

DICKS SPORTING GOODS INC

Form 10-Q

November 15, 2006

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

FORM 10-Q

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

For the Quarterly Period Ended October 28, 2006

OR

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

For the transition period from _____ to _____.

Commission File No. 001-31463

DICK S SPORTING GOODS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
incorporation or Organization)

16-1241537

(I.R.S. Employer
Identification No.)

300 Industry Drive, RIDC Park West, Pittsburgh, Pennsylvania 15275

(Address of Principal Executive Offices)

(724) 273-3400

(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares of common stock, par value \$0.01 per share, and Class B common stock, par value \$0.01 per share, outstanding as of November 6, 2006 was 37,974,517 and 13,542,845, respectively.

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

	13 Weeks Ended		39 Weeks Ended	
	October 28, 2006	October 29, 2005	October 28, 2006	October 29, 2005
Net sales	\$ 708,343	\$ 582,665	\$ 2,087,888	\$ 1,775,480
Cost of goods sold, including occupancy and distribution costs	517,008	429,211	1,511,490	1,295,638
GROSS PROFIT	191,335	153,454	576,398	479,842
Selling, general and administrative expenses	167,393	136,564	478,868	392,282
Pre-opening expenses	8,333	6,022	14,936	10,259
Merger integration and store closing costs				37,790
INCOME FROM OPERATIONS	15,609	10,868	82,594	39,511
Gain on sale of investment				(1,844)
Interest expense, net	2,617	3,896	7,772	9,771
INCOME BEFORE INCOME TAXES	12,992	6,972	74,822	31,584
Provision for income taxes	5,197	2,789	29,929	12,634
NET INCOME	\$ 7,795	\$ 4,183	\$ 44,893	\$ 18,950
EARNINGS PER COMMON SHARE:				
Basic	\$ 0.15	\$ 0.08	\$ 0.88	\$ 0.38
Diluted	\$ 0.14	\$ 0.08	\$ 0.82	\$ 0.35
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	51,272	50,120	50,812	49,652
Diluted	55,437	53,947	54,973	53,917

See accompanying notes to unaudited consolidated financial statements.

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DICKS SPORTING GOODS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	October 28, 2006 (unaudited)	January 28, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 35,137	\$ 36,564
Accounts receivable, net	62,922	29,365
Income taxes receivable	16,100	
Inventories, net	787,103	535,698
Prepaid expenses and other current assets	19,241	11,961
Deferred income taxes		429
Total current assets	920,503	614,017
Property and equipment, net	425,970	370,277
Construction in progress - leased facilities	22,229	7,338
Goodwill	156,628	156,628
Other assets	52,455	39,529
TOTAL ASSETS	\$ 1,577,785	\$ 1,187,789
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 384,727	\$ 253,395
Accrued expenses	190,370	136,520
Deferred revenue and other liabilities	50,461	62,792
Income taxes payable		18,381
Current portion of other long-term debt and capital leases	141	181
Total current liabilities	625,699	471,269
LONG-TERM LIABILITIES:		
Senior convertible notes	172,500	172,500
Revolving credit borrowings	101,823	
Other long-term debt and capital leases	8,412	8,520
Non-cash obligations for construction in progress - leased facilities	22,229	7,338
Deferred revenue and other liabilities	140,793	113,369
Total long-term liabilities	445,757	301,727
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock		
Common stock	380	365

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Class B common stock	135	137
Additional paid-in capital	256,091	209,526
Retained earnings	247,735	202,842
Accumulated other comprehensive income	1,988	1,923
Total stockholders' equity	506,329	414,793
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,577,785	\$ 1,187,789

See accompanying notes to unaudited consolidated financial statements.

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DICKS SPORTING GOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED
(Dollars in thousands)

	13 Weeks Ended		39 Weeks Ended	
	October 28, 2006	October 29, 2005	October 28, 2006	October 29, 2005
NET INCOME	\$ 7,795	\$ 4,183	\$ 44,893	\$ 18,950
OTHER COMPREHENSIVE INCOME:				
Unrealized gain (loss) on available-for-sale securities, net of tax	626	(355)	65	932
Reclassification adjustment for gains realized in net income due to the sale of available-for-sale securities, net of tax				(1,199)
COMPREHENSIVE INCOME	\$ 8,421	\$ 3,828	\$ 44,958	\$ 18,683

See accompanying notes to unaudited consolidated financial statements.

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DICKS SPORTING GOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY UNAUDITED
(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	34,790,358	\$ 348	14,039,529	\$ 140	\$ 181,321	\$ 129,862	\$ 1,996	\$ 313,667
Exchange of Class B common stock for common stock	308,584	3	(308,584)	(3)				
Sale of common stock under stock plan	125,989	1			3,675			3,676
Exercise of stock options, including tax benefit of \$14,678	1,320,401	13			22,078			22,091
Tax benefit on convertible note bond hedge					2,452			2,452
Net income						72,980		72,980
Unrealized gain on securities available-for-sale, net of taxes of \$606							1,126	1,126
Reclassification adjustment For gains realized in net income due to the sale of securities available-for-sale, net of taxes of \$645							(1,199)	(1,199)
BALANCE, January 28, 2006	36,545,332	\$ 365	13,730,945	\$ 137	\$ 209,526	\$ 202,842	\$ 1,923	\$ 414,793
Exchange of Class B common stock for common stock	188,100	2	(188,100)	(2)				

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Sale of common stock under stock plan	74,252	1		2,097				2,098
Exercise of stock options	1,159,609	12		11,026				11,038
Tax benefit on convertible note bond hedge				1,951				1,951
Net income						44,893		44,893
Stock-based compensation				18,719				18,719
Total tax benefit from exercise of stock options				12,772				12,772
Unrealized gain on securities available-for-sale, net of taxes of \$35							65	65
BALANCE, October 28, 2006	37,967,293	\$ 380	13,542,845	\$ 135	\$ 256,091	\$ 247,735	\$ 1,988	\$ 506,329

See accompanying notes to unaudited consolidated financial statements

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

	39 Weeks Ended	
	October 28, 2006	October 29, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 44,893	\$ 18,950
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	39,378	36,542
Deferred income taxes	(11,109)	(13,983)
Stock-based compensation	18,719	
Excess tax benefit from stock-based compensation	(11,776)	
Tax benefit from exercise of stock options	996	14,193
Gain on sale of investment		(1,844)
Other non-cash items	1,951	1,841
Changes in assets and liabilities:		
Accounts receivable	5,947	(17,449)
Inventories	(251,405)	(217,051)
Prepaid expenses and other assets	(9,546)	(4,940)
Accounts payable	128,303	96,778
Accrued expenses	32,353	7,348
Income taxes payable	(5,663)	
Deferred construction allowances	26,554	3,623
Deferred revenue and other liabilities	(3,646)	3,608
Net cash provided by (used in) operating activities	5,949	(72,384)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(136,175)	(93,716)
Proceeds from sale-leaseback transactions	14,075	18,070
Increase in recoverable costs from developed properties	(14,892)	(662)
Proceeds from sale of investment		1,922
Net cash used in investing activities	(136,992)	(74,386)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Revolving credit borrowings, net	101,823	126,476
Payments on other long-term debt and capital leases	(148)	(345)
Proceeds from sale of common stock under employee stock purchase plan	2,098	2,135
Proceeds from exercise of stock options	11,038	6,804
Excess tax benefit from stock-based compensation	11,776	
Increase in bank overdraft	3,029	24,823
Net cash provided by financing activities	129,616	159,893

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NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,427)	13,123
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	36,564	18,886
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 35,137	\$ 32,009
Supplemental non-cash investing and financing activities:		
Construction in progress leased facilities	\$ 14,891	\$ (9,709)
Accrued property and equipment	\$ 21,497	\$ (10,286)
Cash paid for interest	\$ 6,905	\$ 12,464
Cash paid for income taxes	\$ 60,940	\$ 4,304
See accompanying notes to unaudited consolidated financial statements.		

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

1. Company

Dick s Sporting Goods, Inc. (together with its subsidiaries, the Company) is a specialty retailer selling sporting goods, footwear and apparel through its 294 stores in 34 states primarily throughout the Eastern half of the United States. Unless otherwise specified, any reference to year is to our fiscal year and when used in this Form 10-Q and unless the context otherwise requires, the terms Dick s, we, us, the Company and our refer to Dick s Sporting Goods, Inc. wholly owned subsidiaries.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by us, in accordance with the requirements for Form 10-Q and do not include all the disclosures normally required in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. The interim financial information as of October 28, 2006 and for the 13 and 39 weeks ended October 28, 2006 and October 29, 2005 is unaudited and has been prepared on the same basis as the audited financial statements. In the opinion of management, such unaudited information includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the interim financial information. This financial information should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended January 28, 2006 dated March 23, 2006 as filed with the Securities and Exchange Commission. Operating results for the 13 and 39 weeks ended October 28, 2006 are not necessarily indicative of the results that may be expected for the year ending February 3, 2007 or any other period.

3. Summary of Significant Accounting Policies

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

Prior to the January 29, 2006 adoption of the Financial Accounting Standards Board (FASB) Statement No. 123(R), Share-Based Payment (SFAS 123R), the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees and related interpretations. Accordingly, because the exercise price of the option was equal to or greater than the market value of the underlying common stock on the date of grant, and any purchase discounts under the Company s ESPP plan were within statutory limits, no compensation expense was recognized by the Company for stock-based compensation. As permitted by SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), stock-based compensation was included as a proforma disclosure in the notes to the consolidated financial statements. Effective January 29, 2006, the Company adopted the fair value recognition provisions of SFAS 123R, using the modified-prospective transition method. Under this transition method, stock-based compensation expense was recognized in the consolidated financial statements for granted, modified, or settled stock options and for expense related to the ESPP, since the related purchase discount exceeded the amount allowed under SFAS 123R for non-compensatory treatment. The provisions of SFAS 123R apply to new stock options and stock options outstanding, but not yet vested, on the effective date of January 29, 2006. Results for prior periods have not been restated, as provided for under the modified-prospective transition method.

Total stock-based compensation expense recognized for the 13 weeks ended October 28, 2006 was \$6.2 million before income taxes and consisted of stock option and ESPP expense of \$5.9 million and \$0.3 million, respectively. Total stock-based compensation expense recognized for the 39 weeks ended October 28, 2006 was \$18.7 million before income taxes and consisted of stock option and ESPP expense of \$17.8 million and \$0.9 million, respectively. The expense was recorded in selling, general and administrative expenses in the consolidated statements of income. The related total tax benefit was \$2.4 million and \$7.2 million for the 13 and 39 weeks ended October 28, 2006, 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

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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.

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 for the 13 and 39 weeks ended October 29, 2005 (dollars in thousands, except per share data):

	13 Weeks Ended October 29, 2005 ⁽¹⁾	39 Weeks Ended October 29, 2005 ⁽¹⁾
Net income, as reported	\$ 4,183	\$ 18,950
Deduct: stock-based compensation expense, net of tax	(3,277)	(10,202)
Proforma net income	\$ 906	\$ 8,748
Net income per common share basic:		
As reported	\$ 0.08	\$ 0.38
Deduct: stock-based compensation expense, net of tax	(0.07)	(0.21)
Proforma	\$ 0.02	\$ 0.18
Net income per common share diluted:		
As reported	\$ 0.08	\$ 0.35
Deduct: stock-based compensation expense, net of tax	(0.06)	(0.19)
Proforma	\$ 0.02	\$ 0.16

(1) Column does not add due to rounding.

Disclosures for the period ended October 28, 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 and fair values for the 13 weeks ended October 28, 2006 and October 29, 2005:

**Employee Stock
Option**