent and agree, that:

with respect to notes which have a maturity of one year or more, during the period up to but excluding the date on which the EU Prospectus Directive is implemented in the United Kingdom (the Implementation Date), it has not offered or sold and will not offer or sell any such notes to persons in the United Kingdom prior to the expiring of a period of six months from the issue date of such notes except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);

with respect to notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the FSMA) by Wachovia;

it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which Section 21(1) of the FSMA does not apply to Wachovia; and

it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such notes in, from or otherwise involving the United Kingdom.

Japan

The notes have not been, and will not be, registered under the Securities and Exchange Law of Japan. Accordingly, each distribution agent has represented and agreed, and each other distribution agent or dealer will be required to represent and agree, that, in connection with the notes, it has not, directly or indirectly, offered, sold or delivered and will not, directly or indirectly, offer, sell or deliver any notes in Japan or to residents of Japan or for the benefit of any Japanese person (which term as used herein means any person resident in Japan including any corporation or other entity organized under the laws of Japan) or to others for re-offering, resale or delivery, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan or to any Japanese person except in compliance with any applicable laws and regulations of Japan taken as a whole. Each distribution agent agrees to provide any necessary information on notes denominated or payable in Yen to Wachovia (which shall not include the names of clients) so that Wachovia may make any required reports to the Ministry of Finance through its designated agent.

In connection with an issuance of notes denominated or payable in Yen, Wachovia will be required to comply with all applicable laws, regulations and guidelines, as amended from time to time, of the Japanese government and regulatory authorities.

Germany

No selling prospectus *(Verkausprospekt)* within the meaning of the German Securities Prospectus Act *(Wertpapier-Verkaufsprospektgesetz)* of December 13, 1990 (as amended) has been and will be registered or published within the Federal Republic of Germany. The notes have not been offered or sold and will not be offered or sold in the Federal Republic of Germany otherwise than in accordance with the provisions of the Securities Prospectus Act.

France

This prospectus has not been submitted to the French *Commission des opérations de bourse* for approval and the notes have not and will not be offered or sold, directly or indirectly, to the public in France. Accordingly, each distribution agent has agreed that it will only offer notes in France to qualified investors, as defined under Article 6 of French Ordinance No. 67-833 dated September 28, 1967 (as amended); provided, in this case, that it shall have obtained a certificate from the investor providing an acknowledgement that: (i) the offering is a private placement in France and no prospectus has been submitted to the *Commission des opérations de bourse,* (ii) the investor is an investisseur qualifie within the meaning of Article 6 of French Ordinance No. 67-833 dated September 28, 1967 (as amended), (iii) the investor is investing for his own account, and (iv) the investor will not resell the notes in violation of French securities laws and regulations.

Switzerland

Each agent has represented and agreed, and each other agent will be required to represent and agree, that the issue of any notes denominated in Swiss francs or carrying a Swiss franc-related element will be effected in compliance with the relevant regulations of the Swiss National Bank, which currently require that such issues have a maturity of more than one year, to be effected through a bank domiciled in Switzerland that is regulated under the Swiss Federal Law on Banks and Savings Banks of 1934 (as amended) (which includes a branch or subsidiary located in Switzerland of a foreign bank) or through a securities dealer which has been licensed as a securities dealer under the Swiss Federal Law on Stock Exchanges and Securities Trading of 1995 (except for issues of notes denominated in Swiss francs on a syndicated basis, where only the lead manager need be a bank domiciled in Switzerland). The relevant agent must report certain details of the relevant transaction to the Swiss National Bank no later than the time of delivery of the notes.

The Netherlands

Each agent represented and agreed, and each other agent will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in The Netherlands any notes with a denomination of less than 50,000 (or its foreign currency equivalent) other than to persons who trade or invest in securities in the conduct of a profession or business (which includes banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises) unless one of the other exemptions or exceptions to the prohibition contained in Article 3 of the Dutch Securities Transactions Supervision Act 1995 *(Wet toezicht effectenverkeer* 1995) is applicable and the conditions attached to such exemption or exception are complied with.

VALIDITY OF THE NOTES

The validity of the notes will be passed upon for Wachovia by Ross E. Jeffries, Jr., Esq., Senior Vice President and Assistant General Counsel of Wachovia, and for the agents by Sullivan & Cromwell LLP, 125 Broad Street, New York, New York. Sullivan & Cromwell LLP will rely upon the opinion of Mr. Jeffries as to matters of North Carolina law, and Mr. Jeffries will rely upon the opinion of Sullivan & Cromwell LLP as to matters of New York law. The opinions of Mr. Jeffries and Sullivan & Cromwell LLP will be conditioned upon, and subject to certain assumptions regarding, future action to be taken by Wachovia and the trustees in connection with the issuance and sale of any particular note, the specific terms of notes and other matters which may affect the validity of notes but which cannot be ascertained on the date of such opinions. Mr. Jeffries owns shares of Wachovia s common stock and holds options to purchase additional shares of Wachovia s common stock. Sullivan & Cromwell LLP regularly performs legal services for Wachovia. Certain members of Sullivan & Cromwell LLP performing these legal services own shares of Wachovia s common stock.

EXPERTS

The consolidated balance sheets of Wachovia Corporation as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2004, and management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2004, included in Wachovia s 2004 Annual Report to Stockholders which is incorporated by reference in Wachovia s Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated by reference in this prospectus, have been incorporated by reference in this prospectus in reliance upon the reports of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

LISTING AND GENERAL INFORMATION

Listing and Documents Available

Application has been made to list the notes offered by this prospectus on the Luxembourg Stock Exchange. The Luxembourg Stock Exchange has allocated to the program the number 12695 for listing purposes. The Amended and Restated Articles of Incorporation and the By-Laws of Wachovia and a legal notice relating to the issuance of the notes will be deposited prior to listing with the Registrar of the District Court in Luxembourg *(Greffier en Chef du Tribunal d Arrondissement de et à Luxembourg),* where such documents may be examined and copies obtained upon request. Copies of the above documents together with this prospectus, any pricing supplements, the Distribution Agreement, the indentures and Wachovia s Annual Report on Form 10-K for the year ended December 31, 2004 as well as all other documents incorporated by reference herein (other than exhibits to such documents, unless such exhibits are incorporated by reference therein) including future Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q, so long as the notes are listed on the Luxembourg Stock Exchange, will be made available for inspection, and may be obtained free of charge, at the main office of the Luxembourg listing agent. The Luxembourg listing agent will act as a contact between the Luxembourg Stock Exchange and Wachovia or the holders of the notes. We have appointed Dexia Banque Internationale à Luxembourg as the Luxembourg listing agent for the notes.

However, notes may be issued under the program which will not be listed on the Luxembourg Stock Exchange or which will be listed on any other securities exchange as Wachovia and the relevant agent(s) may agree.

Authorization

The program has been established and the notes will be issued pursuant to authority granted by the Board of Directors of Wachovia on December 14, 2004 as such authority may be supplemented from time to time.

Material Change

As of the date of this prospectus, other than as disclosed or contemplated herein or in the documents incorporated by reference, to the best of Wachovia s knowledge and belief, there has been no material adverse change in the financial position of Wachovia on a consolidated basis since December 31, 2004. See Where You Can Find More Information above.

Litigation

As of the date of this prospectus, other than as disclosed or contemplated herein or in the documents incorporated by reference, to the best of Wachovia s knowledge and belief, Wachovia is not a party to any legal or arbitration proceedings (including any that are pending or threatened) which may have, or have had, since December 31, 2004, a significant effect on Wachovia s consolidated financial position or that are material in the context of the program or the issue of the notes which could jeopardize Wachovia s ability to discharge its obligation under the program or of the notes issued under the program.

Clearance Systems

The notes have been accepted for clearance through the DTC, Euroclear and Clearstream systems. The appropriate CUSIP, Common Code and ISIN for each tranche of notes to be held through any of these systems will be contained in the relevant pricing supplement.

Agents

The United States Registrar and Domestic Paying Agent for the notes will be initially Wachovia Bank, National Association, located at its corporate trust office at 12 East 49th Street, 37th Floor, New York, New York 10017, Attn: Corporate Trust, or at its headquarters at One Wachovia Center, Charlotte, North Carolina, 28288-0600, United States of America.

The London Paying Agent and London Issuing Agent for the notes will be initially Citibank, N.A., located at P.O. Box 18055, 5 Carmelite Street, London, EC4Y OPA.

The Luxembourg Paying Agent and Transfer Agent for the notes will be initially Dexia Banque Internationale à Luxembourg located at 69, route d Esch, L-2953 Luxembourg.

The Listing Agent for the notes will be initially Dexia Banque Internationale à Luxembourg located at 69, route d Esch, L-2953 Luxembourg.

ISSUER

Wachovia Corporation

One Wachovia Center

Charlotte, North Carolina 28288-0013

United States of America

UNITED STATES DISTRIBUTION AGENTS	**EUROPEAN DISTRIBUTION AGENTS**
Wachovia Securities	Wachovia Securities International Limited
ABN AMRO	Barclays Capital
Barclays Capital	Bear, Stearns International Limited
Bear, Stearns & Co. Inc.	Citigroup
Blaylock & Company	Credit Suisse First Boston
Citigroup	Goldman Sachs International
Credit Suisse First Boston	Guzman & Company
Goldman, Sachs & Co.	J.P. Morgan Securities Ltd.
Greenwich Capital Markets	Lehman Brothers
Guzman & Company	Merrill Lynch International
JPMorgan	UBS Investment Bank
Keefe, Bruyette & Woods	Utendahl Capital Partners, L.P.
Lehman Brothers	
Loop Capital Markets	
Merrill Lynch & Co.	
Samuel A. Ramirez & Co.	
Sandler O Neill & Partners	
UBS Investment Bank	
Utendahl Capital Partners, L.P.	

The Williams Capital Group

UNITED STATES REGISTRAR AND

DOMESTIC PAYING AGENT

Wachovia Bank,
National Association

One Wachovia Center

Charlotte, North Carolina 28288-0600

United States of America

LONDON PAYING AGENT

AND LONDON ISSUING AGENT

Citibank, N.A.

P.O. Box 18055

5 Carmelite Street,

London EC4Y OPA

LUXEMBOURG PAYING AGENT,

LISTING AGENT

AND TRANSFER AGENT

Dexia Banque Internationale à Luxembourg

69, route d Esch

L-2953 Luxembourg

LEGAL ADVISORS

To the Issuer

As to United States Law:

Ross E. Jeffries, Jr., Esq.

Senior Vice President and

Assistant General Counsel

Wachovia Corporation

One Wachovia Center

Charlotte, North Carolina 28288-0630

United States of America

To the Distribution Agents

As to United States Law:

Sullivan & Cromwell LLP

125 Broad Street

New York, New York 10004

United States of America

$7,765,000

Wachovia Corporation

90% Principal Protected Notes due June 6, 2007

Linked to the Performance of the 4.5% U.S. Treasuries due

February 15, 2036

PROSPECTUS SUPPLEMENT

May 30, 2006

Wachovia Securities