DICKS SPORTING GOODS INC
Form 10-K
March 27, 2008

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 2, 2008
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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Act (check one).

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company 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 $2,409,973,070 as of August 4, 2007 based upon the closing price of the registrant s common stock on the New York Stock Exchange reported for August 4, 2007.

The number of shares of common stock and Class B common stock of the registrant outstanding as of March 24, 2008 was 84,990,322 and 26,241,118, respectively.

Documents Incorporated by Reference: Part III of this Form 10-K incorporates certain information from the registrant s definitive proxy statement for its Annual Meeting of Stockholders to be held on June 4, 2008 (the 2008 Proxy Statement).

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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 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 2008 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; the availability of retail store sites on terms acceptable to us; the cost of real estate and other items related to our stores; our inability to manage our growth, open new stores on a timely basis and expand successfully in new and existing markets; changes in consumer demand; changes in general economic and business conditions and in the specialty retail or sporting goods industry in particular including the potential impact of natural disasters or national and international security concerns on us or the retail environment; unauthorized disclosure of sensitive or confidential information; risks relating to product liability claims and the availability of sufficient insurance coverage relating to those claims and risks relating to the regulation of the products we sell, such as hunting rifles and ammunition; our relationships with our suppliers, distributors and manufacturers and their ability to provide us with sufficient quantities of products and risks associated with relying on foreign sources of production; risks relating to problems with or disruption of our current management information systems; any serious disruption at our distribution or return facilities; the seasonality of our business; regional risks because our stores are generally concentrated in the eastern half of the United States; the outcome of litigation or legal actions against us; risks relating to operational and financial restrictions imposed by our Credit Agreement; factors associated with our pursuit of strategic acquisitions and risks and uncertainties associated with assimilating acquired companies; our ability to access adequate capital; the loss of our key executives, especially Edward W. Stack, our Chairman, Chief Executive Officer and President; our ability to meet our labor needs; 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; that we are controlled by our Chief Executive Officer and his relatives, whose interests may differ from our stockholders; our quarterly operating results and comparable store sales may fluctuate substantially; our current anti-takeover provisions could prevent or delay a change-in-control of the Company; our ability to repay or make the cash payments under our senior convertible notes; various risks associated with our exclusive brand offerings; 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. (Dick s) 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. On November 30, 2007, Dick s acquired all of the outstanding stock of Chick s Sporting Goods, Inc. (Chick s), which also became a wholly-owned subsidiary of Dick s. Due to these acquisitions, additional risks and uncertainties arise that could affect our financial performance and actual results and could cause actual results for fiscal 2008 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 acquired companies.

PART I
ITEM 1. BUSINESS
General

Dick s Sporting Goods, Inc. (referred to as the Company or Dick s or in the first person notations we , us , and unless specified otherwise) is an authentic full-line sporting goods retailer offering a broad assortment of brand name sporting goods equipment, apparel, and footwear in a specialty store environment. 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. Dick s was founded in 1948 when Richard Dick Stack, the father of Edward W. Stack, our Chairman, Chief Executive Officer and President 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., Golf Galaxy, Chick s Sporting Goods, 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.

As of February 2, 2008, the Company operated 340 Dick s Sporting Goods stores in 36 states, 79 Golf Galaxy stores in 29 states and 15 Chick s Sporting Goods stores in California.

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 recorded $112.6 million of goodwill as the excess of the purchase price of $227.0 million over the fair value of the net amounts assigned to assets acquired and liabilities assumed. The acquisition was financed using approximately $79 million of cash and cash equivalents and the balance from borrowings under our revolving line of credit.

Acquisition of Chick s Sporting Goods

On November 30, 2007, the Company acquired all of the outstanding stock of Chick s. The Company recorded $34.4 million of goodwill as the excess of the purchase price of $69.2 million over the fair value of the amounts assigned to assets acquired and liabilities assumed.

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, TaylorMade, Callaway and Under Armour, as well as private label products sold under names such as Ativa and Walter Hagen and private brand products, such as our exclusive lines of Nike ACG, Slazenger, Umbro, Field and Stream and adidas baseball merchandise, 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) and Ladies Professional Golf Association (LPGA) working in our stores, and as of February 2, 2008 employed 387 PGA and LPGA professionals in our golf departments. We also have 427 bike mechanics to sell and service bicycles and 309 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 Dick s Sporting Goods 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.

Our Golf Galaxy stores are designed to deliver on our *Everything for the Game* strategy and create an exciting and interactive shopping environment that highlights our extensive product assortments and value-added PGA and LPGA services. Interactive areas, such as an artificial bent grass putting green and golf simulators, add to the entertainment value of the shopping experience. Our store design and equipment displays encourage customers to test our products before making a purchase decision. Our highly visible service areas reinforce the expertise available from our staff.

Exclusive Brand Offerings. We offer our customers high-quality products at competitive prices marketed under exclusive styles and 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, Quest, Nike ACG, Slazenger, adidas baseball merchandise and Umbro. Many of our products incorporate technical features such as GORE-TEX® fabric, which is waterproof and breathable, and COOLMAX® fabric, which wicks moisture away from the skin to the fabric where the moisture evaporates faster, that are typically available only through well-known brand names. By using these exclusive styles and brands, we offer value products to our customers at each price point and obtain higher gross margins than we obtain on sales of comparable products.

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 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.

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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	2007	2006	2005
Apparel	28%	26%	26%
Footwear	17%	17%	17%
Hardlines (1)	55%	57%	57%
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 casual footwear and 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 Dick s 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. Our Golf Galaxy stores are designed to deliver on our *Everything for the Game* strategy and create an exciting and interactive shopping environment that highlights our extensive product assortments and value-added PGA and LPGA services.

Store Design. We design our Dick s 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. Our Golf Galaxy store model is based on a prototype store, which generally ranges from 13,000 to 18,000 selling square feet. The following table summarizes store openings and closings for 2007 and 2006:

	Fiscal 2007				Fiscal 2006
	Dick s	Golf Galaxy	Chick s Sporting Goods	Total	Dick s
Beginning stores	294	65	15	374	255
New:					
50,000 square foot prototype	43			43	37
Two-level stores	3			3	2
Golf Galaxy stores		16		16	
Total new stores	46	16		62	39
Closed		(2)		(2)	
Ending stores	340	79	15	434	294
Relocated stores	1			1	2

In most of our Dick s 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 Dick s 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. Our Golf Galaxy stores are typically open seven days a week, generally from 10:00 a.m. to 9:00 p.m. Monday through Friday, 9:00 a.m. to 8:00 p.m. on Saturday, and 10:00 a.m. to 6:00 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 .

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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, Dick s currently employs PGA and LPGA 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 measure customer s satisfaction with their most recent purchase experience through an online satisfaction survey. Survey invitations are delivered at the point-of-sale via cash register receipts which directs customers to a data collection website. These results allow identification of improvement opportunities at various levels of the store hierarchy and reinforce the impact associates have on the customer experience.

We typically staff our Dick s 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 41 district managers, each of whom reports to one of six 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 and LPGA professionals. Although we do not receive a share of income from these lessons, allowing our PGA and LPGA 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 Dick s 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.

At our Dick s stores, 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. In addition to these demographics, golf participation rates are considered in selecting sites for our Golf Galaxy stores. We seek to locate our Dick s 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 expansion of Dick s stores 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 for Dick s stores 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 at our Dick s stores provides reward certificates to customers based on purchases. After a customer registers, reward points build as a percentage of purchases. Membership in our Scorecard loyalty program is free. 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.

Our Advantage Club customer loyalty program at our Golf Galaxy stores is designed to create a direct relationship with our customers using advance notice of special in-store events, exclusive offers and information. Membership in our Advantage Club is free. We target our direct mail catalogs and e-mail offers to this group of customers who generate above average response rates, thus enhancing our marketing efficiency.

Information Systems

Our Dick s stores use the JDA Merchandising System and a 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.

The Dick s stores are supported by 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 Dick s 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.

Our Golf Galaxy point of sale system and core management information system is a fully integrated solution from Retail Pro, a provider of inventory control/POS software for small to mid-tier retailers. We have developed additional functionality utilizing information processing tools from third party providers and have a third party database management relationship to support our Advantage Club and automated special order processes.

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 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 approximately 1,400 vendors, and we have no long-term purchase commitments. During fiscal 2007, Nike, our largest vendor, represented approximately 12% of our merchandise purchases. No other vendor represented 10% or more of our fiscal 2007 merchandise purchases. We do not have long-term purchase 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 a 725,000 square foot distribution center in Plainfield, Indiana. Additionally, the Company is constructing a 657,000 square foot distribution center near Atlanta, Georgia, which is expected to be complete during fiscal 2008. Vendors directly ship merchandise, including price tickets, to these distribution centers, where it is processed as necessary, before being shipped to the stores.

Our Golf Galaxy stores utilize a direct-to-store distribution model. Substantially all store inventories are drop shipped directly from vendors to our Golf Galaxy stores.

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.

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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 currently 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 2, 2008, we had a total of approximately 10,400 full-time and approximately 16,000 part-time associates. 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.

Proprietary Rights

Each of Dick s, Dick s Sporting Goods, DicksSportingGoods.com, Golf Galaxy, Chick s Sporting Goods, Hagen, Northeast Outfitters, PowerBolt, Fitness Gear, Ativa, Acuity, Highland Games, DBX, Field & S (footwear only) and Quest has been 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 Nike ACG, adidas (baseball only), Field & Stream (camping, hunting and fishing), 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 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 five 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.

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Executive Officers of the Company

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

Edward W. Stack, 53, 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. Mr. Stack also received the title of President in February 2008.

William J. Colombo, 52, became our Vice Chairman of the Board in February 2008, after stepping down as President and Chief Operating Officer, a position he held since 2002. 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 distributor of products for the building, industrial and vehicular markets listed on NASDAQ). Mr. Colombo s term as a Class A Director expires at the 2009 annual meeting.

Joseph H. Schmidt, 48, became our Executive Vice President and Chief Operating Officer in 2008, responsible for all aspects of Store Operations, Real Estate & Development, Distribution and Transportation. Previously, Mr. Schmidt was our Executive Vice President Operations, and before that Senior Vice President Store Operations, a position he held beginning in 2005. Mr. Schmidt was Vice President Store Operations beginning in 2001. Mr. Schmidt joined us in 1990 and has held various positions in store operations. From 1981 to 1990, he held various positions in store operations for Ames Department Stores, Inc.

Timothy E. Kullman, 52, joined Dick s Sporting Goods as Senior Vice President and Chief Financial Officer in April 2007 and was promoted to Executive Vice President Finance, Administration and Chief Financial Officer in February 2008. Prior to joining Dick s, Mr. Kullman served as Chief Financial Officer of PetSmart, a specialty pet retailer listed on NASDAQ, since July 2002. Before joining PetSmart, Mr. Kullman was Executive Vice President and CFO for Hagemeyer North America Holdings, Inc., a wholly owned division of a global distribution company based in the Netherlands and spent three years at Genuardi s Family Markets. Prior to that, he was Senior Vice President, CFO, Secretary and Treasurer for Delchamps, Inc., a major grocery chain in the southeastern United States. Mr. Kullman also held senior financial positions with Farm Fresh Inc., Blue Cross Blue Shield of Michigan, and Deloitte, Haskins & Sells.

Gwendolyn K. Manto, 53, joined us in January 2006 as our Executive Vice President and Chief Merchandising Officer. Ms. Manto was employed by Sears Holding Co. (the nation s third largest 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). Prior to that time she held senior management positions with Footlocker, Federated Department Stores and Macy s.

Jeffrey R. Hennion, 41, became our Executive Vice President and Chief Marketing Officer in 2008. Previously, Mr. Hennion was Senior Vice President and Chief Marketing Officer, a position he held since 2005. Beginning in 2004, he served as our Senior Vice President Strategic Planning, and prior to that was our Vice President Finance and Treasurer, a position he held since 2002. Mr. Hennion started with us in 2000 as Vice President Treasurer. Prior to joining the Company, he served Alcoa Inc. from 1989 to 2000 in various treasury and finance related functions, most recently as Assistant Treasurer and as Director Investor Relations.

Diane E. Lazzaris, 41, became our Senior Vice President Legal, General Counsel and Corporate Secretary in 2008. Prior to joining Dick s, Ms. Lazzaris was employed by Alcoa Inc. as Group Counsel for a group of businesses with total revenues of approximately $10 billion, 23,000 employees and operations in North America, Europe and Asia. Previously she held various legal positions up to and including Senior Counsel.

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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, results of operations and cash flows.

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. Unavailability of financing on terms acceptable to real estate developers or a tightening credit market may affect adversely the retail sites available to us. 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 centers, 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.

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 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;
- national and international security concerns;
- consumer credit availability;
- consumer debt levels;
- consumer confidence in the economy;
- gasoline and fuel prices;
- 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.

Unauthorized disclosure of sensitive or confidential customer information could harm the Company s business and standing with our customers.

The protection of our customer, employee and Company data is critical to us. The Company relies on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential customer information, such as payment card and personal information. Despite the security measures the Company has in place, its facilities and systems, and those of its third party service provider, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming, human errors, or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by the Company or its vendors, could damage our reputation, expose us to risk of litigation and liability, disrupt our operations and harm our business.

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, on 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. In addition, any improper or illegal use by our customers of ammunition or hunting rifles sold by us, could have a negative impact on our reputation and business.

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 approximately 1,400 vendors. In fiscal 2007, purchases from Nike represented approximately 12% of our merchandise purchases. Although in fiscal 2007 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, shipping port constraints, labor strikes, work stoppages or other disruptions, 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.

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 exchange rates fluctuate, 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.

Our Dick s stores utilize a suite of applications for our merchandise system that includes JDA Merchandising and Arthur Allocation. Our Golf Galaxy stores utilize a fully integrated merchandise system from Retail Pro. These systems, 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 these systems could negatively impact our financial results and materially adversely affect our business operations.

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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 currently operate a 601,000 square foot distribution center in Smithton, Pennsylvania and a 725,000 square foot distribution center in Plainfield, Indiana. 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 31% of our net sales and approximately 47% of our net income for fiscal 2007. Any decrease in our fourth quarter sales, whether because of a slow holiday selling season, unseasonable weather conditions, economic conditions or otherwise, could have a material adverse effect on our business, financial condition and operating results for the entire fiscal year.

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

Many of our Dick s 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 and other types of claims 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, product liability, consumer, employment, tort and other litigation. 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 cash dividends, redeem capital stock, consummate mergers and consolidations of certain sizes, 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.

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, Chief Executive Officer and President 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, Chief Executive Officer and President. 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.

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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 2, 2008, Mr. Edward W. Stack, our Chairman, Chief Executive Officer and President and his relatives controlled approximately 76% 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. Stack may also acquire additional shares of common stock upon the exercise of stock options. 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;
- sports scandals;
- 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.

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The market price of our common stock is likely to be highly volatile as the stock market in general can be highly volatile.

Factors that could cause fluctuation in the stock price may include, among other things:

- general economic and market conditions;
- 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;
- 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.

The Company s common stock price has triggered an optional conversion right, whereby the holders of the convertible notes may convert their convertible notes under certain circumstances. 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 are required to pay cash for each $1,000 of face amount of a note equal to the lesser of: (i) the accreted principal amount (the sum of the initial issue price of $676.25 per $1,000 face amount and the accrued original issue discount as of the conversion date (no original issue discount occurs until 2009)), and (ii) the product of (a) the number of shares of the Company s common stock into which the note otherwise would have been converted if no cash payment were made by the Company (i.e. 34.4044 shares per $1,000 face amount), multiplied by (b) the average of the closing per share sale price on the fifteen consecutive trading days commencing on the fourth trading day after the conversion date.

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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 credit facility to the extent that the issuance creates a change of control event under our senior secured revolving credit facility. Such a default under the senior secured revolving 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.

Risks associated with exclusive brand offerings.

We offer our customers high-quality products at competitive prices marketed under exclusive brands. We expect to continue to grow our exclusive private label offerings and have entered into several licensing agreements that grant us the right to sell and market certain products under third-party brands. We have invested in our development and procurement resources and marketing efforts related to these exclusive brand offerings. Although we believe that 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, the expansion of our exclusive brand offerings subjects us to certain risks or increases the risk to our business. These risks, include, among others, risks related to: our failure to comply with government and industry safety standards (e.g., the Consumer Product Safety Commission and similar state regulatory agencies) related to our private label products; mandatory or voluntary product recalls related to our exclusive brand offerings; being subject to lawsuits resulting from injuries associated with the use of private label sporting goods equipment that we sell; our ability to successfully protect our proprietary rights (e.g., defending against counterfeit, knock offs, grey-market, infringing or otherwise unauthorized goods) of our exclusive branded offerings; our ability to successfully navigate the proprietary rights of other parties and avoid claims related to proprietary rights of others; our ability to successfully administer and comply with third-party licenses and contractual commitments that we have with the licensors of the brands, including in some instances certain sales minimums, which if not met in some instances can cause us to lose the licensing rights or pay damages; risks associated with overseas sourcing and manufacturing foreign laws and regulation, political unrest, disruptions or delays in cross-border shipments, changes in economic conditions in countries, exchange rate fluctuations and conducting activities with third-party manufacturers and those risks generally encountered by entities that sell and market exclusive branded offerings for retail. Our failure to adequately address some or all of these risks could have a material adverse effect on our business, results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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. Our Golf Galaxy operations are headquartered in Eden Prairie, Minnesota, where we lease from an unaffiliated third party approximately 25,000 square feet of office space, as well as approximately 23,000 square feet of warehouse space to support Golf Galaxy s eCommerce operations. The term of the lease ends in January 2010, subject to a five-year renewal at our option.

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. During fiscal 2007, the Company executed a lease agreement for a new 657,000 square foot distribution center near Atlanta, Georgia, which is expected to be operational during fiscal 2008. The term of this lease expires in 2019.

Our recently acquired Chick s operations are headquartered in Covina, California, where we lease approximately 11,500 square feet of office space, with the lease ending in May 2011. In addition, Chick s operates a 12,500 square foot distribution center in San Dimas, California. The term of this lease ends in September 2008, subject to a two-year renewal at our option.

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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 2008 and five signed leases for the stores planned to open in fiscal 2009.

As of February 2, 2008 we operated 434 stores in 40 states. The following table sets forth the number of stores by state:

State	Dick s	Golf Galaxy	Chick s Sporting Goods	Total
Alabama	7			7
Arizona	1	2		3
California		2	15	17
Colorado	9	2		11
Connecticut	8	1		9
Delaware	2	1		3
Florida	7	1		8
Georgia	11			11
Idaho		1		1
Illinois	19	7		26
Indiana	15	1		16
Iowa	2	1		3
Kansas	6	1		7
Kentucky	6	1		7
Louisiana	1			1
Maine	4			4
Maryland	9	2		11
Massachusetts	16			16
Michigan	15	1		16
Minnesota	6	4		10
Missouri	6	2		8
Nebraska	3	1		4
Nevada	1	1		2
New Hampshire	3			3
New Jersey	12	3		15
New York	28	5		33
North Carolina	21	5		26
Ohio	35	9		44
Oklahoma		2		2
Oregon		1		1
Pennsylvania	33	2		35
Rhode Island	2			2
South Carolina	7			7
Tennessee	11	1		12
Texas	6	10		16
Utah	1	1		2
Vermont	2			2
Virginia	16	4		20

West Virginia	4			4
Wisconsin	5	4		9
Total	340	79	15	434

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ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant in two 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 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)). 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, which the U.S. District Judge upheld. In the Barrus case, the parties and the Court agreed to stay the litigation pending an attempt to resolve all claims through mediation. Mediation sessions were held in April and August 2007. The parties to the Barrus case have continued to work through the mediator s office and independently in an effort to determine whether the matter can be resolved through settlement. In the Parks case, the parties and the Court have also agreed to stay the litigation pending an attempt to resolve all claims through mediation. A mediation session was held in March 2008 and the parties have agreed to continue discussions to determine whether this matter can be resolved through settlement.

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 or results of operations.

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, intellectual property and lease disputes and employment issues. 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 2007 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. The closing prices below have been adjusted to reflect the two-for-one stock split in the form of a stock dividend distributed on October 19, 2007 to the Company s stockholders of record as of September 28, 2007.

Fiscal Quarter Ended	**High**	**Low**
May 5, 2007	$29.54	$24.67
August 4, 2007	$29.53	$25.11
November 3, 2007	$35.84	$26.36
February 2, 2008	$32.93	$25.74

Fiscal Quarter Ended	**High**	**Low**
April 29, 2006	$21.13	$17.83
July 29, 2006	$22.02	$17.62
October 28, 2006	$24.75	$18.13
February 3, 2007	$27.90	$24.12

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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 19, 2008 was 200 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 2007, 2006, 2005, 2004 and 2003 presented below under the captions Statement of Income Data , Earnings per Common Share , Other Data and Balance Sheet Da have been derived from our consolidated financial statements for those periods. The following selected consolidated financial data for fiscal years 2007, 2006, 2005, 2004 and 2003 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				
	2007 (1)	**2006 (1)**	**2005**	**2004**	**2003**
	(Dollars in thousands, except per share and sales per square foot data)				
Statement of Income Data:					
Net sales	$ 3,888,422	$ 3,114,162	$ 2,624,987	$ 2,109,399	$ 1,470,845
Cost of goods sold (2)	2,730,359	2,217,463	1,887,347	1,522,873	1,062,820
Gross profit	1,158,063	896,699	737,640	586,526	408,025
Selling, general and administrative expenses	870,415	682,625	556,320	443,776	314,885
Merger integration and store closing costs			37,790	20,336	
Pre-opening expenses	18,831	16,364	10,781	11,545	7,499
Income from operations	268,817	197,710	132,749	110,869	85,641
Gain on sale of non-cash investment (3)			(1,844)	(10,981)	(3,536)
Interest expense, net	11,290	10,025	12,959	8,009	1,831
Other income				(1,000)	
Income before income taxes	257,527	187,685	121,634	114,841	87,346
Provision for income taxes	102,491	75,074	48,654	45,936	34,938
Net income	$ 155,036	$ 112,611	$ 72,980	$ 68,905	$ 52,408
Earnings per Common Share (4):					
Net income per common share Basic	$ 1.42	$ 1.10	$ 0.73	$ 0.72	$ 0.59
Net income per common share Diluted	$ 1.33	$ 1.02	$ 0.68	$ 0.65	$ 0.52
Weighted average number of common shares outstanding (in thousands):					
Basic	109,383	102,512	99,584	95,956	89,548
Diluted	116,504	110,790	107,958	105,842	100,560
Store Data:					
Comparable store net sales increase (5)	2.4%	6.0%	2.6%	2.6%	2.1%
Number of stores at end of period (6)	434	294	255	234	163
Total square feet at end of period (6)	21,084,292	16,724,171	14,650,459	13,514,869	7,919,138
Net sales per square foot (7)	$ 196	$ 197	$ 188	$ 195	$ 193

Other Data:

Gross profit margin	29.8%	28.8%	28.1%	27.8%	27.7%
Selling, general and administrative percentage of net sales	22.4%	21.9%	21.2%	21.0%	21.4%
Operating margin	6.9%	6.3%	5.1%	5.3%	5.8%
Inventory turnover (8)	3.22x	3.34x	3.42x	3.56x	3.69x
Depreciation and amortization	$ 75,052	$ 54,929	$ 49,861	$ 37,621	$ 17,554
Balance Sheet Data:					
Inventories	$ 887,364	$ 641,464	$ 535,698	$ 457,618	$ 254,360
Working capital (9)	$ 307,746	$ 304,796	$ 142,748	$ 128,388	$ 136,679
Total assets	$ 2,035,635	$ 1,524,265	$ 1,187,789	$ 1,085,048	$ 543,360
Total debt including capital lease obligations	$ 181,435	$ 181,017	$ 181,201	$ 258,004	$ 3,916
Retained earnings	$ 468,974	$ 315,453	$ 202,842	$ 129,862	$ 60,957
Total stockholders equity	$ 888,520	$ 620,550	$ 414,793	$ 313,667	$ 240,894

(1) In the first quarter of fiscal 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (123(R)), requiring us to recognize expense related to the fair value of our stock-based compensation awards. We elected the modified prospective transition method as permitted by SFAS No. 123(R) and, accordingly,

financial results for years prior to fiscal 2006 have not been restated. Pre-tax stock-based compensation expense in fiscal 2007 and 2006 was $29.0 million and $24.3 million, respectively.

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

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(3) 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 for Dick s. 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.

(4) Earnings per share data gives effect to two-for-one stock splits affected in October 2007 and April 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 Golf Galaxy stores will be included in the full year comparable store base beginning in fiscal 2008.

(6) The store count and square footage amounts include Golf Galaxy and Chick s for fiscal 2007.

(7) 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 in our Dick s stores.

(8) Calculated as cost of goods sold divided by the average monthly ending inventories of the last 13 months.

(9) 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 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 .

Overview

Dick s 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 February 13, 2007, the Company acquired Golf Galaxy by means of merger of our wholly owned subsidiary with and into Golf Galaxy. On November 30, 2007, the Company completed its acquisition of Chick s Sporting Goods, Inc. The Consolidated Statements of Income include the results of Golf Galaxy and Chick s for fiscal 2007 from their respective dates of acquisition.

As of February 2, 2008 we operated 340 Dick s stores, 79 Golf Galaxy stores and 15 Chick s stores, with approximately 21.1 million square feet, in 40 states, the majority of which are located throughout the eastern half of the United States. On September 12, 2007, the Company s board of directors approved a two-for-one stock split of the Company s common stock and Class B common stock in the form of a stock dividend. The split was affected by issuing our stockholders of record as of September 28, 2007 one additional share of common stock for every share of common stock held, and one additional share of Class B common stock for every share of Class B common stock held. The applicable share and per-share data for periods prior to fiscal 2007 included herein have been restated to give effect to this stock split.

Executive Summary

The Company reported net income for the year ended February 2, 2008 of $155.0 million or $1.33 per diluted share as compared to net income of $112.6 million and earnings per diluted share of $1.02 in 2006. The increase in earnings was attributable to an increase in sales as a result of a 2.4% 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.

Net sales increased 25% to $3,888 million in 2007 from $3,114 million in 2006. This increase includes a comparable store sales increase of 2.4%, or $66.4 million on a 52 week to 52 week basis. The remaining increase results from the net addition of new Dick s stores in the last five quarters which are not included in the comparable store base and the inclusion of Golf Galaxy and Chick s during fiscal 2007 from their respective acquisition dates, partially offset by the inclusion of a 53rd week of sales in fiscal 2006.

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Income from operations increased 36% to $268.8 million in 2007 from $197.7 million in 2006 due primarily to the increase in sales and gross profit margin, partially offset by an increase in selling, general and administrative costs.

As a percentage of net sales, gross profit increased to 29.78% in 2007 from 28.79% in 2006. 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 inventory shrink costs as a percentage of sales.

Selling, general and administrative expenses increased by 46 basis points. The increase as a percentage of sales was due primarily to recording higher payroll and fringe related expenses related to bonus payments made to employees, an increase in net advertising expense and last year including a 53rd week of sales to offset fixed costs included in selling, general and administrative expense.

We ended the year with no borrowings on our line of credit and excess borrowing availability totaled $333.2 million as of February 2, 2008.

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 2007A	Fiscal Year 2006A	Fiscal Year 2005A	Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year 2006-2007A	Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year 2005-2006A
Net sales (1)	100.00%	100.00%	100.00%	N/A	N/A
Cost of goods sold, including occupancy and distribution costs (2)	70.22	71.21	71.90	(99)	(69)
Gross profit	29.78	28.79	28.10	99	69
Selling, general and administrative expenses (3)	22.38	21.92	21.19	46	73
Merger integration and store closing costs (4)			1.44		(144)
Pre-opening expenses (5)	0.48	0.53	0.41	(5)	12
Income from operations	6.91	6.35	5.06	56	129
Gain on sale of investment (6)			(0.07)		7
Interest expense, net (7)	0.29	0.32	0.49	(3)	(17)
Income before income taxes	6.62	6.03	4.63	59	140
Provision for income taxes	2.64	2.41	1.85	23	56
Net income	3.99%	3.62%	2.78%	37	84

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.

(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.

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(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 2007 (52 weeks) Compared to Fiscal 2006 (53 weeks)

Net Income

Net income increased to $155.0 million in 2007 from $112.6 million in 2006. This represented an increase in diluted earnings per share of $0.31, or 30% to $1.33 from $1.02. 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 25% to $3,888 million in 2007 from $3,114 million in 2006. This increase includes a comparable store sales increase of 2.4%, or $66.4 million on a 52 week to 52 week basis. The remaining increase results from the net addition of new Dick s stores in the last five quarters which are not included in the comparable store base and the inclusion of Golf Galaxy and Chick s during fiscal 2007 from their respective acquisition dates, partially offset by the inclusion of a 53rd week of sales in fiscal 2006.

The increase in comparable store sales is mostly attributable to sales increases in higher margin categories including outerwear, outerwear accessories, men s and women s athletic apparel and licensed merchandise, partially offset by lower sales of exercise equipment and kids athletic footwear driven by the Company s decision to exit the Heely s wheeled shoe business in 2007.

Store Count

During 2007, we acquired 65 Golf Galaxy stores and 15 Chick s Sporting Goods stores. In addition, we opened 46 Dick s stores and 16 Golf Galaxy stores, relocated one Dick s store, and closed two Golf Galaxy stores, resulting in an ending store count of 434 stores, with approximately 21.1 million square feet, in 40 states.

Income from Operations

Income from operations increased 36% to $268.8 million in 2007 from $197.7 million in 2006 due primarily to the increase in sales and gross profit margin, partially offset by an increase in selling, general and administrative costs.

Gross profit increased 29% to $1,158.1 million in 2007 from $896.7 million in 2006. As a percentage of net sales, gross profit increased to 29.78% in 2007 from 28.79% in 2006. The gross profit percentage increased primarily due to improved merchandise margins in the majority of the Company s product categories and lower freight and distributions costs as a percentage of sales (38 basis points) due to cost minimization practices at our distribution centers offset by higher occupancy costs as a percentage of sales (35 basis points) due to the leverage from higher sales in fiscal 2006 due to the 53rd week of sales.

Selling, general and administrative expenses increased to $870.4 million in 2007 from $682.6 million in 2006 due primarily to an increase in store count and continued investment in corporate and store infrastructure.

The 46 basis point increase over last year was due primarily to higher payroll and fringe related expenses related to bonus payments to employees (40 basis points), an increase in net advertising expense (3 basis points), and fiscal 2006 including a 53rd week of sales to offset fixed costs included in selling, general and administrative expense.

Pre-opening expenses increased by $2.4 million to $18.8 million in 2007 from $16.4 million in 2006. Pre-opening expenses were for the opening of 46 new Dick s stores and 16 Golf Galaxy stores, as well as the relocation of one Dick s store in 2007 compared to the opening of 39 new stores and relocation of two stores in 2006. Pre-opening expenses in any year fluctuate depending on the timing and number of store openings and relocations.

Interest Expense, net

Interest expense, net, increased by $1.3 million to $11.3 million in 2007 from $10.0 million in 2006 due primarily to costs related to the financing of both the Golf Galaxy and Chick s acquisitions during 2007. The Company ended fiscal 2007 with no outstanding borrowings under its senior secured revolving credit facility.

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 $0.34, or 50% to $1.02 from $0.68. 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.

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.

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.

Liquidity and Capital Resources

The following discussion has been updated to reflect the effects of the corrections to the Company s fiscal 2006 and 2005 Consolidated Statements of Cash Flows described in Note 2 to the consolidated financial statements appearing in Item 8 herein.

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 change in cash and cash equivalents is as follows:

	Fiscal Year Ended		
	February 2, 2008	**February 3, 2007**	**January 28, 2006**
Net cash provided by operating activities	$ 262,834	$ 139,609	$ 168,481
Net cash used in investing activities	(435,296)	(130,486)	(109,870)
Net cash provided by (used in) financing activities	86,693	90,255	(40,933)
Effect of exchange rate changes on cash	134		
Net (decrease) increase in cash and cash equivalents	$ (85,635)	$ 99,378	$ 17,678

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 increased by $123.2 million in 2007 to $262.8 million, which consists primarily of higher net income of $42.4 million and an increase in the change in assets and liabilities of $82.6 million primarily due to lower income tax payments made in 2007 compared to 2006.

Changes in Assets and Liabilities

The primary factors contributing to the increase in the change in assets and liabilities were the change in income taxes payable and deferred construction allowances, partially offset by an increase in the change in inventory.

The increase in the change in income taxes payable was primarily due to lower income tax payments made during 2007 compared to 2006 due to the timing of estimated tax payments made in fiscal 2007. The Company will make a larger tax payment in fiscal 2008 relating to fiscal 2007 than in previous years. The increase in deferred construction allowances is primarily related to higher tenant allowances associated with our 2007 stores compared to 2006. The increase in the change in inventory was primarily due to higher store count.

The cash flows from operating the Company s stores is a significant source of liquidity, and we expect will continue to be used in fiscal 2008 primarily to purchase inventory, make capital improvements and open new stores.

Investing Activities

Cash used in investing activities increased by $304.8 million, to $435.3 million, primarily reflecting the payment for the purchase of Golf Galaxy of $222.2 million, net of $4.9 million cash acquired, and the payment for purchase of Chick s Sporting Goods of $69.2 million. Gross capital expenditures used $172.4 million and sale-leaseback transactions generated proceeds of $28.4 million.

Purchases of property and equipment were $172.4 million in fiscal 2007, $163.0 million in fiscal 2006 and $149.7 million in fiscal 2005. Capital expenditures in fiscal 2007 relate primarily to the opening of new stores, information systems and administrative and distribution facilities. The Company generated proceeds from the sale and leaseback of property and equipment totaling $28.4 million, $32.5 million and $37.9 million in fiscal 2007, 2006 and 2005, respectively.

During 2007, we opened 46 Dick s stores and 16 Golf Galaxy stores, as well as relocated one Dick s store, compared to opening 39 stores and the relocation of two stores during 2006. 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. There were no building sale-leasebacks during 2007, 2006 and 2005.

Financing Activities

Cash provided by financing activities decreased by $3.6 million to $86.7 million. Financing activities consisted of proceeds from construction allowances received prior to the completion of construction for stores where the Company is deemed the owner during the construction period, transactions in the Company s common stock and the excess tax benefit from stock-based compensation. As stock option grants are exercised, the Company will continue to receive proceeds and a tax deduction; however, the amounts and the timing cannot be predicted.

On July 27, 2007, the Company entered into a Fourth Amendment to its Second Amended and Restated Credit Agreement (the Credit Agreement) that, among other things, extended the maturity of the Credit Agreement from July 2008 to July 2012, increased the potential Aggregate Revolving Credit Commitment, as defined in the Credit Agreement, from $350 million to a potential commitment of $450 million and reduced certain applicable interest rates and fees charged under the Credit Agreement.

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 Credit Agreement, including up to $75 million in the form of letters of credit. 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) the LIBOR rate plus 0.75% to 1.50% based on the level of total borrowings during the prior three months. The Credit Agreement s term expires July 27, 2012.

There were no outstanding borrowings under the Credit Agreement as of February 2, 2008 or February 3, 2007. Total remaining borrowing capacity, after subtracting letters of credit as of February 2, 2008 and February 3, 2007 was $333.2 million and $333.5 million, respectively.

The Credit Agreement contains restrictions regarding the Company s and related subsidiaries 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 cash dividends or make distributions on the Company s stock, to make certain investments or loans to other parties, or to engage in certain lending, borrowing or other commercial transactions with subsidiaries, affiliates or employees. Under the Credit Agreement, the Company may be 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 2, 2008, the Company was in compliance with the terms of the Credit Agreement.

Cash requirements in 2008, other than normal operating expenses, are expected to consist primarily of capital expenditures related to the addition of new stores, remodeling of existing stores, enhanced information technology and improved distribution infrastructure, including our Atlanta distribution center. Currently, the Company plans to open 46 new Dick s stores, ten new Golf Galaxy stores, and relocate one Dick s store during fiscal 2008. 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 $145 million in 2008, including Golf Galaxy and Chick s capital expenditure requirements.

The Company believes that cash flows generated from operations and funds available under our Credit Agreement will be sufficient to satisfy our capital requirements through fiscal 2008. Other new business opportunities or store expansion rates substantially in excess of those presently planned may require additional funding.

In February 2004, the Company completed a private offering of $172.5 million issue price of senior unsecured convertible notes due 2024 (notes). The 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. After February 18, 2009, the notes do not pay cash interest, but the initial principal amount of the notes will accrete daily at an original issue discount rate of 2.625% per year, until maturity on February 18, 2024, when a holder will receive $1,000 per note. Subject to the Company s obligations to pay cash for a certain portion of the notes and its right, if it elects, to pay all amounts due under the notes in cash as more fully described below, the notes are convertible into the Company s common stock (upon the occurrence of certain events) at the election of the holder in each of the first 20 fiscal quarters following their issuance when the price per share of the Company s common stock (calculated for a certain period of time) exceeds $23.59 per share. This conversion threshold trigger price permitting the notes to be converted by the holders has been met and the notes are eligible and will remain convertible for so long as they remain outstanding.

Upon conversion of a note, the Company is obligated to pay cash for each $1,000 of face amount of a note equal to the lesser of: (i) the accreted principal amount (the sum of the initial issue price of $676.25 per $1,000 face amount and the accrued original issue discount as of the conversion date (no original issue discount occurs until 2009)), and (ii) the product of (a) the number of shares of the Company s common stock into which the note otherwise would have been converted if no cash payment were made by the Company (i.e. 34.4044 shares per $1,000 face amount), multiplied by (b) the average of the closing per share sale price on the fifteen consecutive trading days commencing on the fourth trading day after the conversion date. In addition, the Company at its election has the ability to pay cash or deliver shares for any balance shares due under the notes. The number of balance shares is equal to the number of shares of common stock into which a note otherwise would be converted if no cash payment were made by the Company, less the accreted principal amount (the sum of the initial issue price of $676.25 and the accrued original issue discount as of the conversion date of), divided by the average sale price (the average of the closing per share sale price on the fifteen consecutive trading days commencing on the fourth trading day after the conversion date) of a share of common stock. All such calculations are controlled by and governed by the promissory note under which the notes are issued and the indenture, as amended, governing the notes. If the number of balance shares is a positive number, the Company has the option to deliver cash or a combination of cash and shares of common stock for the balance shares by electing for each full balance share for which the Company has chosen to deliver cash to pay cash in an amount equal to the average sale price of a share of common stock.

The 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 issue discount and any accrued cash interest, if any.

Concurrently, with the sale of the notes, the Company purchased a bond hedge designed to mitigate the potential dilution to stockholders from the conversion of the 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 $19.66 per share. The aggregate number of shares that the Company could be obligated to issue upon conversion of the notes is 8,776,048 shares of common stock. The cost of the purchased bond hedge was partially offset by the sale of warrants to acquire up to 17,551,896 shares of the common stock to the counterparty with whom the Company entered into the bond hedge. The warrants are exercisable by the counterparty in year five at a price of $28.08 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 $28.08 per share. The net effect of the bond hedge and the warrants is to reduce the potential dilution from the conversion of the notes if the Company elects a net share settlement. There would be dilution impact from the conversion of the notes to the extent that the then market price per share of the common stock exceeds $28.08 per share at the time of conversion.

The Company s common stock price has triggered an optional conversion right with respect to the notes. Based on the current price of the Company s common stock, the Company believes that if the notes were currently converted there would not be any dilutive effect on the Company s estimated outstanding number of shares as a result of the notes or the warrants. However, as the convertible notes remain outstanding in the future, depending on the price of the Company s common stock, the notes may have dilutive effect and increase the number of shares of common stock outstanding beyond that which we estimate or may estimate in the future. If the trading price in our common stock exceeds $28.08 per share, we may incur dilution as a result of the notes and/or the warrants and further increases in our common stock price may cause us to have to increase the number of shares outstanding and impact our earnings per share calculation. At this time, we would not anticipate that the outstanding notes will be converted currently and believe that our current estimate of outstanding shares for 2007 adequately addresses any impact of the notes and warrants during 2007. However, the estimate of the number of shares outstanding and the estimates of the dilutive impact of the notes and warrants is based on current circumstances and is forward-looking and only a prediction. We also believe that to the extent the notes convertibility feature remains in-the-money, a holder would elect to convert at some point in the future or at redemption. In addition, because a certain portion of the notes must be paid in cash and we may elect to pay for all amounts due under the notes in cash and we cannot predict the timing of such conversions, the timing of the conversions may impact our future liquidity.

Off-Balance Sheet Arrangements

The Company s off-balance sheet contractual obligations and commercial commitments as of February 2, 2008 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.

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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 2, 2008, and the timing and effect that such commitments are expected to have on the Company s liquidity and capital requirements in future periods:

		Payments Due by Period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
		(Dollars in thousands)			
Contractual obligations:					
Senior convertible notes (see Note 9)	$ 255,085	$	$	$	$ 255,085
Capital lease obligations (see Note 9)	7,721	133	435	499	6,654
Other long-term debt (see Note 9)	1,214	117	243	195	659
Interest payments	12,577	4,910	1,568	1,469	4,630
Operating lease obligations (see Note 10), (b)	3,613,641	330,857	687,704	644,473	1,950,607
Unrecognized tax benefits (a)	5,701	5,701			
Naming rights and other marketing commitments (see Note 17)	70,491	12,562	15,692	4,513	37,724
Future minimum guaranteed contractual payments (see Note 17)	95,988	8,048	20,246	27,050	40,644
Total contractual obligations	$ 4,062,418	$ 362,368	$ 725,888	$ 678,199	$ 2,296,003

(a) Excludes $6,134 of accrued liability for unrecognized tax benefits as we can not reasonably estimate the timing of settlement.

(b) Amounts include the direct lease obligations, excluding any taxes, insurance and other related expenses.

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 2, 2008:

	Total	Less than 1 year
	(Dollars in thousands)	
Other commercial commitments:		
Documentary letters of credit	$ 1,173	$ 1,173
Standby letters of credit	15,618	15,618
Total other commercial commitments	$ 16,791	$ 16,791

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

OUTLOOK

Full Year 2008 Comparisons to Fiscal 2007

Based on an estimated 121 million diluted shares outstanding, the Company anticipates reporting consolidated earnings per diluted share of approximately $1.49 1.54. This represents an approximate 12 16% increase over earnings per diluted share for the full year 2007 of $1.33.

Comparable store sales, which include Dick s Sporting Goods and Golf Galaxy stores, are expected to be approximately flat to an increase of 1%. The Golf Galaxy stores will be included in the comparable store sales calculation beginning in the first quarter of 2008. The comparable store sales calculation excludes the Chick s Sporting Goods stores.

The Company expects to open approximately 46 new Dick s Sporting Goods stores, ten new Golf Galaxy stores and relocate one Dick s store in 2008.

Newly Issued Accounting Standards

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R significantly changes the accounting for business combinations in a number of areas, including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS 141R, changes in an acquired entity s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS 141R is effective for fiscal years beginning after December 15, 2008. We will adopt SFAS 141R beginning in the first quarter of fiscal 2009. This standard will change our accounting treatment for business combinations on a prospective basis, including the treatment of any income tax adjustments related to past acquisitions.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements; however, SFAS 157 does not require any new fair value measurements. The requirements of SFAS 157 are first effective as of the beginning of our 2008 fiscal year. However, in February 2008 the FASB decided that an entity need not apply this standard to nonrecurring nonfinancial assets and liabilities until the subsequent year. Accordingly, our adoption of SFAS 157 is limited to financial assets and liabilities. We do not believe that the initial adoption of SFAS 157 will have a material impact on our financial statements. However, we are still in the process of evaluating this standard with respect to its effect on nonrecurring nonfinancial assets and liabilities and therefore have not yet determined the impact that it will have on our financial statements upon full adoption.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We do not believe that the adoption of SFAS 159 will have a material impact 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

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occurrences of obsolescence or slow moving inventory. However, future changes, such as customer merchandise preference, unseasonable weather patterns, economic conditions 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.

Business Combinations

In accounting for business combinations, we allocate the purchase price of an acquired business to its identifiable assets and liabilities based on estimated fair values and the excess of the purchase price over the amount allocated to the assets and liabilities, if any, is recorded as goodwill. The determination of fair value involves the use of estimates and assumptions which we believe provides a reasonable basis for determining fair value. Accordingly, we typically engage outside appraisal firms to assist in the fair value determination of inventory, identifiable intangible assets such as tradenames, and any other significant assets or liabilities. We adjust the preliminary purchase price allocation, as necessary, up to one year after the acquisition closing date as we obtain more information regarding asset valuations and liabilities assumed.

Goodwill and Intangible Assets

Goodwill, indefinite-lived and other finite-lived intangible assets are tested for impairment on an annual basis. Additional impairment assessments may be performed on an interim basis if the Company deems it necessary. Our evaluation 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.

Impairment of Long-Lived Assets and Closed Store Reserves

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.

Based on an analysis of current and future store performance, management periodically evaluates the need to close underperforming stores. Reserves are established when the Company ceases to use the location for the present value of any remaining operating lease obligations, net of estimated sublease income, as prescribed by SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. If the timing or amount of actual sublease income differs from estimated amounts, this could result in an increase or decrease in the related reserves.

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.

Uncertain Tax Positions

We account for uncertain tax positions in accordance with FIN 48. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations change over time. As such, changes in our subjective assumptions and judgments can materially affect amounts recognized in the Consolidated Balance Sheets and 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 2, 2008 and February 3, 2007. 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 $0.9 million based upon fiscal 2007 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.

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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 42 through 69 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). Based upon that evaluation, the Company s chief executive officer and chief financial officer concluded that the Company s disclosure controls and procedures are effective, as of the end of the period covered by this Report (February 2, 2008), in ensuring 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, accumulated, communicated and reported within the time periods specified in the SEC rules and forms. There were no changes in the Company s internal control over financial reporting during the quarter ended February 2, 2008, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Report of Management on Internal Control over Financial Reporting

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.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, management concluded that the Company s internal control over financial reporting was effective as of February 2, 2008.

The scope of management s assessment of the effectiveness of internal control over financial reporting includes all of the Company s businesses except for Golf Galaxy, Inc. and Chick s Sporting Goods, Inc., acquired on February 13, 2007 and November 30, 2007, respectively. Golf Galaxy, Inc. and Chick s Sporting Goods, Inc. represented approximately 11% of total assets and 9% of total revenues as of and for the period ended February 2, 2008.

Deloitte & Touche LLP, an independent registered public accounting firm, has issued an attestation report on the Company s internal control over financial reporting included in Item 9A of this document.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Dick s Sporting Goods, Inc. and subsidiaries (the Company) as of February 2, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in the Report of Management on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Golf Galaxy, Inc, which was acquired on February 13, 2007, and Chick s Sporting Goods, Inc, which was acquired on November 30, 2007. Golf Galaxy, Inc. and Chick s Sporting Goods, Inc. constitute approximately 11% of total assets and 9% of total revenues as of and for the period ended February 2, 2008. Accordingly, our audit did not include the internal control over financial reporting at Golf Galaxy, Inc and Chick s Sporting Goods, Inc. 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, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 2, 2008, 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 as of and for the fiscal year ended February 2, 2008 of the Company and our report dated March 27, 2008 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company s adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* on February 4, 2007.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania
March 27, 2008

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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, 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 2008 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 , Grants of Plan-Based Awards , Understanding Our Summary Compensation and Grants of Plan-Based Awards Tables , Outstanding Equity Awards at Fiscal Year End , Option Exercises and Stock Vested , Nonqualified Deferred Compensation , Potential Payments Upon Termination or Change-in-Control and Compensation Committee Interlocks and Insider Participation in the Company s 2008 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 2008 Proxy Statement. The following table summarizes information, as of February 2, 2008, 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]	19,276,445(2)	$ 14.66	14,326,589(2)
Equity compensation plans not approved by security holders			
Total	19,276,445		14,326,589

(1) Includes the 1992 Stock Plan, 2002 Stock Plan, Employee Stock Purchase Plan, Golf Galaxy, Inc. 1996 Stock Option and Incentive Plan and Golf Galaxy, Inc. 2004 Stock Incentive 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 2008 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 2008 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

(1) Financial Statements. The Financial Statements required to be filed hereunder are listed in the Index to Consolidated Financial Statements on page 42 of this Form 10-K.

(2) Financial Statement Schedules. The consolidated financial statement schedule to be filed hereunder is included on page 72 of this Form 10-K.

(3) Exhibits. The Exhibits listed in the Index to Exhibits, which appears on pages 73 to 77 and is incorporated herein by reference, are filed as part of this Form 10-K. 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.

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.
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated balance sheets of Dick s Sporting Goods, Inc. and subsidiaries (the Company) as of February 2, 2008 and February 3, 2007, 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 2, 2008. 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 2, 2008 and February 3, 2007, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 2, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, on February 4, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, and on January 29, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of February 2, 2008, 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 27, 2008 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP
Pittsburgh, Pennsylvania
March 27, 2008

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

	Fiscal Year Ended		
	February 2, 2008	February 3, 2007	January 28, 2006
Net sales	$ 3,888,422	$ 3,114,162	$ 2,624,987
Cost of goods sold, including occupancy and distribution costs	2,730,359	2,217,463	1,887,347
GROSS PROFIT	1,158,063	896,699	737,640
Selling, general and administrative expenses	870,415	682,625	556,320
Merger integration and store closing costs			37,790
Pre-opening expenses	18,831	16,364	10,781
INCOME FROM OPERATIONS	268,817	197,710	132,749
Gain on sale of investment			(1,844)
Interest expense, net	11,290	10,025	12,959
INCOME BEFORE INCOME TAXES	257,527	187,685	121,634
Provision for income taxes	102,491	75,074	48,654
NET INCOME	$ 155,036	$ 112,611	$ 72,980
EARNINGS PER COMMON SHARE:			
Basic	$ 1.42	$ 1.10	$ 0.73
Diluted	$ 1.33	$ 1.02	$ 0.68
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	109,383	102,512	99,584
Diluted	116,504	110,790	107,958

See notes to consolidated financial statements.

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

	February 2, 2008	February 3, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 50,307	$ 135,942
Accounts receivable, net	62,035	39,687
Income tax receivable		15,671
Inventories, net	887,364	641,464
Prepaid expenses and other current assets	50,274	37,015
Deferred income taxes	19,714	
Total current assets	1,069,694	869,779
PROPERTY AND EQUIPMENT, NET	531,779	433,071
CONSTRUCTION IN PROGRESS LEASED FACILITIES	23,744	13,087
INTANGIBLE ASSETS, NET	80,038	9,374
GOODWILL	304,366	156,628
OTHER ASSETS:		
Deferred income taxes	6,366	17,440
Investments	3,225	3,008
Other	16,423	21,878
Total other assets	26,014	42,326
TOTAL ASSETS	$ 2,035,635	$ 1,524,265
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 365,750	$ 286,668
Accrued expenses	228,816	190,365
Deferred revenue and other liabilities	104,549	87,798
Income taxes payable	62,583	
Current portion of other long-term debt and capital leases	250	152
Total current liabilities	761,948	564,983
LONG-TERM LIABILITIES:		
Senior convertible notes	172,500	172,500
Revolving credit borrowings		
Other long-term debt and capital leases	8,685	8,365
Non-cash obligations for construction in progress leased facilities	23,744	13,087
Deferred revenue and other liabilities	180,238	144,780
Total long-term liabilities	385,167	338,732

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 84,837,642 and 79,382,554, at February 2, 2008 and February 3, 2007, respectively	848	794
Class B common stock, par value, $.01 per share, authorized shares 40,000,000; issued and outstanding shares 26,307,480 and 26,787,680, at February 2, 2008 and February 3, 2007, respectively	263	268
Additional paid-in capital	416,423	302,235
Retained earnings	468,974	315,453
Accumulated other comprehensive income	2,012	1,800
Total stockholders equity	888,520	620,550
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,035,635	$ 1,524,265

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 2, 2008	**February 3, 2007**	**January 28, 2006**
NET INCOME	$ 155,036	$ 112,611	$ 72,980
OTHER COMPREHENSIVE INCOME (LOSS):			
Unrealized gain (loss) on securities available-for-sale, net of tax	78	(123)	1,126
Reclassification adjustment for gains realized in net income due to the sale of available-for-sale securities, net of tax			(1,199)
Foreign currency translation adjustment, net of tax	134		
COMPREHENSIVE INCOME	$ 155,248	$ 112,488	$ 72,907

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 Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Dollars	Shares	Dollars				
BALANCE, January 29, 2005	69,580,716	$ 696	28,079,058	$ 280	$ 180,833	$ 129,862	$ 1,996	$ 313,667
Exchange of Class B common stock for common stock	617,168	6	(617,168)	(6)				
Sale of common stock under stock plans	251,978	2			3,674			3,676
Exercise of stock options, including tax benefit of $14,678	2,640,802	26			22,065			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	73,090,664	$ 730	27,461,890	$ 274	$ 209,024	$ 202,842	$ 1,923	$ 414,793
Exchange of Class B common stock for common stock	674,210	6	(674,210)	(6)				
Sale of common stock under stock plans	245,964	4			3,730			3,734
Exercise of stock options	5,371,716	54			22,988			23,042
Tax benefit on convertible note bond hedge					2,686			2,686
Net income						112,611		112,611
Stock -based compensation					24,303			24,303
Total tax benefit from exercise of stock options					39,504			39,504
Unrealized loss on securities available-for-sale, net of taxes of $66							(123)	(123)
BALANCE, February 3, 2007	79,382,554	$ 794	26,787,680	$ 268	$ 302,235	$ 315,453	$ 1,800	$ 620,550
Cumulative effect of adoption of FIN 48						(1,515)		(1,515)
ADJUSTED BALANCE, February 3, 2007	79,382,554	$ 794	26,787,680	$ 268	$ 302,235	$ 313,938	$ 1,800	$ 619,035
Exchange of Class B common stock for common stock	480,200	5	(480,200)	(5)				
Stock options issued for acquisition					9,117			9,117
Sale of common stock under stock plan	204,955	2			4,505			4,507
Exercise of stock options	4,769,933	47			30,212			30,259
Tax benefit on convertible note bond hedge					2,811			2,811
Net income						155,036		155,036
Stock-based compensation					29,039			29,039
					38,504			38,504

Total tax benefit from exercise of stock options								
Foreign currency translation adjustment, net of taxes of $87							134	134
Unrealized gain on securities available-for-sale, net of taxes of $46							78	78
BALANCE, February 2, 2008	84,837,642	$ 848	26,307,480	$ 263	$ 416,423	$ 468,974	$ 2,012	$ 888,520

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 2, 2008	**February 3, 2007 See Note 2**	**January 28, 2006 See Note 2**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 155,036	$ 112,611	$ 72,980
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	75,052	54,929	49,861
Deferred income taxes	(32,696)	(1,110)	1,559
Stock based compensation	29,039	24,303	
Excess tax benefit from stock-based compensation	(34,918)	(36,932)	
Tax benefit from exercise of stock options	5,396	2,572	14,678
Gain on sale of investment			(1,844)
Other non-cash items	2,811	2,686	2,452
Changes in assets and liabilities, net of acquired assets and liabilities:			
Accounts receivable	(10,982)	(2,142)	13,331
Inventories	(127,027)	(105,766)	(77,872)
Prepaid expenses and other assets	(4,267)	(29,039)	(2,589)
Accounts payable	12,337	24,444	35,119
Accrued expenses	26,222	42,479	(193)
Income taxes payable / receivable	114,706	4,750	19,144
Deferred construction allowances	22,256	19,264	12,654
Deferred revenue and other liabilities	29,869	26,560	29,201
Net cash provided by operating activities	262,834	139,609	168,481
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Capital expenditures	(172,366)	(162,995)	(149,659)
Proceeds from sale-leaseback transactions	28,440	32,509	37,867
Payment for the purchase of Golf Galaxy, net of $4,859 cash acquired	(222,170)		
Payment for the purchase of Chick s Sporting Goods	(69,200)		
Proceeds from sale of investment			1,922
Net cash used in investing activities	(435,296)	(130,486)	(109,870)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Revolving credit (payments) borrowings, net			(76,094)
Construction allowance receipts	13,282	17,902	17,201
Payments on long-term debt and capital leases	(1,058)	(184)	(560)
Proceeds from sale of common stock under employee stock purchase plan	4,507	3,734	3,676

Proceeds from exercise of stock options	30,259	23,042	7,413
Excess tax benefit from stock-based compensation	34,918	36,932	
Increase in bank overdraft	4,785	8,829	7,431
Net cash provided (used in) by financing activities	86,693	90,255	(40,933)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	134		
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(85,635)	99,378	17,678
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	135,942	36,564	18,886
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 50,307	$ 135,942	$ 36,564
Supplemental disclosure of cash flow information:			
Construction in progress leased facilities	$ 10,657	$ 5,749	$ (7,895)
Accrued property and equipment	$ (6,928)	$ 11,475	$ (4,969)
Cash paid during the year for interest	$ 12,314	$ 9,286	$ 12,345
Cash paid during the year for income taxes	$ 17,832	$ 68,483	$ 4,569
Stock options issued for acquisition (net of $1,810 tax benefit upon exercise)	$ 7,307	$	$

See notes to consolidated financial statements.

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

1. Basis of Presentation and 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 434 stores, the majority of which are located throughout the eastern half of the United States. On February 13, 2007, the Company acquired Golf Galaxy, Inc. (Golf Galaxy) by means of merger of our wholly owned subsidiary with and into Golf Galaxy. On November 30, 2007, the Company acquired all of the outstanding stock of Chick s Sporting Goods, Inc. (Chick s). The Consolidated Statements of Income include the operations of Golf Galaxy and Chick s from their dates of acquisition forward for fiscal 2007.

Fiscal Year The Company s fiscal year ends on the Saturday closest to the end of January. Fiscal years 2007, 2006 and 2005 ended on February 2, 2008, February 3, 2007 and January 28, 2006, 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 $1.6 million, $0.8 million and $0.2 million for fiscal 2007, 2006 and 2005, 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 2, 2008 and February 3, 2007 include $84.7 million and $76.8 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 and landlords. The allowance for doubtful accounts totaled $2.9 million and $2.0 million, as of February 2, 2008 and February 3, 2007, 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 $72.8 million and $52.3 million at February 2, 2008 and February 3, 2007, 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

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. Depreciation expense was $75.2 million, $54.0 million and $49.3 million for fiscal 2007, 2006 and 2005, respectively.

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

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

Impairment of Long-Lived Assets and Costs Associated with Exit Activities 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. An impairment loss is recognized when the estimated undiscounted cash flows expected to result from the use of the asset plus eventual net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value as determined based on quoted market prices or through the use of other valuation techniques.

A liability is recognized for costs associated with location closings, primarily future lease costs (net of estimated sublease income), and is charged to income when the Company ceases to use the location.

Goodwill and Intangible Assets Goodwill represents the excess of acquisition cost over the fair value of the net assets of acquired entities. In accordance with SFAS No. 142, Accounting for Goodwill and Other Intangible Assets, the Company will continue to assess on an annual basis whether goodwill and indefinite-lived intangible assets are impaired, utilizing a fair value approach at the reporting unit level. A reporting unit is the operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. 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 2007, 2006 or 2005.

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 15).

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 15) 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 $102.8 million at February 2, 2008 and $90.5 million at February 3, 2007. Deferred revenue related to gift cards at February 2, 2008 and February 3, 2007 was $96.6 million and $72.3 million, respectively. Deferred rent, including deferred pre-opening rent, at February 2, 2008 and February 3, 2007 was $34.9 million and $25.6 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.

Stock Split On September 12, 2007, the Company s Board of Directors declared a two-for-one stock split, in the form of a stock dividend, of the Company s common shares for stockholders of record on September 28, 2007. The split became effective on October 19, 2007 by issuing our stockholders of record one additional share of common stock for every share of common stock held, and one additional share of Class B common stock for every share of Class B common stock held. Par value of the stock remains at $.01 per share. Accordingly, an immaterial reclassification was made from additional paid-in capital to common stock for the cumulative number of shares issued as of February 2, 2008. The capital accounts, share data, and earnings per share data in this report give effect to the stock split, applied retroactively, to all periods presented. The applicable share and per-share data for all periods included herein have been restated to give effect to this stock split.

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

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 million for fiscal 2005.

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 has the availability to grant stock options to purchase common stock under Dick s Sporting Goods, Inc. 2002 Stock Option Plan and the Golf Galaxy, Inc. 2004 Incentive Plan (the Plans). 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 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 pre-tax stock-based compensation expense recognized for the year ended February 2, 2008 and February 3, 2007 was $29.0 million and $24.3 million, respectively. Total stock-based compensation expense consisted of stock option expense of $27.5 million and $23.1 million and employee stock purchase plan (ESPP) expense of $1.5 million and $1.2 million, respectively. The expense was recorded in selling, general and administrative expenses in the Consolidated Statements of Income. The related total tax benefit was $11.0 million and $9.3 million for the year ended February 2, 2008 and February 3, 2007, respectively.

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 Statements of Cash Flows of the tax effects of stock-based compensation awards that are outstanding upon adoption of SFAS 123R.

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

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 11) (dollars in thousands, except per share data):

	2005
Net income, as reported	$ 72,980
Deduct: stock-based compensation expense, net of tax	(13,484)
Proforma net income	$ 59,496
Net income per common share basic:	
As reported	$ 0.73
Deduct: stock-based compensation expense, net of tax	(0.14)
Proforma	$ 0.59
Net income per common share diluted:	
As reported	$ 0.68
Deduct: stock-based compensation expense, net of tax	(0.12)
Proforma	$ 0.56

Disclosures for 2007 and 2006 are not presented because the amounts are recognized in the Consolidated Statements of Income.

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 Pla**		
les Valuation Assumptions (1)	**2007**	**2006**	**2005**	**2007**	**2006**	
(years) (2)	5.29	5.29	5.29	0.5	0.5	
atility (3)	36.08% - 37.39%	37% - 39%	39% - 41%	25.66% - 39.19%	24% - 32%	2
erage volatility	36.96%	38.79%	40.53%	34.29%	28.44%	
erest rate (4)	3.39% - 4.94%	4.44% - 4.97%	3.63% - 4.44%	3.32% - 5.02%	5.09% - 5.31%	3.3
idend yield						
erage grant date fair values	$11.45	$8.34	$7.63	$6.87	$5.12	

(1) This table excludes valuation assumptions related to the assumption of outstanding Golf Galaxy

options by Dick s in conjunction with the acquisition of Golf Galaxy on February 13, 2007.

(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 Financial Accounting Standards Board (FASB) Statement No. 123(R), Share-Based Payment (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 of SFAS 123R, 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 11 for additional details regarding stock-based compensation.

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

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.

The Company adopted the provisions of Financial Standards Accounting Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of FASB Statement No. 109 (SFAS 109), on February 4, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of February 4, 2007, the Company recorded a decrease to retained earnings of $1.5 million. Also at the date of adoption, the Company had $12.0 million of unrecognized tax benefits, of which approximately $9.1 million would affect our effective tax rate if recognized.

Revenue Recognition 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.

Cost of Goods Sold 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.

Selling, General and Administrative Expense 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.

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 $152.4 million, $122.9 million and $96.1 million for fiscal 2007, 2006 and 2005, 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 recognized as a reduction of 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.

Reclassifications Certain reclassifications have been made to the fiscal 2006 Consolidated Balance Sheet to conform to the fiscal 2007 presentation.

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 primarily 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 Company s operating segments are aggregated within 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	**2007**	**2006**	**2005**
Hardlines	$ 2,163	$ 1,768	$ 1,497
Apparel	1,077	811	672
Footwear	648	535	456
Total net sales	$ 3,888	$ 3,114	$ 2,625

Newly Issued Accounting Pronouncements In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS 141R, changes in an acquired entity s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS 141R is effective for fiscal years beginning after December 15, 2008. We will adopt SFAS 141R beginning in the first quarter of fiscal 2009. This standard will change our accounting treatment for business combinations on a prospective basis, including the treatment of any income tax adjustments related to past acquisitions.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements; however, SFAS 157 does not require any new fair value measurements. The requirements of SFAS 157 are first effective as of the beginning of our 2008 fiscal year. However, in February 2008 the FASB decided that an entity need not apply this standard to nonrecurring nonfinancial assets and liabilities until the subsequent year. Accordingly, our adoption of SFAS 157 is limited to financial assets and liabilities. We do not believe that the initial adoption of SFAS 157 will have a material impact on our financial statements. However, we are still in the process of evaluating this standard with respect to its effect on nonrecurring nonfinancial assets and liabilities and therefore have not yet determined the impact that it will have on our financial statements upon full adoption.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We do not believe that the adoption of SFAS 159 will have a material impact on our financial statements.

2. Correction to Previously Reported Amounts

Certain corrections have been made for the reporting of the Company s cash flows related to the receipt of construction allowances. Our Consolidated Statements of Cash Flows for the fiscal years ended February 3, 2007 and January 28, 2006 have been revised to correct an immaterial error in our accounting for the receipt of construction allowances, which should have been presented as financing activities when such construction allowances related to stores where the Company is considered the owner at the time of receipt, rather than as operating or investing activities, as previously reported. The effect of this correction for the year ended February 3, 2007 was to decrease cash provided by operating activities by $3.0 million, increase cash used in investing activities by $14.9 million and increase cash provided by financing activities by $17.9 million. The effect of this correction for the year ended January 28, 2006 was to increase cash provided by operating activities by $7.1 million, increase cash used in investing activities by $24.3 million and decrease cash used in financing activities by $17.2 million. The correction did not affect the previously reported results of operations of the Company nor did it change the amount of total cash flows for the Company.

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

	Fiscal 2006			Fiscal 2005		
	As previously reported	Correction	As corrected	As previously reported	Correction	As corrected
	(In thousands)			(In thousands)		
Net cash provided by operating activities	$ 142,568	$ (2,959)	$ 139,609	$ 161,427	$ 7,054	$ 168,481
Net cash used in investing activities	(115,543)	(14,943)	(130,486)	(85,615)	(24,255)	(109,870)
Net cash provided by (used in) financing activities	$ 72,353	$ 17,902	$ 90,255	$ (58,134)	$ 17,201	$ (40,933)

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

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

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

3. Acquisition

On February 13, 2007, the Company acquired Golf Galaxy, Inc. (Golf Galaxy), which became a wholly owned subsidiary of Dick s by means of a merger of Dick s subsidiary with and into Golf Galaxy. The Company paid $227.0 million which was financed using approximately $79 million of cash and cash equivalents and the balance from borrowings under our Second Amended and Restated Credit Agreement, as amended to date (the Credit Agreement).

The acquisition is being accounted for using the purchase method in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, with Dick s as the accounting acquirer. Accordingly, the purchase price has been allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the date of the acquisition. The excess of the purchase price over the fair value of net assets acquired was recorded as goodwill. Goodwill and identifiable intangible assets recorded in the acquisition will be tested for impairment as required by SFAS No. 142, Goodwill and Other Intangible Assets . Based upon the purchase price allocation, the Company has recorded $112.6 million of goodwill as a result of the acquisition. None of the goodwill is deductible for tax purposes. 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	$ 70,711
Other current assets (including cash)	19,685
Property and equipment, net	47,875
Other long-term assets, excluding goodwill and intangible assets	246
Trade name	65,749
Customer list and other intangibles	5,659
Goodwill	112,614
Accounts payable	(34,000)
Accrued expenses	(14,063)
Other current liabilities	(9,759)
Other long-term liabilities	(30,381)
Fair value of net assets acquired, including intangibles	$ 234,336

The customer list will be amortized over 12 years. In addition, the trade name is an indefinite-lived intangible asset, which will not be amortized. The amortization of intangible assets is included in selling, general and administrative expenses.

The following unaudited proforma summary presents information as if Golf Galaxy had been acquired at the beginning of the period presented. The proforma amounts include certain reclassifications to Golf Galaxy s amounts to conform them to the Company s reporting calendar and an increase in pre-tax interest expense of $11.8 million for the year ended February 3, 2007, to reflect the increase in borrowings under the Credit Agreement to finance the acquisition as if it had occurred at the beginning of the period. In addition, the proforma net income excludes $1.4 million of pre-tax merger related expenses. The proforma amounts do not reflect any benefits from economies which might be achieved from combining the operations.

The proforma information does not necessarily reflect the actual results that would have occurred had the companies been combined during the period presented, nor is it necessarily indicative of the future results of operations of the combined companies.

	Year Ended February 3, 2007 (Unaudited, in thousands, except per share amounts)	
Net sales	$	3,388,837
Net income	$	111,958
Basic earnings per share	$	1.09
Diluted earnings per share	$	1.01

On November 30, 2007, the Company acquired all of the outstanding stock of Chick s Sporting Goods, Inc. for approximately $69.2 million. In addition, Chick s shareholders have the opportunity to earn up to $5 million in additional consideration, upon satisfaction by Chick s of certain specified performance criteria through June 2008.

The acquisition is being accounted for using the purchase method in accordance with SFAS No. 141, Business Combinations. Accordingly, we recorded the net assets at their estimated fair values, and included operating results in our Consolidated Statements of Income from the date of acquisition. We allocated the purchase price on a preliminary basis using information currently available. The Company is in the process of obtaining an independent appraisal for certain assets, including intangibles not yet identified, and refining its internal fair value estimates; therefore, the allocation of the purchase price is preliminary and the final allocation will likely differ.

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

Based on the preliminary purchase price allocation, the Company has recorded $34.4 million of goodwill as a result of the acquisition. None of the goodwill is deductible for tax purposes.

4. Integration Activities and Facility Closures

In connection with the Company s acquisitions, we have incurred restructuring costs associated with the termination of employees, facility consolidations and other costs directly related to the restructuring initiatives implemented. For these specific restructuring costs recognized in conjunction with the cost from the Company s acquisitions, we have accounted for these costs in accordance with EITF 95-3, Recognition of Liabilities Assumed in Connection with a Purchase Business Combination and therefore are recognized as liabilities in connection with the acquisition and charged to goodwill. Costs incurred in connection with all other business integration activities have been recognized in the Consolidated Statements of Income.

The following table summarizes the activity in fiscal 2007, 2006 and 2005 (in thousands):

	Associate Severance, Retention and Relocation	Liabilities Established for the Closing of Acquired Locations	Inventory Reserve for Discontinued Merchandise	Total
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)
Adjustments to the estimate				
Clearance of discontinued Galyan s merchandise				
Balance at February 3, 2007	$	$ (654)	$	$ (654)
Cash paid (net of sublease receipts)		121		121
Adjustments to the estimate				
Store closing reserves established in conjuction with the Golf Galaxy acquisition		2,059		2,059
Balance at February 2, 2008	$	$ 1,526	$	$ 1,526

The $6.3 million of inventory reserve utilized for the clearance of discontinued Galyan s merchandise in fiscal 2005 was recorded as a reduction of cost of sales.

As of February 2, 2008, the Company had a sublease receivable of $3.3 million as our projected sublease cash flows exceed our anticipated rent payments for one of the closed former Galyan s stores.

5. Goodwill and Other Intangible Assets

As of February 2, 2008 and February 3, 2007, the Company had goodwill of $304.4 million and $156.6 million, respectively. During fiscal year 2007, the Company acquired goodwill totaling approximately $147.0 million in connection with the acquisitions of Golf Galaxy and Chick s.

The Company acquired intangible assets totaling approximately $71.4 million during fiscal 2007, consisting primarily of a trade name and customer list resulting from the Company s Golf Galaxy acquisition. As of February 2, 2008 and February 3, 2007, the Company had indefinite-lived and finite-lived intangible assets of $69.9 million and $4.2 million, and $10.1 million and $5.2 million, respectively.

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

The components of intangible assets were as follows (in thousands):

	2007		2006	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Trade name	$ 65,749	$	$	$
Trademarks	4,219		4,219	
Customer list	5,153	(429)		
Favorable leases and other	5,849	(503)	5,349	(194)
Total intangible assets	$ 80,970	$ (932)	$ 9,568	$ (194)

Amortization expense for these intangible assets was $0.7 million, $0.1 million and $0.1 million for fiscal 2007, 2006 and 2005, respectively. The estimated weighted average economic useful life is 12 years. The annual amortization expense of the finite-lived intangible assets recorded as of February 2, 2008 is expected to be as follows (in thousands):

Fiscal Years	Estimated Amortization Expense
2008	856
2009	913
2010	1,044
2011	1,136
2012	1,161
Thereafter	4,960
Total	$ 10,070

6. 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, relocations, and other store closings (in thousands):

	2007	2006
Accrued store closing and relocation reserves, beginning of period	$ 19,903	$ 20,181
Expense charged to earnings	2,043	4,328
Cash payments	(6,781)	(4,867)
Interest accretion and other changes in assumptions	6,717	261
Accrued store closing and relocation reserves, end of period	21,882	19,903
Less current portion of accrued store closing and relocation reserves	(7,284)	(6,135)

Long-term portion of accrued store closing and relocation reserves	$ 14,598	$ 13,768

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

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.

7. Property and Equipment

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

	2007	2006
Buildings and land	$ 34,003	$ 31,820
Leasehold improvements	452,723	374,879
Furniture, fixtures and equipment	425,522	330,757
	912,248	737,456
Less: accumulated depreciation and amortization	(380,469)	(304,385)
Net property and equipment	$ 531,779	$ 433,071

The amounts above include construction in progress of $66.9 million and $34.2 million for fiscal 2007 and 2006, respectively.

8. Accrued Expenses

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

	2007	2006
Accrued payroll, withholdings and benefits	$ 74,495	$ 52,988
Accrued property and equipment	33,200	34,537
Other accrued expenses	121,121	102,840
Total accrued expenses	$ 228,816	$ 190,365

9. Debt

The Company s outstanding debt at February 2, 2008 and February 3, 2007 was as follows (in thousands):

	2007	2006
Senior convertible notes	$ 172,500	$ 172,500
Revolving line of credit		
Capital leases	7,721	7,809
Third-party debt	1,214	708
Total debt	181,435	181,017
Less: current portion	(250)	(152)
Total long-term debt	$ 181,185	$ 180,865

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

Senior Convertible Notes In February 2004, the Company completed a private offering of $172.5 million issue price of senior unsecured convertible notes due 2024 (notes). The 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. After February 18, 2009, the notes do not pay cash interest, but the initial principal amount of the notes will accrete daily at an original issue discount rate of 2.625% per year, until maturity on February 18, 2024, when a holder will receive $1,000 per note. Subject to the Company s obligations to pay cash for a certain portion of the notes and its right, if it elects, to pay all amounts due under the notes in cash as more fully described below, the notes are convertible into the Company s common stock (upon the occurrence of certain events) at the election of the holder in each of the first 20 fiscal quarters following their issuance when the price per share of the Company s common stock (calculated for a certain period of time) exceeds $23.59 per share. This conversion threshold trigger price permitting the notes to be converted by the holders has been met and the notes are eligible and will remain convertible for so long as they remain outstanding.

Upon conversion of a note, the Company is obligated to pay cash for each $1,000 of face amount of a note equal to the lesser of: (i) the accreted principal amount (the sum of the initial issue price of $676.25 per $1,000 face amount and the accrued original issue discount as of the conversion date (no original issue discount occurs until 2009)), and (ii) the product of (a) the number of shares of the Company s common stock into which the note otherwise would have been converted if no cash payment were made by the Company (i.e. 34.4044 shares per $1,000 face amount), multiplied by (b) the average of the closing per share sale price on the fifteen consecutive trading days commencing on the fourth trading day after the conversion date. In addition, the Company at its election has the ability to pay cash or deliver shares for any balance shares due under the notes. The number of balance shares is equal to the number of shares of common stock into which a note otherwise would be converted if no cash payment were made by the Company, less the accreted principal amount (the sum of the initial issue price of $676.25 and the accrued original issue discount as of the conversion date of), divided by the average sale price (the average of the closing per share sale price on the fifteen consecutive trading days commencing on the fourth trading day after the conversion date) of a share of common stock. All such calculations are controlled by and governed by the promissory note under which the notes are issued and the indenture, as amended, governing the notes. If the number of balance shares is a positive number, the Company has the option to deliver cash or a combination of cash and shares of common stock for the balance shares by electing for each full balance share for which the Company has chosen to deliver cash to pay cash in an amount equal to the average sale price of a share of common stock.

The 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 issue discount and any accrued cash interest, if any.

Concurrently, with the sale of the notes, the Company purchased a bond hedge designed to mitigate the potential dilution to stockholders from the conversion of the 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 $19.66 per share. The aggregate number of shares that the Company could be obligated to issue upon conversion of the notes is 8,776,048 shares of common stock. The cost of the purchased bond hedge was partially offset by the sale of warrants to acquire up to 17,551,896 shares of the common stock to the counterparty with whom the Company entered into the bond hedge. The warrants are exercisable by the counterparty in year five at a price of $28.08 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 $28.08 per share. The net effect of the bond hedge and the warrants is to reduce the potential dilution from the conversion of the notes if the Company elects a net share settlement. There would be dilution impact from the conversion of the notes to the extent that the then market price per share of the common stock exceeds $28.08 per share at the time of conversion.

The Company s common stock price has triggered an optional conversion right with respect to the notes. Based on the current price of the Company s common stock, the Company believes that if the notes were currently converted there would not be any dilutive effect on the Company s estimated outstanding number of shares as a result of the notes or the warrants. However, as the convertible notes remain outstanding in the future, depending on the price of the Company s common stock, the notes may have dilutive effect and increase the number of shares of common stock outstanding beyond that which we estimate or may estimate in the future. As the trading price in our common stock exceeds $28.08 per share, we may incur dilution as a result of the notes and/or the warrants and further increases in our common stock price may cause us to have to increase the number of shares outstanding and

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

impact our earnings per share calculation. At this time, we would not anticipate that the outstanding notes will be converted currently and believe that our current estimate of outstanding shares for 2007 adequately addresses any impact of the notes and warrants during 2007. However, the estimate of the number of shares outstanding and the estimates of the dilutive impact of the notes and warrants is based on current circumstances and is forward-looking and only a prediction. We also believe that to the extent the notes convertibility feature remains in-the-money, a holder would elect to convert at some point in the future or at redemption. In addition, because a certain portion of the notes must be paid in cash and we may elect to pay for all amounts due under the notes in cash and we cannot predict the timing of such conversions, the timing of the conversions may impact our future liquidity.

Revolving Credit Agreement On July 27, 2007, the Company entered into a Fourth Amendment to its Second Amended and Restated Credit Agreement (the Credit Agreement) that, among other things, extended the maturity of the Credit Agreement from July 2008 to July 2012, increased the potential Aggregate Revolving Credit Commitment, as defined in the Credit Agreement, from $350 million to a potential commitment of $450 million and reduced certain applicable interest rates and fees charged under the Credit Agreement, including up to $75 million in the form of letters of credit. The Credit Agreement s term was extended to July 27, 2012.

As of February 2, 2008 and February 3, 2007, the Company s total remaining borrowing capacity, after subtracting letters of credit, under the Credit Agreement was $333.2 million and $333.5 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 London Interbank Offering Rate (LIBOR), plus the applicable margin of 0.75% to 1.50% based on the level of total borrowings during the prior three months. Borrowings are collateralized by the assets of the Company, excluding store and distribution center equipment and fixtures that have a net carrying value of $177.2 million as of February 2, 2008.

At February 2, 2008 and February 3, 2007, the prime rate was 6.00% and 8.25%, respectively, and LIBOR was 3.14% and 5.32%, respectively. There were no outstanding borrowings under the Credit Agreement at February 2, 2008 and February 3, 2007.

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 2, 2008, 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 and (c) the borrowing base minus the outstanding loan balance. As of February 2, 2008 and February 3, 2007, the Company had outstanding letters of credit totaling $16.8 million and $16.5 million, respectively.

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

	2007	2006
Balance, fiscal period end	$	$
Average interest rate	6.50%	6.57%
Maximum outstanding during the year	$ 210,208	$ 169,981
Average outstanding during the year	$ 94,185	$ 57,138

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

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

	2007	2006
Third-Party:		
Note payable, due in monthly installments of approximately $4, including interest at 4%, through 2020	$ 662	$ 708
Note payable, due in monthly installments of approximately $5, including interest at 11%, through 2018	378	
Other	174	
Total other debt	1,214	708
Less current portion:	(117)	(46)
Total Other Long-Term Debt	$ 1,097	$ 662

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.

Scheduled principal payments on other long-term debt as of February 2, 2008 are as follows (in thousands):

Fiscal Year	
2008	$ 117
2009	124
2010	119
2011	107
2012	88
Thereafter	659
	$ 1,214

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 $3.8 million, respectively, as of February 2, 2008 and $8.2 million and $4.2 million, respectively, as of February 3, 2007.

Scheduled lease payments under capital lease obligations as of February 2, 2008 are as follows (in thousands):

Fiscal Year	
2008	$ 905
2009	975
2010	953
2011	953
2012	953
Thereafter	11,204
	15,943

Less: amounts representing interest	(8,222)
Present value of net scheduled lease payments	7,721
Less: amounts due in one year	(133)
	$ 7,588

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

10. 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 2028. 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 $267.5 million, $205.8 million and $196.3 million for fiscal 2007, 2006 and 2005, respectively. The Company entered into sale-leaseback transactions related to store fixtures, buildings and equipment that resulted in cash receipts of $28.4 million, $32.5 million and $37.9 million for fiscal 2007, 2006 and 2005, respectively.

Scheduled lease payments due (including lease commitments for 52 stores not yet opened at February 2, 2008) under noncancelable operating leases as of February 2, 2008 are as follows (in thousands):

Fiscal Year	
2008	$ 330,857
2009	346,068
2010	341,636
2011	328,490
2012	315,983
Thereafter	1,950,607
	$ 3,613,641

The Company has subleases related to certain of its operating lease agreements. The Company recognized sublease rental income of $1.1 million, $1.2 million and $1.0 million for fiscal 2007, 2006 and 2005, respectively.

11. Stock-Based Compensation and Employee Stock Plans

Stock Option Plans The Company grants stock options to purchase common stock under the Plans. 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 2, 2008, there were 12,895,754 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 29, 2005	24,208,820	$ 6.24	5.91	$ 259,398
Granted	2,487,888	17.90		
Exercised	(2,640,802)	2.83		
Forfeited / Expired	(777,132)	12.79		
Outstanding, January 28, 2006	23,278,774	$ 7.66	8.72	$ 249,432
Granted	2,756,916	19.61		
Exercised	(5,371,716)	4.30		

Forfeited / Expired	(1,031,146)	14.86		
Outstanding, February 3, 2007	19,632,828	$ 9.88	6.64	$ 324,610
Granted	5,324,866	25.86		
Exercised	(4,769,933)	6.34		
Forfeited / Expired	(911,316)	20.62		
Outstanding, February 2, 2008	19,276,445	$ 14.66	6.35	$ 352,494
Exercisable, February 2, 2008	12,200,666	$ 8.97	5.35	$ 292,385

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

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 2007, 2006 and 2005 was $107.0 million, $106.9 million and $40.2 million, respectively. The total fair value of options vested for 2007, 2006 and 2005 was $38.1 million, $26.2 million and $8.4 million, respectively. The nonvested stock option activity for the year ended February 2, 2008 is presented in the following table:

	Shares	Weighted Average Fair Value
Nonvested, February 3, 2007	8,578,460	$ 6.87
Granted	5,324,866	11.45
Vested	(5,925,811)	6.45
Forfeited	(901,736)	8.98
Nonvested, February 2, 2008	7,075,779	$ 10.40

As of February 2, 2008, total unrecognized stock-based compensation expense related to nonvested stock options was approximately $57.6 million, which is expected to be recognized over a weighted average period of approximately 2.72 years.

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

Additional information regarding options outstanding as of February 2, 2008, is as follows:

	Options Outstanding			Options Exercisable
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price nt-size:10pt;">	Weighted Average Exercise

—

14.3

Other
—

—

(24.6
)

(22.7
)

$
4,444.7

$
4,316.2

$
730.9

$
734.9

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of Danaher Corporation's ("Danaher", the "Company", "we", "us" or "our") financial statements with a narrat from the perspective of Company management. The Company's MD&A is divided into four main sections:

- Information Relating to Forward-Looking Statements
- Overview
- Results of Operations
- Liquidity and Capital Resources

You should read this discussion along with the Company's MD&A and audited financial statements as of and for the year ended December 31, 2012 and Notes thereto, included in the Company's 2012 Annual Report on Form 10-K, and the Company's Consolidated Condensed Financial Statements and related Notes as of and for the three months ended March 29, 2013.

INFORMATION RELATING TO FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this quarterly report, in other documents filed with or furnished by us to the Securities and Exchange Commission ("SEC"), in our press releases, webcasts, conference calls and other communications, are "forward-looking statements" within the meaning of the United States federal securities laws. All statements other than historical factual information are forward-looking statements, including without limitation statements regarding: projections of revenue, expenses, profit, profit margins, tax rates, tax provisions, cash flows, pension and benefit obligations and funding requirements, our liquidity position or other projected financial measures; management's plans and strategies for future operations, including statements relating to anticipated operating performance, cost reductions, restructuring activities, new product and service developments, competitive strengths or market position, acquisitions and related synergies, divestitures, securities offerings, stock repurchases and executive compensation; growth, declines and other trends in markets we sell into; the anticipated impact of adopting new accounting pronouncements; the anticipated impact from and outcome of outstanding claims, legal proceedings, tax audits and other contingent liabilities; foreign currency exchange rates and fluctuations in those rates; general economic conditions; assumptions underlying any of the foregoing; and any other statements that address events or developments that Danaher intends or believes will or may occur in the future. Terminology such as "believe," "anticipate," "should," "could," "intend," "plan," "expects," "estimates," "projects," "may," "possible," "potential," "forecast" and similar references to future periods are intended to identify forward-looking statements, although not all forward-looking statements are accompanied by such words.

Forward-looking statements are based on assumptions and assessments made by our management in light of their experience and perceptions of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Forward-looking statements are not guarantees of future performance and actual results may differ materially from those envisaged by such forward-looking statements. Accordingly, you should not place undue reliance on any such forward-looking statements. Important factors that could cause actual results to differ materially from those envisaged in the forward-looking statements include the following:

- Conditions in the global economy, the markets we serve and the financial markets (including the automatic reductions in U.S. Federal government spending that went into effect during the first quarter of 2013, known as sequestration) may adversely affect our business and financial statements.

- Our restructuring actions could have long-term adverse effects on our business.

- Our growth could suffer if the markets into which we sell our products decline, do not grow as anticipated or experience cyclicality.

- We face intense competition and if we are unable to compete effectively, we may experience decreased demand and decreased market share. Even if we compete effectively, we may be required to reduce prices for our products.
- Our growth depends in part on the timely development and commercialization, and customer acceptance, of new products and product enhancements based on technological innovation.
- Our reputation, ability to do business and financial statements may be impaired by improper conduct by any of our employees, agents or business partners.

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- Any inability to consummate acquisitions at our historical rate and at appropriate prices could negatively impact our growth rate and stock price.
- Our acquisition of businesses could negatively impact our financial statements.
- The indemnification provisions of acquisition agreements by which we have acquired companies may not fully protect us and as a result we may face unexpected liabilities.
- Divestitures could negatively impact our business, and contingent liabilities from businesses that we have sold could adversely affect our financial statements.
- Certain of our businesses are subject to extensive regulation by the U.S. Food and Drug Administration ("FDA") and by comparable agencies of other countries, as well as laws regulating fraud and abuse in the healthcare industry and the privacy and security of health information. Failure to comply with those regulations could adversely affect our reputation and financial statements.
- The healthcare industry and related industries that we serve have undergone, and are in the process of undergoing, significant changes in an effort to reduce costs, which could adversely affect our financial statements.
- Our operations, products and services expose us to the risk of environmental, health and safety liabilities, costs and violations that could adversely affect our financial statements and reputation.
- Our businesses are subject to extensive regulation; failure to comply with those regulations could adversely affect our financial statements and reputation.
- We may be required to recognize impairment charges for our goodwill and other intangible assets.
- Foreign currency exchange rates may adversely affect our financial statements.
- Changes in our tax rates or exposure to additional tax liabilities could affect our profitability. In addition, audits by tax authorities could result in additional tax payments for prior periods.
- We are subject to a variety of litigation and similar proceedings in the course of our business that could adversely affect our financial statements.
- If we do not or cannot adequately protect our intellectual property, or if third parties infringe our intellectual property rights, we may suffer competitive injury or expend significant resources enforcing our rights.
- Third parties may claim that we are infringing or misappropriating their intellectual property rights and we could suffer significant litigation expenses, losses or licensing expenses or be prevented from selling products or services.
- Product defects and unanticipated use or inadequate disclosure with respect to our products could adversely affect our business, reputation and financial statements.
- The manufacture of many of our products is a highly exacting and complex process, and if we directly or indirectly encounter problems manufacturing products, our business could suffer.
- Our indebtedness may limit our operations and our use of our cash flow, and any failure to comply with the covenants that apply to our indebtedness could adversely affect our liquidity and financial condition.

- Adverse changes in our relationships with, or the financial condition, performance or purchasing patterns of, key distributors and other channel partners could adversely affect our financial statements.
- Our financial results are subject to fluctuations in the cost and availability of commodities that we use in our operations.
- If we cannot adjust our manufacturing capacity or the purchases required for our manufacturing activities to reflect changes in market conditions and customer demand, our profitability may suffer. In addition, our reliance upon sole sources of supply for certain materials and components could cause production interruptions, delays and inefficiencies.

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- Changes in governmental regulations may reduce demand for our products or increase our expenses.
- Work stoppages, union and works council campaigns and other labor disputes could adversely impact our productivity and results of operations.
- International economic, political, legal and business factors could negatively affect our financial statements.
- If we suffer loss to our facilities, supply chains, distribution systems or information technology systems due to catastrophe or other events, our operations could be seriously harmed.
- A significant disruption in, or breach in security of, our information technology systems could adversely affect our business.
- Our defined benefit pension plans are subject to financial market risks that could adversely affect our financial statements.

See Part I – Item 1A of the Company's 2012 Annual Report on Form 10-K for a further discussion regarding reasons that actual results may differ materially from the results, developments and business decisions contemplated by our forward-looking statements. Forward-looking statements speak only as of the date of the report, document, press release, webcast, call or other communication in which they are made. We do not assume any obligation to update or revise any forward-looking statement, whether as a result of new information, future events and developments or otherwise.

OVERVIEW

General

As a result of the Company's geographic and industry diversity, the Company faces a variety of opportunities and challenges, including rapid technological development in most of the Company's served markets, the expansion of opportunities in emerging markets (also referred to in this report as "high-growth markets"), trends toward increased utilization of the global labor force, consolidation of the Company's competitors and increasing regulation. The Company defines high-growth markets as developing markets of the world experiencing rapid growth in gross domestic product and infrastructure which includes Eastern Europe, the Middle East, Africa, Latin America and Asia with the exception of Japan and Australia. The Company operates in a highly competitive business environment in most markets, and the Company's long-term growth and profitability will depend in particular on its ability to expand its business in high-growth geographies and high-growth product segments, identify, consummate and integrate appropriate acquisitions, develop innovative and differentiated new products and services with higher gross profit margins, expand and improve the effectiveness of the Company's sales force, continue to reduce costs and improve operating efficiency and quality, and effectively address the demands of an increasingly regulated environment. The Company is making significant investments, organically and through acquisitions, to address the rapid pace of technological change in its served markets and to globalize its manufacturing, research and development and customer-facing resources (particularly in high-growth markets) in order to be responsive to the Company's customers throughout the world and improve the efficiency of the Company's operations.

Business Performance and Outlook

While differences exist among the Company's businesses, on an overall basis, demand for the Company's products and services increased modestly during the first three months of 2013 as compared to 2012 resulting in aggregate year-over-year sales growth from existing businesses. Geographically, year-over-year sales growth rates from existing businesses during the first quarter of 2013 were led primarily by the high-growth markets. Sales in high-growth markets grew at a high-single digit rate in the first three months of 2013 compared to 2012 and represented approximately 24% of the Company's total sales in the first quarter of 2013. Sales growth rates in developed markets declined slightly compared to the first quarter of 2012 with the United States essentially flat and Western Europe and Japan contracting on a year-over-year basis. The Company expects overall market conditions to remain challenging due to the continued macro-economic challenges in Western Europe and the United States. The Company's growing exposure to the high-growth markets should mitigate these negative trends and the Company expects year-over-year sales from existing businesses to grow in the second quarter of 2013 in line with the overall growth rates experienced in 2012 and the first quarter of 2013.

Acquisitions and Divestitures

During the first three months of 2013, the Company acquired one business for total consideration of $12 million in cash, net of cash acquired. The business acquired complements an existing unit of the Industrial Technologies segment. The annual sales of the business acquired at the time of acquisition, based on the company’s revenues for its last completed fiscal year prior to the acquisition, were $11 million. In addition, the Company announced another acquisition of a business to complement an existing unit of the Life Sciences & Diagnostics segment for total consideration of $300 million which closed subsequent to the end of the first quarter.

In 2010, the Company entered into a joint venture with Cooper Industries, plc (“Cooper”), combining certain of the Company's hand tool businesses with Cooper's Tools business to form a new entity called Apex Tool Group, LLC (“Apex”). During the period that Cooper and the Company owned Apex, each of Cooper and the Company owned a 50% interest in Apex and had an equal number of representatives on Apex's Board of Directors. Neither joint venture partner controlled the significant operating and financing activities of Apex. The Company accounted for its investment in the joint venture based on the equity method of accounting. In February 2013, the Company and Cooper sold Apex to an unrelated third party for approximately $1.6 billion. The Company received $797 million from the sale, consisting of cash of $759 million (including $67 million of dividends received during 2013 prior to the closing of the sale) and a note receivable of $38 million. The Company recognized an after-tax gain of $144 million or $0.20 per diluted share in its first quarter 2013 results in connection with this transaction.

Currency Exchange Rates

On average, the U.S. dollar was stronger against other major currencies during the three month periods ended March 29, 2013 as compared to the comparable period of 2012. As a result, currency exchange rates negatively impacted reported sales for the three month period by approximately 1.0% as compared to the comparable period of 2012. If the currency exchange rates in effect as of March 29, 2013 were to prevail throughout the remainder of 2013, currency exchange rates would result in the reduction of the Company’s estimated 2013 revenues by approximately 0.5% on a year-over-year basis. Further strengthening of the U.S. dollar against other major currencies would further adversely impact the Company's sales for the remainder of the year. Weakening of the U.S. dollar against other major currencies would positively impact the Company’s sales on an overall basis.

RESULTS OF OPERATIONS

Consolidated sales for the three months ended March 29, 2013 increased 3.0% compared to the three months ended March 30, 2012. Sales from existing businesses contributed 1.0% growth and sales from acquired businesses contributed 3.0% growth on a year-over-year basis. Currency translation reduced reported sales by 1.0% on a year-over-year basis.

In this report, references to sales from existing businesses refers to sales from continuing operations calculated according to generally accepted accounting principles in the United States (“GAAP”) but excluding (1) sales from acquired businesses and (2) the impact of currency translation. References to sales or operating profit attributable to acquisitions or acquired businesses refer to GAAP sales or operating profit, as applicable, from acquired businesses recorded prior to the first anniversary of the acquisition less the impact from the 2012 divestiture of certain Beckman Coulter, Inc. ("Beckman Coulter") product lines, the sales from which (prior to the divestiture) were included in sales from acquired businesses. The portion of revenue attributable to currency translation is calculated as the difference between (a) the period-to-period change in revenue (excluding sales from acquired businesses) and (b) the period-to-period change in revenue (excluding sales from acquired businesses) after applying current period foreign exchange rates to the prior year period. Sales from existing businesses should be considered in addition to, and not as a replacement for or superior to, sales, and may not be comparable to similarly titled measures reported by other companies. Management believes that reporting the non-GAAP financial measure of sales from existing businesses provides useful information to investors by helping identify underlying growth trends in our business and facilitating easier comparisons of our revenue performance with our performance in prior and future periods and to our peers. The Company excludes the effect of currency translation from sales from existing businesses because currency translation is not under management’s control, is subject to volatility and can obscure underlying business trends, and excludes the effect of acquisitions and related items because the nature, size and number of acquisitions can vary dramatically from period to period and between the Company and its peers and can also obscure underlying business trends and make comparisons of long-term performance difficult. References to sales volume refer to the impact of both price and unit sales.

Operating profit margins were 16.4% for the three months ended March 29, 2013 compared to 17.0% in the comparable period of 2012. Year-over-year operating profit margin comparisons benefited 20 basis points from the favorable impact of higher sales volumes and incremental year-over-year cost savings associated with the restructuring actions taken in the fourth quarter of 2012 and continuing productivity improvement initiatives, net of incremental year-over-year costs associated with various sales, marketing and product development growth investments. The dilutive effect of acquisitions adversely impacted

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operating profit margin comparisons by 45 basis points. In addition, the divestiture of the Apex joint venture in 2013 adversely impacted year-over-year operating profit margin comparisons by 35 basis points.

Business Segments

The following table summarizes sales by business segment for each of the periods indicated ($ in millions):

	Three Months Ended	
	March 29, 2013	March 30, 2012
Test & Measurement	$855.4	$846.4
Environmental	725.3	694.6
Life Sciences & Diagnostics	1,567.4	1,545.9
Dental	479.8	464.7
Industrial Technologies	816.8	764.6
Total	$4,444.7	$4,316.2

TEST & MEASUREMENT

The Company's Test & Measurement segment is a leading global provider of electronic measurement instruments and monitoring, management and optimization tools for communications and enterprise networks and related services. The segment's products are used in the design, development, manufacture, installation, deployment and operation of electronics equipment and communications networks and services. Customers for these products and services include manufacturers of electronic instruments; service, installation and maintenance professionals; manufacturers who design, develop, manufacture and install network equipment; and service providers who implement, maintain and manage communications networks and services. Also included in the Test & Measurement segment are the Company's mobile tool and wheel service businesses.

Test & Measurement Selected Financial Data ($ in millions):

	Three Months Ended			
	March 29, 2013		March 30, 2012	
Sales	$855.4		$846.4	
Operating profit	187.3		191.6	
Depreciation and amortization	33.8		31.2	
Operating profit as a % of sales	21.9	%	22.6	%
Depreciation and amortization as a % of sales	4.0	%	3.7	%

Components of Sales Growth	% Change Three Months Ended March 29, 2013 vs. Comparable 2012 Period	
Existing businesses	—	%
Acquisitions	1.5	%
Currency exchange rates	(0.5	)%
Total	1.0	%

Price increases in the segment contributed 1.0% to sales growth on a year-over-year basis during the three month period and are reflected as a component of the change in sales from existing businesses.

Sales from existing businesses in the segment's instrument businesses declined at a mid-single digit rate during the three months ended March 29, 2013 as compared to the comparable period of 2012, due to lower demand for most product categories. Instrument demand was weak in all major geographies however demand improved sequentially in certain U.S. industrial and certain high-growth markets during the quarter. Year-over-year sales growth rates in the instrument business are

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expected to improve during the remainder of 2013 primarily due to easier comparisons to 2012 growth rates and continued modest sequential demand improvement and new product introductions.
Sales from existing businesses in the segment's communications businesses grew at a low-double digit rate during the first quarter of 2013 on a year-over-year basis, primarily in North America and due largely to strong demand for network management solutions and, to a lesser extent, core network enterprise solutions. Global demand for network security and analysis solutions was also robust during the first quarter of 2013.
Operating profit margins declined 70 basis points during the three months ended March 29, 2013 as compared to the comparable period of 2012. Year-over-year operating profit margin comparisons were adversely impacted by 25 basis points as lower instrument sales volumes and incremental year-over-year costs associated with various sales, marketing and product development growth investments more than offset the favorable impacts of increased sales volumes of communication business products and incremental year-over-year cost savings associated with the restructuring actions taken in the fourth quarter of 2012. The dilutive effect of acquired businesses adversely impacted year-over-year operating profit margin comparisons by 45 basis points.

ENVIRONMENTAL
The Company's Environmental segment provides products that help protect customers' water supply and air quality and serves two primary markets: water quality and retail/commercial petroleum. Danaher's water quality business is a global leader in water quality analysis and treatment, providing instrumentation and disinfection systems to help analyze and manage the quality of ultra pure water, potable water, wastewater, groundwater and ocean water in residential, commercial, industrial and natural resource applications. Danaher's retail/commercial petroleum business is a leading worldwide provider of products and services for the retail/commercial petroleum market including vapor recovery equipment and leak detection systems.
Environmental Selected Financial Data ($ in millions):

	Three Months Ended	
	March 29, 2013	March 30, 2012
Sales	$725.3	$694.6
Operating profit	135.1	129.1
Depreciation and amortization	13.2	11.6
Operating profit as a % of sales	18.6 %	18.6 %
Depreciation and amortization as a % of sales	1.8 %	1.7 %

Components of Sales Growth	% Change Three Months Ended March 29, 2013 vs. Comparable 2012 Period
Existing businesses	1.0 %
Acquisitions	4.0 %
Currency exchange rates	(0.5)%
Total	4.5 %

Price increases in the segment contributed 1.0% to sales growth on a year-over-year basis during the three month period and are reflected as a component of the change in sales from existing businesses.
Sales from existing businesses in the segment's water quality businesses grew at a low-single digit rate during the three months ended March 29, 2013 as compared to the comparable period of 2012, due primarily to strong sales of consumables and related service in North American industrial markets. Improving demand in China and the Middle East also contributed to sales growth during the three month period. Sales growth was partially offset by lower

demand for the business' laboratory and process instruments on a year-over-year basis. Sales in the business’ chemical treatment solutions product line also grew on a year-over-year basis due primarily to continued sales force investments in the U.S. market, and to a lesser extent, continued international expansion. Sales in the business’ ultraviolet water disinfection product line declined during the period on a year-over-year basis, due primarily to lower demand from municipal end markets in most geographic regions.

Sales from existing businesses in the segment's retail petroleum equipment businesses declined slightly during the first quarter of 2013 on a year-over-year basis. Demand for the businesses' dispenser and retail automation products increased in Russia and India but was offset by the impact of lower demand in certain other high-growth markets due to regulatory drivers that drove higher-than-usual levels of demand in the first quarter of 2012. Sales growth from developed markets was essentially flat in the quarter. The retail petroleum equipment businesses are expected to realize positive year-over-year growth rates for the remainder of 2013.
Operating profit margins were flat on a year-over-year basis during the three months ended March 29, 2013. Year-over-year operating profit margin comparisons benefited 45 basis points from the favorable impact of higher sales volumes and incremental year-over-year cost savings associated with the restructuring actions taken in the fourth quarter of 2012 and continuing productivity improvement initiatives, offsetting incremental year-over-year costs associated with various sales, marketing and product development growth investments. The dilutive effect of acquisitions adversely impacted year-over-year operating margin comparisons by 45 basis points.

LIFE SCIENCES & DIAGNOSTICS
The Company's diagnostics businesses offer a broad range of analytical instruments, reagents, consumables, software and services that hospitals, physician's offices, reference laboratories and other critical care settings use to diagnose disease and make treatment decisions. The Company's life sciences businesses offer a broad range of research and clinical tools that scientists use to study cells and cell components to gain a better understanding of complex biological processes. Pharmaceutical and biotechnology companies, universities, medical schools and research institutions use these tools to study the causes of disease, identify new therapies and test new drugs and vaccines.
Life Sciences & Diagnostics Selected Financial Data ($ in millions):

	Three Months Ended	
	March 29, 2013	March 30, 2012
Sales	$1,567.4	$1,545.9
Operating profit	199.3	205.9
Depreciation and amortization	125.2	117.8
Operating profit as a % of sales	12.7%	13.3%
Depreciation and amortization as a % of sales	8.0%	7.6%

Components of Sales Growth	% Change Three Months Ended March 29, 2013 vs. Comparable 2012 Period
Existing businesses	2.5%
Acquisitions/divestitures	0.5%
Currency exchange rates	(1.5)%
Total	1.5%

Year-over-year price increases in the segment had a negligible impact on sales during the three months ended March 29, 2013.
Sales from existing businesses in the segment's diagnostics business grew at a mid-single digit rate during the three months ended March 29, 2013 as compared to the comparable period of 2012 due to increased demand in the clinical, acute care and pathology diagnostic businesses. Strong sales of consumables and automation hardware in the clinical diagnostic business in high-growth markets more than offset weaker year-over-year sales performance in North America and Europe. Continued strong global consumable sales related to the business' installed base of instrumentation as well as robust demand for compact blood gas analyzers drove the majority of the sales growth in

the acute care diagnostic business. Increased demand for the acute care business' cardiac care instruments, particularly in China, also contributed to year-over-year sales growth. The majority of the year-over-year sales growth in the pathology diagnostics business was driven by increased demand for histology systems primarily in high-growth markets, partially offset by lower demand for advanced staining consumables in Europe due to the transition from a distribution to a direct sales model in that region.

Sales from existing businesses in the segment's life sciences businesses grew at a low-single digit rate during the three months ended March 29, 2013 as compared to the comparable period in 2012. Sales of the business' broad range of mass spectrometers grew on a year-over-year basis as sales growth in the applied and clinical research markets, and to a lesser extent in the pharmaceutical market, was partially offset by sales decline in the academic research market. Geographically, sales growth in the mass spectrometry business was strong in China and North America. Strong demand for the business' confocal microscopy instrumentation in Europe, China and Japan was more than offset by lower demand for microscopy equipment in the industrial and medical end markets, primarily in North America.
Operating profit margins decreased 60 basis points during the three months ended March 29, 2013 as compared to the comparable period of 2012. The dilutive effect of acquisitions adversely impacted segment operating profit margins by 65 basis points. Year-over-year operating profit margin comparisons were favorably impacted by 5 basis points from higher sales volumes, restructuring actions taken in the fourth quarter of 2012 and ongoing productivity improvement initiatives, but were largely offset by the impact of the incremental year-over-year costs associated with various sales, marketing and product development growth investments and the new U.S. medical device excise tax that took effect in 2013.

DENTAL
The Company's Dental segment is a leading worldwide provider of a broad range of equipment, consumables and services for the dental market, focused on driving technological innovations that help dental professionals improve clinical outcomes and enhance productivity.
Dental Selected Financial Data ($ in millions):

	Three Months Ended			
	March 29, 2013		March 30, 2012	
Sales	$479.8		$464.7	
Operating profit	62.9		58.9	
Depreciation and amortization	20.9		22.8	
Operating profit as a % of sales	13.1	%	12.7	%
Depreciation and amortization as a % of sales	4.4	%	4.9	%

Components of Sales Growth	% Change Three Months Ended March 29, 2013 vs. Comparable 2012 Period	
Existing businesses	2.5	%
Acquisitions	1.0	%
Currency exchange rates	(0.5	)%
Total	3.0	%

Price increases in the segment contributed 1.5% to sales growth on a year-over-year basis during the three month period and are reflected as a component of the change in sales from existing businesses.
Sales from existing businesses in the segment's dental consumables businesses grew at a low-single digit rate during the three months ended March 29, 2013 as compared to the comparable period of 2012, primarily as a result of increased sales of general dentistry consumables, infection prevention and implant products. Geographically, sales of dental consumables were strong in North America, China and other high-growth markets and contracted slightly in Europe on a year-over-year basis. Sales from existing businesses in the segment's dental equipment business grew at a mid-single digit rate on a year-over-year basis as a result of increased demand for imaging products, primarily in North America, as well as higher year-over-year sales of instruments. During the period, sales increased in all major product categories on a year-over-year basis as increased demand in North America and high-growth markets more

than offset lower equipment demand in Europe.

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Operating profit margins increased 40 basis points during the three months ended March 29, 2013 as compared to the comparable period of 2012. Year-over-year operating profit margin comparisons benefited 20 basis points from the favorable impact of higher sales volumes and incremental year-over-year cost savings associated with the restructuring actions taken in the fourth quarter of 2012 and continuing productivity improvement initiatives, offsetting incremental year-over-year costs associated with various sales, marketing and product development growth investments. Net higher overall operating profit margins of acquired businesses also favorably impacted year-over-year comparisons by 20 basis points.

INDUSTRIAL TECHNOLOGIES

The Company's Industrial Technologies segment designs and manufactures components and systems that are typically incorporated by original equipment manufacturers and system integrators for sale into a diverse set of applications and end-markets. The businesses in this segment also provide service and support, including helping customers with integration and installation and providing services to ensure performance and up-time. The Industrial Technologies segment consists of two strategic lines of business, product identification and motion, as well as the sensors and controls, energetic materials and engine retarder businesses. The Company sold its ASI business in January 2012 and its KEO business in February 2012. These businesses were previously reported as part of the Industrial Technologies segment. The results of these discontinued operations are excluded from all periods presented in the financial information provided in the tables below.

Industrial Technologies Selected Financial Data ($ in millions):

	Three Months Ended			
	March 29, 2013		March 30, 2012	
Sales	$816.8		$764.6	
Operating profit	170.9		157.8	
Depreciation and amortization	21.8		17.4	
Operating profit as a % of sales	20.9	%	20.6	%
Depreciation and amortization as a % of sales	2.7	%	2.3	%

Components of Sales Growth	% Change Three Months Ended March 29, 2013 vs. Comparable 2012 Period	
Existing businesses	(1.5	)%
Acquisitions	8.5	%
Currency exchange rates	—	%
Total	7.0	%

Price increases in the segment contributed 1.0% to sales growth on a year-over-year basis during the three months ended March 29, 2013 and are reflected as a component of the change in sales from existing businesses.

Sales from existing businesses in the segment's product identification businesses grew at a mid-single digit rate during the three months ended March 29, 2013 as compared to the comparable period of 2012, due primarily to continued demand for marking and coding equipment and related consumables. Geographically, the business experienced strong growth in Europe, North America and China. Increased year-over-year demand for the business' integrated packaging solutions product lines also contributed to the segment's existing business' sales growth in the three month period. Sales in these product lines grew in all major geographies with particular strength in high-growth markets. The Company's acquisition of X-Rite, Incorporated, a global leader in color measurement technology, in the second quarter of 2012 has expanded the product identification business into a new, adjacent market and has broadened the sales and earnings growth opportunities for the business by expanding the business' product line diversity as well as through the potential acquisition of complementary businesses.

Sales from existing businesses in the segment’s motion businesses declined at a high-single digit rate during the three months ended March 29, 2013 as compared to the comparable period of 2012 due to continued soft demand in the majority of end markets served, particularly technology-related end markets. Year-over-year sales declines in the industrial automation and engineered solutions product lines were partially offset by sales growth in factory automation.

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Sales from existing businesses in the segment's other businesses collectively declined at a mid-single digit rate during the three months ended March 29, 2013 as compared to the comparable period of 2012. Lower demand in the segment's sensors and controls and engine retarder businesses was partially offset by higher sales in the segment's energetic materials business.
Operating profit margins increased 30 basis points during the three months ended March 29, 2013 as compared to the comparable period of 2012. Higher sales volumes and incremental year-over-year cost savings associated with the restructuring actions taken in the fourth quarter of 2012 and continuing productivity improvement initiatives, net of incremental year-over-year costs associated with various sales, marketing and product development growth investments, favorably impacted operating profit margins by 105 basis points on a year-over-year basis. The net dilutive effect of acquired businesses adversely impacted year-over-year operating profit margin comparisons by 75 basis points.

COST OF SALES AND GROSS PROFIT

($ in millions)	Three Months Ended			
	March 29, 2013		March 30, 2012	
Sales	$4,444.7		$4,316.2	
Cost of sales	(2,119.0	)	(2,080.7	)
Gross profit	2,325.7		2,235.5	
Gross profit margin	52.3	%	51.8	%

Gross profit margin increased 50 basis points on a year-over-year basis for the three month period ended March 29, 2013, due primarily to the favorable impact of higher year-over-year sales volumes, incremental year-over-year cost savings associated with fourth quarter 2012 restructuring activities and continued productivity improvements. In 2010, the U.S. government passed health care reform legislation which, among other provisions, imposes a 2.3% excise tax on the sale or importation of certain medical devices. These provisions apply to various products in the Company's Life Sciences and Diagnostics and Dental segments and became effective in 2013. The excise tax increased the Company's cost of sales for the three month period ended March 29, 2013 by approximately $8 million compared to 2012 and is expected to increase the Company's cost of sales for the full twelve months of 2013 by $35 million. A portion of the medical devices excise tax was recovered through price increases implemented during the quarter.

OPERATING EXPENSES

($ in millions)	Three Months Ended			
	March 29, 2013		March 30, 2012	
Sales	$4,444.7		$4,316.2	
Selling, general and administrative expenses	1,298.4		1,244.9	
Research and development expenses	296.4		270.1	
SG&A as a % of sales	29.2	%	28.8	%
R&D as a % of sales	6.7	%	6.3	%

Selling, general and administrative expenses as a percentage of sales increased 40 basis points on a year-over-year basis for the three months ended March 29, 2013. Continued investments in the Company's sales and marketing growth initiatives was partially offset by increased leverage of the Company's general and administrative cost base resulting from higher sales and incremental year-over-year cost savings associated with fourth quarter 2012 restructuring activities.

Research and development expenses consist principally of internal and contract engineering personnel costs. On a year-over-year basis, research and development expenses increased 40 basis points for the three months ended

March 29, 2013, due primarily to incremental year-over-year investments in the Company's new product development initiatives.

INTEREST COSTS AND FINANCING TRANSACTIONS

For a discussion of the Company’s outstanding indebtedness, refer to Note 7 of the Consolidated Condensed Financial Statements.

Interest expense of $39 million for the three months ended March 29, 2013 was essentially flat on a year-over-year basis.

INCOME TAXES

The Company's effective tax rate related to continuing operations for the three months ended March 29, 2013 and March 30, 2012 was 25.0% and 25.3%, respectively. The effective tax rates in 2013 and 2012 are lower than the U.S. federal statutory rate of 35% due principally to the Company's earnings outside the United States that are indefinitely reinvested and taxed at rates lower than the U.S. federal statutory rate. A higher tax rate associated with the gain on the sale of the Apex joint venture resulted in a 3.5% increase in the reported tax rate for the three months ended March 29, 2013. The Company also recorded a tax benefit of approximately $19 million ($0.03 per share on a diluted basis) primarily related to the retroactive reinstatement of certain tax benefits and credits from the enactment of the American Tax Relief Act of 2012, which was partially offset by changes in estimates related to prior period uncertain tax positions. The net benefit recorded resulted in a 2.0% reduction in the reported tax rate for the three months ended March 29, 2013.

The effective tax rate from continuing operations for the balance of 2013 is forecasted to be approximately 23.5% based on the projected mix of earnings before tax by jurisdiction, excluding the impact of any matters that would be treated as "discrete." The mix of earnings projections by jurisdiction could fluctuate during the year. In addition, the tax effects of significant unusual items, including accruals related to tax contingencies, the resolution of tax matters around the world, tax audit settlements, statute of limitation expirations and changes in tax regulations, are reflected in the period in which they occur. As a result, it is reasonably possible that the actual effective tax rate used for financial reporting purposes may change in future periods.

INFLATION

The effect of inflation on the Company's revenues and net earnings was not significant in the three months ended March 29, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Management assesses the Company's liquidity in terms of its ability to generate cash to fund its operating, investing and financing activities. Following is an overview of the Company's cash flows and liquidity for the three months ended March 29, 2013:

Overview of Cash Flows and Liquidity

($ in millions)	Three Months Ended	
	March 29, 2013	March 30, 2012
Total operating cash flows provided by continuing operations	$636.5	$651.4
Cash paid for acquisitions	$(12.1)	$(55.7)
Payments for additions to property, plant and equipment	(116.3)	(117.8)
Proceeds from sale of unconsolidated joint venture	692.0	—
Proceeds from sale of discontinued operations	—	337.5
All other investing activities	(8.9)	2.7
Net cash provided by investing activities	$554.7	$166.7
Proceeds from issuance of common stock	$54.3	$71.0
Payment of dividends	—	(17.3)
Net repayments of borrowings (maturities of 90 days or less)	(764.3)	(362.9)
Repayments of borrowings (maturities longer than 90 days)	(0.5)	(1.4)
Net cash used in financing activities	$(710.5)	$(310.6)

- Operating cash flows from continuing operations, a key source of the Company's liquidity, decreased $15 million, or 2%, during the first quarter of 2013 as compared to the first quarter of 2012.

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- The net repayment of borrowings with maturities of 90 days or less constituted the most significant use of cash during the first three months of 2013. The Company repaid $764 million of such borrowings during the period, primarily commercial paper borrowings.

- In February 2013, the Company sold its investment in Apex, an unconsolidated joint venture. Aggregate cash proceeds received during the first three months of 2013 in connection with the sale were $759 million (including $67 million of dividends received during 2013 prior to the closing of the sale).

- The Company acquired one business during the first quarter of 2013 for total consideration (net of cash acquired) of $12 million.

- The Company's 2012 restructuring activities used $42 million in cash during the first three months of 2013.

- As of March 29, 2013, the Company held $2.1 billion of cash and cash equivalents.

Operating Activities

The Company continues to generate substantial cash from operating activities and believes that its operating cash flow and other sources of liquidity will be sufficient to allow it to continue investing in existing businesses, consummating strategic acquisitions, paying interest and servicing debt and managing its capital structure on a short and long-term basis. Cash flows from operating activities can fluctuate significantly from period to period as working capital needs and the timing of payments for items such as income taxes, restructuring activities, pension funding and other items impact reported cash flows.

Operating cash flows from continuing operations were $637 million for the first three months of 2013, a decrease of $15 million, or 2% as compared to the comparable period of 2012. The year-over-year change in operating cash flows was primarily attributable to the following factors:

- Earnings from continuing operations increased by $172 million in the first quarter of 2013 as compared to the first quarter of 2012. The Company realized a $230 million pre-tax gain on the sale of the Apex joint venture, the proceeds for which are shown in the investing activities section of the Statement of Cash Flows and therefore do not contribute to operating cash flows.

- Earnings for the first three months of 2013 reflected an increase of $15 million of depreciation and amortization expense as compared to the comparable period of 2012. Amortization expense primarily relates to the amortization of intangible assets acquired in connection with acquisitions. Depreciation expense relates to both the Company's manufacturing and operating facilities as well as instrumentation leased to customers under operating-type lease arrangements. Depreciation and amortization expense decreases earnings without a corresponding impact to operating cash flows.

- The aggregate of trade accounts receivable, inventories and trade accounts payable provided $27 million in operating cash flows during the first three months of 2013, compared to the comparable period of 2012 during which these items provided $45 million in operating cash flows. The amount of cash flow generated from or used by the aggregate of trade accounts receivable, inventories and trade accounts payable depends upon how effectively the Company manages the cash conversion cycle, which effectively represents the number of days that elapse from the day it pays for the purchase of raw materials and components to the collection of cash from its customers.

- Cash income tax payments from continuing operations were approximately $3 million higher during the first quarter of 2013 as compared to the first quarter of 2012.

- During the first three months of 2013, the Company paid $42 million related to its 2012 restructuring activities.

Investing Activities

Cash flows relating to investing activities consist primarily of cash used for acquisitions and capital expenditures and cash proceeds from divestitures of businesses or assets.

Net cash provided by investing activities was $555 million during the first three months of 2013 compared to approximately $167 million of cash provided in the first three months of 2012. For a discussion of the Company’s acquisition during the first three months of 2013 and the divestiture of the Company's ownership interest in Apex, refer to “—Overview.”

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Capital expenditures for property, plant and equipment remained relatively consistent on a year-over-year basis for the first quarter of 2013 compared to 2012. For full year 2013, the Company expects capital spending to approximate $500 million, though actual expenditures will ultimately depend on business conditions.

Financing Activities and Indebtedness

Cash flows from financing activities consist primarily of proceeds from the issuance of commercial paper, common stock and debt, excess tax benefits from stock-based compensation, payments of principal on indebtedness, payments for repurchases of common stock and payments of dividends to shareholders. Financing activities used cash of $711 million during the first quarter of 2013 compared to $311 million used during the first quarter of 2012, due primarily to the net repayment of commercial paper borrowings.

For a description of the Company's outstanding debt as of March 29, 2013, refer to Note 7 of the Consolidated Condensed Financial Statements. As of March 29, 2013, the Company was in compliance with all of its debt covenants.

The Company satisfies any short-term liquidity needs that are not met through operating cash flow and available cash primarily through issuances of commercial paper under its U.S. and Euro commercial paper programs. As of March 29, 2013, borrowings outstanding under the Company's U.S. commercial paper program had a weighted average annual interest rate of 0.2% and a weighted average remaining maturity of approximately twenty-three days. As commercial paper obligations mature, the Company anticipates issuing additional short-term commercial paper obligations to refinance all or part of these borrowings. There was no commercial paper outstanding under the Euro commercial paper program as of March 29, 2013. The Company classified its borrowings outstanding under the commercial paper programs as of March 29, 2013, as well as its floating rate senior notes due June 2013 and its Eurobond notes due July 2013, as long-term debt in the accompanying Consolidated Condensed Balance Sheet as the Company has the intent and ability, as supported by availability under the Credit Facility referenced below, to refinance these borrowings for at least one year from the balance sheet date.

Credit support for the commercial paper program is provided by a $2.5 billion unsecured multi-currency revolving credit facility with a syndicate of banks that expires on July 15, 2016 (the "Credit Facility"). The Credit Facility can also be used for working capital and other general corporate purposes. As of March 29, 2013, no borrowings were outstanding under the Credit Facility and the Company was in compliance with all covenants under the facility. In addition to the Credit Facility, the Company has entered into reimbursement agreements with various commercial banks to support the issuance of letters of credit.

The Company has filed a "well-known seasoned issuer" shelf registration statement on Form S-3 to register an indeterminate amount of debt securities, common stock, preferred stock, warrants, depositary shares, purchase contracts and units for future issuance. The Company expects to use the net proceeds from future securities sales off this shelf for general corporate purposes, including without limitation reduction or refinancing of debt or other corporate obligations, acquisitions, capital expenditures, share repurchases and dividends, and working capital.

On May 11, 2010, the Company's Board of Directors (the "Board") authorized the repurchase of up to 20 million shares of the Company's common stock from time to time on the open market or in privately negotiated transactions. For additional details regarding this stock repurchase authorization, please see "Unregistered Sales of Equity Securities and Use of Proceeds" in Part II - Item 2 of this Quarterly Report on Form 10-Q. As of March 29, 2013, the Company had approximately 7.5 million shares remaining for stock repurchases under the existing Board authorization.

The Company made no cash payments for dividends during the first three months of 2013 as the Company's Board determined to accelerate the quarterly dividend that would normally have been paid in January 2013 and paid it in December 2012 instead. The Company has declared a regular quarterly dividend of $0.025 per share payable on April 26, 2013 to holders of record on March 28, 2013.

Cash and Cash Requirements

As of March 29, 2013, the Company held $2.1 billion of cash and cash equivalents that were invested in highly liquid investment grade debt instruments with a maturity of 90 days or less with an approximate weighted average annual interest rate of 0.2%. $817 million of this amount was held within the United States and $1.3 billion was held outside of the United States. The Company will continue to have cash requirements to support working capital needs, capital expenditures and acquisitions, to pay interest and service debt, pay taxes, fund its restructuring activities and pension plans as required, repurchase shares of the Company's common stock, pay dividends to shareholders and support other business needs. The Company generally intends to use available cash and internally generated funds to meet these cash requirements, but in the event that additional liquidity is required, particularly in connection with acquisitions, the Company may also borrow under its commercial paper program or the Credit Facility, enter into new credit facilities and either borrow directly thereunder or use such credit facilities to backstop additional borrowing capacity under its commercial paper program and/or access the capital markets as needed. The Company also may from time to time access the capital markets to take advantage of favorable interest rate environments or other market conditions. With respect to the Eurobond Notes and the 2013 Notes, each of which matures in 2013, the Company expects to repay the principal amounts when due under these notes using available cash, proceeds from the issuance of commercial paper and/or proceeds from other debt issuances.

While repatriation of some cash held outside the United States may be restricted by local laws, most of the Company's foreign cash balances could be repatriated to the United States but, under current law, could be subject to U.S federal income taxes, less applicable foreign tax credits. For most of its foreign subsidiaries, the Company makes an election regarding the amount of earnings intended for indefinite reinvestment, with the balance available to be repatriated to the United States. A deferred tax liability has been accrued for the funds that are available to be repatriated to the United States. No provisions for U.S. income taxes have been made with respect to earnings that are planned to be reinvested indefinitely outside the United States, and the amount of U.S. income taxes that may be applicable to such earnings is not readily determinable given the various tax planning alternatives the Company could employ if it repatriated these earnings. The cash that the Company's foreign subsidiaries hold for indefinite reinvestment is generally used to finance foreign operations and investments, including acquisitions. As of March 29, 2013, management believes that it has sufficient liquidity to satisfy its cash needs, including its cash needs in the United States.

During 2013, the Company’s cash contribution requirements for its U.S. defined benefit pension plan are not expected to be significant and the Company’s cash contribution requirements for its non-U.S. defined benefit pension plans are expected to be approximately $52 million. The ultimate amounts to be contributed depend upon, among other things, legal requirements, underlying asset returns, the plan’s funded status, the anticipated tax deductibility of the contribution, local practices, market conditions, interest rates and other factors.

CRITICAL ACCOUNTING POLICIES

There were no material changes during the quarter ended March 29, 2013 to the items that the Company disclosed as its critical accounting policies and estimates in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s 2012 Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk appear in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Financial Instruments and Risk Management,” in the Company’s 2012 Annual Report on Form 10-K. There were no material changes during the quarter ended March 29, 2013 to this information reported in the Company’s 2012 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

The Company’s management, with the participation of the Company’s President and Chief Executive Officer, and Executive Vice President and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on such evaluation, the Company’s President and Chief Executive Officer, and Executive Vice President and Chief Financial Officer, have concluded that, as of the end of such period, the Company’s disclosure controls and procedures were effective.

There have been no changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company’s most recent completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS

Information regarding risk factors appears in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Information Related to Forward-Looking Statements,” in Part I — Item 2 of this Form 10-Q and in Part I — Item 1A of Danaher’s 2012 Annual Report on Form 10-K.

There were no material changes during the quarter ended March 29, 2013 to the risk factors described in Danaher's 2012 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no repurchases of equity securities during the first quarter of 2013. On May 11, 2010, the Company's Board of Directors authorized the repurchase of up to 20 million shares of the Company's common stock from time to time on the open market or in privately negotiated transactions. There is no expiration date for the Company's repurchase program. The timing and amount of any shares repurchased will be determined by the Company's management based on its evaluation of market conditions and other factors. The repurchase program may be suspended or discontinued at any time. Any repurchased shares will be available for use in connection with the Company's equity compensation plans (or any successor plan) and for other corporate purposes. As of March 29, 2013, approximately 7.5 million shares remained available for repurchase pursuant to this program.

During the first quarter of 2013, holders of certain of the Company’s Liquid Yield Option Notes (“LYONs”) converted such LYONs into an aggregate of 3,099,416 shares of Danaher common stock, par value $0.01 per share. In each case, the shares of common stock were issued solely to existing security holders upon conversion of the LYONs pursuant to the exemption from registration provided under Section 3(a)(9) of the Securities Act of 1933, as amended.

ITEM 6. EXHIBITS

(a) Exhibits:

3.1	Restated Certificate of Incorporation of Danaher Corporation (1)
3.2	Amended and Restated By-laws of Danaher Corporation (2)
10.1	Danaher Corporation Senior Leaders Severance Pay Plan, as amended and restated*
11.1	Computation of per-share earnings (3)
12.1	Calculation of ratio of earnings to fixed charges
31.1	Certification of Chief Executive Officer Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document (4)
101.SCH	XBRL Taxonomy Extension Schema Document (4)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (4)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (4)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (4)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (4)

* Indicates management contract or compensatory plan, contract or arrangement.

(1) Incorporated by reference from Exhibit 3.1 to Danaher Corporation's Quarterly Report on Form 10-Q for the quarter ended June 29, 2012 (Commission File Number: 1-8089).

(2) Incorporated by reference from Exhibit 3.2 to Danaher Corporation’s Annual Report on Form 10-K for the year ended December 31, 2011 (Commission File Number: 1-8089).

(3) See Note 12, “Net Earnings Per Share from Continuing Operations”, to our Consolidated Condensed Financial Statements.

(4) Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Condensed Balance Sheets as of March 29, 2013 and December 31, 2012, (ii) Consolidated Condensed Statements of Earnings for the three months ended March 29, 2013 and March 30,

2012, (iii) Consolidated Condensed Statements of Comprehensive Income for the three months ended March 29, 2013 and March 30, 2012, (iv) Consolidated Condensed Statement of Stockholders' Equity for the three months ended March 29, 2013, (v) Consolidated Condensed Statements of Cash Flows for the three months ended March 29, 2013 and March 30, 2012, and (vi) Notes to Consolidated Condensed Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	DANAHER CORPORATION:
Date: April 17, 2013	By: /s/ Daniel L. Comas Daniel L. Comas Executive Vice President and Chief Financial Officer
Date: April 17, 2013	By: /s/ Robert S. Lutz Robert S. Lutz Senior Vice President and Chief Accounting Officer

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