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

Table of Contents

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).

TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

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

Table of Contents

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.

Table of Contents

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.

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.

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 .

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.

Table of Contents

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.

10

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.

11

Table of Contents

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.

Table of Contents

ITEM 1A. RISK FACTORS

Risks and Uncertainties

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

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

- large format sporting goods stores;
- traditional sporting goods stores and chains;
- specialty sporting goods shops and pro shops;
- mass merchandisers, warehouse clubs, discount stores and department stores; and
- catalog and Internet-based retailers.

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

Table of Contents

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

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

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.

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.

Table of Contents

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.

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.

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.

Table of Contents

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

Table of Contents

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

Table of Contents

The number of holders of record of shares of the Company s common stock and Class B common stock as of March 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.

Table of Contents

	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.

Table of Contents

(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.

Table of Contents

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.

---

(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

Table of Contents

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.

Table of Contents

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.

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.

Table of Contents

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 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

	Common Stock Shares	Common Stock Dollars	Class B Common Stock Shares	Class B Common Stock Dollars	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE, January 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.

Table of Contents

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.

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.

50

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.

51

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**	
e (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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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):

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

58

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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:

Range of Exercise Prices	Options Outstanding Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable Shares	Weighted Average Exercise Price
$0.54 - $1.08	889,989	2.80	$ 0.90	889,989	$ 0.90
$3.00 - $7.65	3,650,780	4.69	3.24	3,650,780	3.24
$8.17 - $11.44	4,833,318	5.53	10.90	4,773,005	10.91
$12.53 - $18.14	3,474,828	6.65	15.44	2,365,276	14.38
$18.95 - $28.23	5,901,304	8.12	24.87	521,616	20.37
$29.08 - $33.40	526,226	9.53	31.84		
$0.54 - $33.40	19,276,445	6.35	$ 14.66	12,200,666	$ 8.97

Restricted Stock On February 13, 2007, the Company granted 300,000 shares of restricted stock to certain executives of Golf Galaxy under the Company s 2002 Stock Option Plan. One half of these restricted stock awards vest on the third anniversary of the date of grant, and one-half vest if and to the extent that certain defined performance targets are achieved by the recipient of the restricted stock award upon the third anniversary from the date of grant. The weighted average fair value of these awards is $26.01, which represents the market price of the Company s common stock on the date of grant. As of February 2, 2008 all of the shares of restricted stock were outstanding and total unrecognized stock-based compensation expense related to nonvested shares of restricted stock was approximately $7.8 million, before income taxes, which is expected to be recognized over a weighted average period of approximately 2.03 years.

Employee Stock Purchase Plan The Company has an employee stock purchase plan, which provides that eligible employees may purchase shares of the Company s common stock. There are two offering periods in a fiscal year, one ending on June 30 and the other on December 31, or as otherwise determined by the Company s compensation committee. The employee s purchase price is 85% of the lesser of the fair market value of the stock on the first business day or the last business day of the semi-annual offering period. Employees may purchase shares having a fair market value of up to $25,000 for all purchases ending within the same calendar year. The total

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

number of shares issuable under the plan is 4,620,000. There were 204,955 and 245,964 shares issued under the plan during fiscal 2007 and 2006, respectively, leaving 1,430,835 shares available for future issuance. The fiscal 2007 shares were issued at an average price of $21.99.

Common Stock, Class B Common Stock and Preferred Stock During fiscal 2004, the Company filed an amendment to its Amended and Restated Certificate of Incorporation to increase the number of authorized shares of our common stock, par value $0.01 per share from 100,000,000 to 200,000,000 and Class B common stock, par value $0.01 per share from 20,000,000 to 40,000,000. In addition, the Company s corporate charter provides for the authorization of the issuance of up to 5,000,000 shares of preferred stock.

The holders of common stock generally have rights identical to holders of Class B common stock, except that holders of common stock are entitled to one vote per share and holders of Class B common stock are entitled to ten votes per share. A related party and relatives of the related party hold all of the Class B common stock. These shares can only be held by members of this group and are not publicly tradable. Class B common stock can be converted to common stock at the holder s option.

12. Income Taxes

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

	2007	2006	2005
Current:			
Federal	$ 118,305	$ 62,573	$ 41,961
State	16,882	11,247	7,295
	135,187	73,820	49,256
Deferred:			
Federal	(28,983)	631	(928)
State	(3,713)	623	326
	(32,696)	1,254	(602)
Total provision	$ 102,491	$ 75,074	$ 48,654

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

	2007	2006	2005
Federal statutory rate	35.0%	35.0%	35.0%
State tax, net of federal benefit	3.6%	4.2%	4.6%
Other permanent items	1.2%	0.8%	0.4%
Effective income tax rate	39.8%	40.0%	40.0%

Table of Contents

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

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

	2007	2006
Store closing expense	$ 10,605	$ 7,772
Stock based compensation	15,760	7,455
Employee benefits	6,527	8,273
Other accrued expenses not currently deductible for tax purposes	2,252	
Deferred rent	16,117	10,732
Insurance	2,753	3,595
Gift cards	5,704	3,997
Deferred revenue currently taxable	4,148	4,716
Non-Income based tax reserves	2,787	1,919
Uncertain income tax positions	3,896	
Property and equipment	279	
Net operating loss carryforwards	1,740	2,931
Total deferred tax assets	72,568	51,390
Property and equipment		(10,089)
Inventory	(17,525)	(29,911)
Intangibles	(28,963)	(2,192)
Other accrued expenses not currently deductible for tax purposes		(503)
Total deferred tax liabilities	(46,488)	(42,695)
Net deferred tax asset	$ 26,080	$ 8,695

The deferred tax asset from tax loss carryforwards of $1.7 million represents approximately $34.5 million of state net operating loss carryforwards, of which $5.5 million expires in the next ten years. The remaining $29.0 million expires between 2018 and 2026. In 2007, of the $26.1 million net deferred tax asset, $19.7 million is recorded in current assets and $6.4 million is recorded in other long-term assets in the Consolidated Balance Sheets. In 2006, of the $8.7 million net deferred tax asset, $17.4 million is recorded in other long-term assets and $8.7 million is recorded in deferred revenue and other current liabilities in the Consolidated Balance Sheets.

As of February 2, 2008, the total liability for uncertain tax positions, including related interest and penalties, was approximately $11.8 million. The following table represents a reconciliation of the Company s total unrecognized tax benefits balances, excluding interest and penalties for the year ended February 2, 2008 (in thousands):

	2007
Beginning of year	$ 10,342
Increases as a result of tax positions taken in a prior period	1,721
Decreases as a result of tax positions taken in a prior period	(1,527)
Increases as a result of tax positions taken in the current period	1,473
Decreases as a result of settlements during the current period	(2,190)
Reductions as a result of a lapse of statute of limitations during the current period	(104)
End of year	$ 9,715

Of the above $9.7 million in unrecognized tax benefits, excluding interest and penalties, $7.8 million would impact our effective tax rate if recognized. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense.

As of February 2, 2008, the liability for uncertain tax positions included $2.1 million for the accrual of interest and penalties. During the year ended February 2, 2008, the Company recorded $0.9 million for the accrual

Table of Contents

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

of interest and penalties in its Consolidated Statements of Income. The Company has federal, state and local examinations currently ongoing. It is possible that these examinations may be resolved within 12 months. Due to the potential for resolution of these examinations, and the expiration of various statutes of limitation, it is reasonably possible that $5.7 million of the Company s gross unrecognized tax benefits at February 2, 2008 could be recognized within the next 12 months. The Company does not anticipate that changes in its unrecognized tax benefits will have a material impact on the Consolidated Statements of Income during fiscal 2008.

The tax years 2003 2006 remain open to examination by the major taxing jurisdictions to which we are subject.

13. Interest Expense, net

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

	2007	2006	2005
Interest expense	$ 12,856	$ 10,836	$ 13,196
Interest income	(1,566)	(811)	(237)
Interest expense, net	$ 11,290	$ 10,025	$ 12,959

14. Earnings per Common Share

The computation of basic earnings per share is based on the number of weighted average common shares outstanding during the period. The computation of diluted earnings per share is based upon the weighted average number of shares outstanding plus the incremental shares that would be outstanding assuming exercise of dilutive stock options. The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. The aggregate number of shares, totaling 8,776,048, that the Company could be obligated to issue upon conversion of our $172.5 million issue price of senior convertible notes was excluded from the calculations for fiscal 2007, 2006 and 2005. The computations for basic and diluted earnings per share are as follows (in thousands, except per share data):

	Fiscal Year Ended		
	2007	2006	2005
Earnings per common share Basic:			
Net income	$ 155,036	$ 112,611	$ 72,980
Weighted average common shares outstanding	109,383	102,512	99,584
Earnings per common share	$ 1.42	$ 1.10	$ 0.73
Earnings per common share Diluted:			
Net income	$ 155,036	$ 112,611	$ 72,980
Weighted average common shares outstanding basic	109,383	102,512	99,584
Stock options, restricted stock and warrants	7,121	8,278	8,374
Weighted average common shares outstanding diluted	116,504	110,790	107,958
Earnings per common share	$ 1.33	$ 1.02	$ 0.68

Potential dilutive shares are excluded from the computation of earnings per share if their effect is anti-dilutive. Anti-dilutive options totaled 4.5 million and 0.4 million for fiscal 2007 and 2006, respectively. There were no anti-dilutive options in fiscal 2005.

Table of Contents

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

15. Investments

In April 2001, the Company entered into an Internet commerce agreement with GSI. Under the terms of this 10-year agreement, GSI is responsible for all financial and operational aspects of the Internet site, which operates under the domain name DicksSportingGoods.com, which name has been licensed to GSI by the Company. The Company and GSI entered into a royalty arrangement that permitted the Company, at its election, to purchase an equity ownership in GSI at a price that was less than the GSI market value per share in lieu of royalties until Internet sales reached a predefined amount. The equity ownership consists of unregistered common stock of GSI and warrants to purchase unregistered common stock of GSI (see Note 1). The Company recognized the difference between the fair value of the GSI stock and its cost as deferred revenue to be amortized over the 10-year term of the agreement. Deferred revenue at February 2, 2008 and February 3, 2007 was $1.5 million and $1.9 million, respectively. In total, the number of shares the Company holds represents less than 5% of GSI s outstanding common stock.

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

16. Retirement Savings Plans

The Company s retirement savings plan, established pursuant to Section 401(k) of the Internal Revenue Code, covers regular status full-time hourly and salaried employees as of their date of hire and part-time regular employees once they work 1,000 hours or more in a year and have attained 21 years of age. Under the terms of the retirement savings plan, the Company provides a matching contribution equal to 50% of each participant s contribution up to 10% of the participant s compensation, and may make a discretionary matching contribution. Total expense recorded under the plan was $5.0 million, $3.0 million and $2.6 million for fiscal 2007, 2006 and 2005, respectively.

We have non-qualified deferred compensation plans for highly compensated employees whose contributions are limited under qualified defined contribution plans. Amounts contributed and deferred under the deferred compensation plans are credited or charged with the performance of investment options offered under the plans and elected by the participants. In the event of bankruptcy, the assets of these plans are available to satisfy the claims of general creditors. The liability for compensation deferred under the Company s plans was $1.8 million and $0.4 million at February 2, 2008, and February 3, 2007, respectively, and is included in long-term liabilities. Total expense recorded under these plans was $5.5 million and $0.1 million for fiscal 2007 and 2006, respectively. There was no expense for these plans during fiscal 2005.

17. Commitments and Contingencies

The Company enters into licensing agreements for the exclusive rights to use certain trademarks extending through 2020. Under specific agreements, the Company is obligated to pay an annual guaranteed minimum royalty. The aggregate amount of required payments at February 2, 2008 is as follows (in thousands):

Fiscal Year	
2008	$ 8,048
2009	9,456
2010	10,790
2011	12,115
2012	14,935
Thereafter	40,644
	$ 95,988

In addition, certain agreements require the Company to pay additional royalties if the qualified purchases are in excess of the guaranteed minimum. The Company paid $1.9 million and $0.7 million under agreements requiring minimum guaranteed contractual amounts during fiscal 2007 and 2006, respectively. There were no payments made during fiscal 2005.

68

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

The Company also has certain naming rights and other marketing commitments extending through 2026 of $70.5 million. Payments under these commitments are scheduled to be made as follows: 2008, $12.6 million; 2009, $12.9 million; 2010, $2.8 million; 2011, $2.2 million; 2012, $2.3 million; thereafter, $37.7 million.

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

18. Quarterly Financial Information (Unaudited)

Summarized quarterly financial information in fiscal years 2007 and 2006 is as follows (in thousands, except earnings per share):

	2007				2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (1)
Net sales (2)	$823,553	$1,013,421	$838,831	$1,212,615	$645,498	$734,047	$708,343	$1,026,275
Gross profit	244,419	298,660	238,663	376,320	177,665	207,397	191,335	320,302
Income from operations (2)	39,291	83,194	21,682	124,650	21,279	45,707	15,609	115,116
Net income (2)	21,701	47,930	12,233	73,171	11,418	25,681	7,795	67,718
Net earnings per diluted share (2)	$ 0.19	$ 0.41	$ 0.10	$ 0.62	$ 0.10	$ 0.23	$ 0.07	$ 0.60

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

(2) Quarterly results for fiscal 2007 and 2006 do not add to full year results due to rounding.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

DICK S SPORTING GOODS, INC.
(Registrant)
By: /s/ TIMOTHY E. KULLMAN
Timothy E. Kullman
Executive Vice President Finance, Administration and Chief Financial Officer
Date: March 27, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, the report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

SIGNATURE	CAPACITY	DATE
/s/ EDWARD W. STACK Edward W. Stack	Chairman and Chief Executive Officer, President and Director	March 27, 2008
/s/ TIMOTHY E. KULLMAN Timothy E. Kullman	Executive Vice President Finance, Administration and Chief Financial Officer (principal financial and accounting officer)	March 27, 2008
/s/ WILLIAM J. COLOMBO William J. Colombo	Vice Chairman and Director	March 27, 2008
/s/ EMANUEL CHIRICO Emanuel Chirico	Director	March 27, 2008
/s/ DAVID I. FUENTE David I. Fuente	Director	March 27, 2008
/s/ WALTER ROSSI Walter Rossi	Director	March 27, 2008
/s/ LAWRENCE J. SCHORR Lawrence J. Schorr	Director	March 27, 2008
/s/ BRIAN J. DUNN Brian J. Dunn	Director	March 27, 2008
/s/ LARRY D. STONE Larry D. Stone	Director	March 27, 2008

Table of Contents

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 consolidated financial statements of Dick s Sporting Goods, Inc. and subsidiaries (the Company) as of February 2, 2008 and February 3, 2007 and for each of the three fiscal years in the period ended February 2, 2008 (which report on the consolidated financial statements expresses an unqualified opinion and includes 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, and Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment,* on January 29, 2006), and the Company s internal control over financial reporting as of February 2, 2008, and have issued our reports thereon dated March 27, 2008; such reports are included herein. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15 of Part IV. This consolidated financial statement schedule is the responsibility of the Company s management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

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

Table of Contents

DICK S SPORTING GOODS, INC. AND SUBSIDIARIES
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(Dollars in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Other - Acquisition Related	Deductions	Balance at End of Period
Fiscal 2005					
Inventory reserve	$ 4,396	$ 5,835	$	$ (900)	$ 9,331
Allowance for doubtful accounts	4,805	1,215	(2,995)	(1,125)	1,900
Fiscal 2006					
Inventory reserve	$ 9,331	$10,545	$	$(3,980)	$15,896
Allowance for doubtful accounts	1,900	925		(794)	2,031
Fiscal 2007					
Inventory reserve	$15,896	$ 6,973	$ 1,327	$(4,981)	$19,215
Allowance for doubtful accounts	2,031	3,459	212	(2,817)	2,885

72

Table of Contents

Index to Exhibits

Exhibit Number	Description	Method of Filing
2.1	Agreement and Plan of Merger, dated as of June 21, 2004, by and among the Registrant, Diamondback Acquisition, Inc. and Galyan s Trading Company, Inc.	Incorporated by reference to Exhibit 2.1 to the Registrant s Form 8-K, File No. 001-31463, filed on June 22, 2004.
2.2	Agreement and Plan of Merger dated as of November 13, 2006	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on November 14, 2006
3.1	Amended and Restated Certificate of Incorporation	Incorporated by reference to Exhibit 3.1 to the Registrant s Registration Statement on Form S-8, File No. 333-100656, filed on October 21, 2002
3.2	Amendment to the Amended and Restated Certificate of Incorporation, dated as of June 10, 2004	Incorporated by reference to Exhibit 3.1 to the Registrant s Form 10-Q, File No. 001-31463, filed on September 9, 2004
3.3	Form of Amended and Restated Bylaws	Incorporated by reference to Exhibit 3.4 to the Registrant s Statement on Form S-1, File No. 333-96587, filed on July 17, 2002
4.1	Second Amended and Restated Credit Agreement dated as of July 28, 2004 among Dick s Sporting Goods, Inc., the Lenders Party thereto and General Electric Capital Corporation	Incorporated by reference to Exhibit 4.1 to the Registrant s Statement on Form 8-K, File No. 001-31463, filed on July 29, 2004
4.2	Form of Stock Certificate	Incorporated by reference to Exhibit 4.1 to the Registrant s Statement on Form S-1, File No. 333-96587, filed on July 17, 2002
4.3	Indenture dated as of February 18, 2004 between the Registrant and Wachovia Bank, National Association, as Trustee	Incorporated by reference to Exhibit 10.3 to the Registrant s Form 8-K, File No. 001-31463, filed on February 23, 2004
4.4	Registration Rights Agreement among the Registrant, Merrill Lynch, Pierce, Fenner Smith Incorporated, Banc of America Securities LLC and UBS Securities LLC dated as of February 18, 2004	Incorporated by reference to Exhibit 10.2 to the Registrant s Form 8-K, File No. 001-31463, filed on February 23, 2004
4.5	Form of Confirmation of OTC Warrant Transaction, Amended and Restated as of February 13, 2004	Incorporated by reference to Exhibit 10.7 to the Registrant s Form 8-K, File No. 001-31463, filed on February 23, 2004
4.6		

	Senior Convertible Notes due 2024, Purchase Agreement among Dick s Sporting Goods, Inc., Merrill Lynch, Pierce, Fenner Smith Incorporated, Banc of America LLC and UBS Securities LLC, dated as of February 11, 2004	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on February 23, 2004
4.7	First Supplemental Indenture, dated as of December 22, 2004, between the Registrant and Wachovia Bank, National Association, as Trustee	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on December 23, 2004.
4.8	Consent to Second Amended and Restated Credit Agreement, dated as of December 23, 2004, between the Registrant and General Electric Capital Corporation	Incorporated by reference to Exhibit 10.2 to the Registrant s Form 8-K, File No. 001-31463, filed on December 23, 2004.

Table of Contents

Exhibit Number	Description	Method of Filing
10.1	Associate Savings and Retirement Plan	Incorporated by reference to Exhibit 10.1 to the Registrant s Statement on Form S-1, File No. 333-96587, filed on July 17, 2002
10.2	Registrant s 1992 Stock Option Plan	Incorporated by reference to Exhibit 10.4 to the Registrant s Statement on Form S-1, File No. 333-96587, filed on July 17, 2002
10.3	Registrant s 2002 Stock Plan, as amended	Incorporated by reference to Exhibit 4.1 to the Registrant s Registration Statement on Form S-8, File No. 333-102385, filed on January 7, 2003
10.4	Dick s Sporting Goods, Inc. (successor in interest to Dick s Acquisition Corp.) 12% Subordinated Debenture, dated May 1, 1986 issued to Richard J. Stack	Incorporated by reference to Exhibit 10.7 to the Registrant s Statement on Form S-1, File No. 333-96587, filed on July 17, 2002
10.5	Lease Agreement, dated November 3, 1999, for 75,000 square foot distribution center in Conklin, NY	Incorporated by reference to Exhibit 10.9 to the Registrant s Statement on Form S-1, File No. 333-96587, filed on July 17, 2002
10.6	Form of Agreement entered into between Dick s Sporting Goods, Inc. and various executive officers, which sets forth form of severance	Incorporated by reference to Exhibit 10.10 to the Registrant s Statement on Form S-1, File No. 333-96587, filed on July 17, 2002
10.7	Form of Option Award entered into between Dick s Sporting Goods, Inc. and various executive officers, directors and employees	Incorporated by reference to Exhibit 10.9 to the Registrant s Form 10-K, File No. 001-31463, filed on April 8, 2004
10.8	Option Agreement between the Company and William R. Newlin, Chief Administrative Officer and Executive Vice President	Incorporated by reference to Exhibit 10.10 to the Registrant s Form 10-K, File No. 001-31463, filed on April 8, 2004
10.9	Option Agreement between Dick s Sporting Goods, Inc. and Edward W. Stack	Incorporated by reference to Exhibit 10.12 to the Registrant s Statement on Form S-1, File No. 333-96587, filed on July 17, 2002
10.10	Option Agreement between Dick s Sporting Goods, Inc. and Edward W. Stack	Incorporated by reference to Exhibit 10.12 to the Registrant s Form 10-K, File No. 001-31463, filed on April 8, 2004
10.11	Offer Letter between the Company and William R. Newlin, Chief Administrative Officer and Executive Vice President	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 10-Q, File No. 001-31463, filed on December 9, 2003
10.12		

	Form of Confirmation of OTC Convertible Note Hedge, Amended and Restated as of February 13, 2004	Incorporated by reference to Exhibit 10.6 to the Registrant s Form 8-K, File No. 001-31463, filed on February 23, 2004
10.13	Amended and Restated Lease Agreement, originally dated February 4, 1999, for distribution center located in Smithton, Pennsylvania, effective as of May 5, 2004	Incorporated by reference to Exhibit 10.5 to the Registrant s Form 10-Q, File No. 001-31463, filed on September 9, 2004.
10.14	Description of Compensation Payable to Non-Management Directors	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on March 8, 2005.

Table of Contents

Exhibit Number	Description	Method of Filing
10.15	Consent and Waiver to the Amended and Restated Credit Agreement, dated as of June 14, 2004, among Dick s Sporting Goods, Inc., the lending party thereto and General Electric Capital Corporation, as agent for the lenders	Incorporated by reference to Exhibit 10.2 to the Registrant s Form 8-K, File No. 001-31463, filed on June 22, 2004
10.16	Waiver of Confirmation of OTC Convertible Note Hedge Agreement entered into among the Registrant and Merrill Lynch International on February 13, 2004	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on December 9, 2004.
10.17	Amended and Restated Lease Agreement originally dated August 31, 1999, for distribution center located in Plainfield, Indiana, effective as of November 30, 2005, between CP Gal Plainfield, LLC and Dick s Sporting Goods, Inc.	Incorporated by reference to Exhibit 10.22 to Registrant s Form 10-K, File No. 001-31463, filed on March 23, 2006
10.18	Offer Letter between the Company and Gwen K. Manto, Executive Vice President and Chief Merchandising Officer	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on December 9, 2005
10.19	Aircraft Sublease Agreement, dated February 13, 2006, for the business use of an aircraft, between Dick s Sporting Goods, Inc. and Corporate Air, LLC	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on February 14, 2006
10.20	Dick s Sporting Goods Supplemental Smart Savings Plan	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on July 6, 2006
10.21	First Amendment to the Second Amended and Restated Credit Agreement dated as of November 13, 2006	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on November 14, 2006
10.22	Second Amendment to Second Amended and Restated Credit Agreement dated as of February 13, 2007	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on February 13, 2007
10.23	Cover Letter and Second Amended and Restated Employment Agreement, dated February 13, 2007	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on February 13, 2007
10.24	Stock Option Agreement, dated February 13, 2007	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on February 13, 2007

10.25	Restricted Stock Award Agreement, dated February 13, 2007	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on February 13, 2007
10.26	Third Amendment to Second Amended and Restated Credit Agreement dated as of February 28, 2007	Incorporated by reference to Exhibit 10.33 to the Registrant s Form 10-K, File No. 001-31463, filed on March 23, 2007
10.27	Golf Galaxy, Inc. Amended and Restated 1996 Stock Option and Incentive Plan	Incorporated by reference to Exhibit 4.1 to the Registrant s Statement on Form S-8, File No. 333-140713, filed on February 14, 2007
10.28	Golf Galaxy, Inc. 2004 Stock Incentive Plan	Incorporated by reference to Exhibit 4.2 to the Registrant s Statement on Form S-8, File No. 333-140713, filed on February 14, 2007

Table of Contents

Exhibit Number	Description	Method of Filing
10.29	Amended and Restated Employee Stock Purchase Plan	Incorporated by reference to Annex A to the Registrant s Definitive Proxy Statement, File No. 001-31463, filed on May 3, 2007
10.30	Offer Letter between Dick s Sporting Goods, Inc. and Timothy E. Kullman, dated February 5, 2007, as amended by letter dated February 9, 2007	Incorporated by reference to Exhibit 10.1 to the Registrant s Form 8-K, File No. 001-31463, filed on March 16, 2007
10.31	Amendment to Dick s Sporting Goods Supplemental Smart Savings Plan	Incorporated by reference to Exhibit 10.7 to the Registrant s Form 10-Q, File No. 001-31463, filed on June 6, 2007
10.32		

Total current assets		113,188	113,993
Property, plant and equipment, net		95,036	82,626
Restricted cash and cash equivalents		3,263	3,127
Intangible assets		435	548
Other assets		4,191	2,765
Total noncurrent assets		102,925	89,066
Total Assets	$	216,113	$ 203,059
Liabilities and Stockholders' Equity			
Accounts payable	$	12,622	$ 12,945
Accounts payable - related parties		121	112
Income taxes payable		1,231	1,916
Short term contingent consideration		197	191
Current deferred income tax liability		4,597	4,242
Accrued expenses and other current liabilities		3,370	1,717
Accrued expenses and other current liabilities - related parties		-	40
Total current liabilities		22,138	21,163
Long term contingent consideration		1,989	2,168
Deferred revenue		1,571	-
Other noncurrent liabilities		1,126	914
Noncurrent deferred income taxes		19,667	17,658
Total noncurrent liabilities		24,353	20,740
Total Liabilities		46,491	41,903

Commitments and contingencies		
Preferred stock, $0.0001 par value, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $0.0001 par value, 75,000,000 shares authorized, 26,700,000 issued and outstanding	3	3
Accumulated other comprehensive income	58	-
Additional paid in capital	158,436	158,436
Retained earnings	11,125	2,717
Total stockholders' equity	169,622	161,156
Total Liabilities and Stockholders' Equity	$ 216,113	$ 203,059

The accompanying notes are an integral part of these financial statements.

FutureFuel Corp.
Consolidated Statements of Operations
for the Years Ended December 31, 2007, 2006 and 2005
(Dollars in thousands, except per share amounts)

	2007	2006	2005
Revenues	$ 169,732	$ 23,043	$ -
Revenues – related parties	56	-	-
Cost of goods sold	149,181	19,966	-
Cost of goods sold – related parties	1,529	-	-
Distribution	1,845	133	-
Gross profit	17,233	2,944	-
Selling, general and administrative expenses			
Compensation expense	2,502	328	-
Formation expense and canceled offering costs	117	427	1
Other expense	1,353	400	-
Related party expense	172	104	-
Research and development expenses	3,434	923	-
	7,578	2,182	1
Income (loss) from operations	9,655	762	(1)
Interest income	3,567	3,365	1
Interest expense	(24)	(37)	-
Gain on foreign currency	16	-	-
Other expense	(23)	-	-
	3,536	3,328	1
Income before income taxes	13,191	4,090	-
Provision for income taxes	4,783	1,373	-
Net income	$ 8,408	$ 2,717	$ -
Earnings per common share			
Basic	$ 0.31	$ 0.10	$ -
Diluted	$ 0.26	$ 0.09	$ -
Weighted average shares outstanding			
Basic	26,700,000	26,700,000	5,625,000
Diluted	32,286,996	31,818,772	5,625,000

The accompanying notes are an integral part of these financial statements.

FutureFuel Corp.
Consolidated Statements of Cash Flows
for the Years Ended December 31, 2007, 2006 and 2005
(Dollars in thousands)

	2007	2006	2005
Cash flows provided by (used in) operating activities			
Net income	$ 8,408	$ 2,717	$ -
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,712	630	-
Provision (benefit) for deferred income taxes	2,330	(956)	-
Change in fair value of derivative instruments	(199)	447	-
Accretion of the discount of marketable debt securities	(127)	-	-
Losses on disposals of fixed assets	64	-	-
Noncash interest expense	21	37	-
Changes in operating assets and liabilities:			
Accounts receivable	6,389	(20,434)	-
Inventory	(977)	(1,256)	-
Prepaid expenses	48	(1,240)	-
Accrued interest on marketable debt securities	(64)	-	-
Other assets	(1,426)	653	-
Accounts payable	(323)	2,724	10
Accounts payable - related parties	9	112	-
Income taxes payable	(685)	1,916	-
Accrued expenses and other current liabilities	1,653	1,747	-
Accrued expenses and other current liabilities - related parties	(40)	40	-
Deferred revenue	1,571	-	-
Other noncurrent liabilities	191	369	-
Net cash provided by (used in) operating activities	21,554	(12,494)	10
Cash flows used in investing activities			
Restricted cash	(136)	(3,127)	-
Collateralization of derivative instruments	2,789	(3,578)	-
Purchase of marketable securities	(14,803)	-	-
Proceeds from the sale of fixed assets	55	-	-
Acquisition of the stock of Eastman SE, Inc.	-	(72,634)	-
Contingent purchase price payment	(173)	(11)	-
Capital expenditures	(17,710)	(3,269)	-
Net cash used in investing activities	(29,978)	(82,619)	-

	2007	2006	2005
Cash flows provided by (used in) financing activities			
Equity offering expenditures	-	-	(207)
Proceeds from long-term debt - related parties	-	500	200
Repayment of long-term debt - related parties	-	(700)	-
Proceeds from the issuance of stock	-	169,382	25
Stock redemption	-	(10,968)	-
Bank financing fee	(50)	-	-
Net cash provided by (used in) financing activities	(50)	158,214	18
Net change in cash and cash equivalents	(8,474)	63,101	28
Cash and cash equivalents at beginning of period	63,129	28	-
Cash and cash equivalents at end of period	$ 54,655	$ 63,129	$ 28
Cash paid for interest	$ 3	$ -	$ -
Cash paid for income taxes	$ 2,992	$ -	$ -

The accompanying notes are an integral part of these financial statements.

FutureFuel Corp.
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2007, 2006 and 2005

(Dollars in thousands)

	Common Stock Shares	Common Stock Amount	Other Comprehensive Income	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance - August 12, 2005 (Inception)	-	$ -	$ -	$ -	$ -	$ -
Common shares issued	5,000,000	1	-	24	-	25
Net income	-	-	-	-	-	-
Balance - December 31, 2005	5,000,000	1	-	24	-	25
Common share dividend	1,250,000	-	-	-	-	-
Common share cancellation	(625,000)	-	-	-	-	-
Proceeds from the issuance of stock	22,500,000	2	-	169,380	-	169,382
Stock redemption	(1,425,000)	-	-	(10,968)		(10,968)
Net income	-	-	-	-	2,717	2,717
Balance - December 31, 2006	26,700,000	3	-	158,436	2,717	161,156
Other comprehensive income	-	-	58	-	-	58
Net income	-	-	-	-	8,408	8,408
Balance - December 31, 2007	26,700,000	$ 3	$ 58	$ 158,436	$ 11,125	$ 169,622

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2007, 2006 and 2005

Comprehensive income	2007	2006	2005
Net income	$ 8,408	$ 2,717	$ -
Other comprehensive income, net of tax ($34 in 2007)	58	-	-
Comprehensive income	$ 8,466	$ 2,717	$ -

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

1) Nature of operations and basis of presentation

Viceroy Acquisition Corporation

Viceroy Acquisition Corporation ("Viceroy") was incorporated under the laws of the state of Delaware on August 12, 2005 to serve as a vehicle for the acquisition by way of asset acquisition, merger, capital stock exchange, share purchase or similar transaction ("Business Combination") of one or more operating businesses in the oil and gas industry. On July 12, 2006 Viceroy completed an equity offering (see Note 12).

On July 21, 2006, Viceroy entered into an acquisition agreement with Eastman Chemical Company ("Eastman Chemical") to purchase all of the issued and outstanding stock of Eastman SE, Inc. ("Eastman SE"). On October 27, 2006, a special meeting of the shareholders of Viceroy was held and the acquisition of Eastman SE was approved by the shareholders. On October 31, 2006, Viceroy acquired all of the issued and outstanding shares of Eastman SE from Eastman Chemical. Immediately subsequent to the acquisition, Viceroy changed its name to FutureFuel Corp. ("FutureFuel") and Eastman SE changed its name to FutureFuel Chemical Company ("FutureFuel Chemical").

Eastman SE, Inc.

Eastman SE was incorporated under the laws of the state of Delaware on September 1, 2005 and subsequent thereto operated as a wholly-owned subsidiary of Eastman Chemical through October 31, 2006. Eastman SE was incorporated for purposes of effecting a sale of Eastman Chemical's manufacturing facility in Batesville, Arkansas (the "Batesville Plant"). Commencing January 1, 2006, Eastman Chemical began transferring the assets associated with the business of the Batesville Plant to Eastman SE.

The Batesville Plant was constructed to produce proprietary photographic chemicals for Eastman Kodak Company ("Eastman Kodak"). Over the years, Eastman Kodak shifted the plant's focus away from the photographic imaging business to the custom synthesis of fine chemicals and organic chemical intermediates used in a variety of end markets, including paints and coatings, plastics and polymers, pharmaceuticals, food supplements, household detergents and agricultural products.

In 2005, the Batesville Plant began the implementation of a biobased products platform. This includes the production of biofuels (biodiesel, bioethanol and lignin/biomass solid fuels) and biobased specialty chemical products (biobased solvents, chemicals and intermediates). In addition to biobased products, the Batesville Plant continues to manufacture fine chemicals and other organic chemicals.

Certain prior year balances have been reclassified to conform to the current year presentation.

2) Significant accounting policies

Consolidation

The accompanying consolidated financial statements include the accounts of FutureFuel and its wholly-owned subsidiary, FutureFuel Chemical. The results for the fiscal year ended December 31, 2006 include: (i) the operations of Viceroy from January 1, 2006 through October 31, 2006; and (ii) the operations of both FutureFuel and FutureFuel Chemical from November 1, 2006 through December 31, 2006. All significant intercompany transactions have been eliminated.

Cash and cash equivalents

Cash equivalents consist of highly liquid investments with maturities of three months or less when purchased and are carried at cost, which approximates market. FutureFuel places its temporary cash investments with high credit quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

Accounts receivable, allowance for doubtful accounts and credit risk

Accounts receivable are recorded at the invoiced amount and do not bear interest. FutureFuel has established procedures to monitor credit risk and has not experienced significant credit losses in prior years. Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. This estimated allowance is based upon management's evaluation of the collectibility of individual invoices and is based upon management's evaluation of the financial condition of its customers and historical bad debt experience. Write-offs are recorded at the time a customer receivable is deemed uncollectible.

Customer concentrations

Significant portions of FutureFuel's sales are made to a relatively small number of customers. All sales of a bleach activator are made to a leading North American consumer products company pursuant to a supply contract that is set to expire in June 2008. Sales of the bleach activator totaled $82,500 for the year ended December 31, 2007. Additionally, all sales of a herbicide and certain other intermediates used in the production of this herbicide are made to one customer. Sales of this herbicide and its intermediates totaled $25,177 for the year ended December 31, 2007. These two customers represented 51% of FutureFuel's accounts receivable balance at December 31, 2007.

Inventory

FutureFuel determines the cost of substantially all raw materials and finished goods inventories by the last-in, first-out ("LIFO") method. FutureFuel writes down its inventories for estimated obsolescence or unmarketable inventory equal to the difference between the carrying value of inventory and the estimated market value based upon current demand and market conditions.

Financial and derivative instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities approximate their fair values due to the short-term maturities of these instruments.

FutureFuel maintains inventories of biodiesel and utilizes various derivative instruments such as regulated futures and regulated options as an economic hedge to reduce the effects of fluctuations in the prices of biodiesel. These derivative instruments do not qualify for hedge accounting under the specific guidelines of Statement of Financial Accounting Standards ("SFAS") No. 133 Accounting for Derivative Instruments and Hedging Activities, as amended. While management believes each of these instruments are entered into in order to effectively manage various market risks, none of the derivative instruments are designated and accounted for as hedges primarily as a result of the extensive record-keeping requirements.

FutureFuel records all derivative instruments at fair value. Fair value is determined by using the closing prices of the derivative instruments on the New York Mercantile Exchange at the end of an accounting period. Changes in fair value of the derivative instruments are recorded in the statements of operations as a component of cost of goods sold. FutureFuel maintains a margin account with a broker to collateralize these derivative instruments.

Property, plant and equipment

Property, plant and equipment is carried at cost. Maintenance and repairs are charged to earnings; replacements and betterments are capitalized. When FutureFuel retires or otherwise disposes of assets, it removes the cost of such asset and related accumulated depreciation from the accounts. FutureFuel records any profit and loss on retirement or other disposition in earnings. Asset impairments are reflected as increases in accumulated depreciation. Depreciation is provided using the straight-line method over the following estimated useful lives:

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

Buildings and building equipment	20 – 39 years
Machinery and equipment	3 – 33 years
Transportation equipment	5 – 33 years
Other	5 – 33 years

Customer relationships

Customer relationships are recorded at acquisition cost and are amortized on a straight-line basis over their estimated useful lives of 5 years. FutureFuel reviews and evaluates the recoverability of the carrying amounts of its acquired customer contracts annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Restricted cash and cash equivalents

Restricted cash and cash equivalents include cash and cash equivalents reserved for purposes of meeting certain Arkansas Department of Environmental Quality requirements that become applicable in the event of a closure of the Batesville Plant. The amount of cash reserved for this purpose is based on a formula derived by the state of Arkansas and totaled $3,263 at December 31, 2007 and $3,127 at December 31, 2006.

Impairment of assets

FutureFuel evaluates the carrying value of long-lived assets when events or changes in circumstances indicate that the carrying value may not be recoverable. Such events and circumstances include, but are not limited to, significant decreases in the market value of the asset, adverse changes in the extent or manner in which the asset is being used, significant changes in business climate, or current or projected cash flow losses associated with the use of the assets. The carrying value of a long-lived asset is considered impaired when the total projected undiscounted cash flows from such assets are separately identifiable and are less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. For long-lived assets to be held for use in future operations and for fixed (tangible) assets, fair value is determined primarily using either the projected cash flows discounted at a rate commensurate with the risk involved or appraisal. For long-lived assets to be disposed of by sale or other than sale, fair value is determined in a similar manner, except that fair values are reduced for disposal costs.

Deferred revenue

FutureFuel signed a contract with a customer to construct a plant on FutureFuel's property for the manufacture of a custom chemical. The cost of construction is funded by the customer but with title and risk of loss to the equipment residing with FutureFuel. Reimbursements are being recognized as deferred revenue and will be amortized over the life of the contract as product is shipped. Production is expected to begin in the third quarter of 2008.

Asset retirement obligations

FutureFuel establishes reserves for closure/post-closure costs associated with the environmental and other assets it maintains. Environmental assets include but are not limited to waste management units such as incinerators, landfills, storage tanks and boilers. When these types of assets are constructed or installed, a reserve is established for the future costs anticipated to be associated with the closure of the site based on an expected life of the environmental assets, the applicable regulatory closure requirements and FutureFuel's environmental policies and practices. These expenses are charged into earnings over the estimated useful life of the assets. Currently, FutureFuel estimates the useful life of each individual asset up to 35 years. Changes made in estimates of the asset retirement obligation costs or the estimate of the useful lives of these assets are reflected in earnings as an increase or decrease in the period such changes are made.

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

Environmental costs are capitalized if they extend the life of the related property, increase its capacity and/or mitigate or prevent future contamination. The cost of operating and maintaining environmental control facilities is charged to expense.

Deferred income taxes

Income taxes are accounted for using the asset and liability method. Under this method, income tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts of assets and liabilities and their respective income tax basis. A future income tax asset or liability is estimated for each temporary difference using enacted and substantively enacted income tax rates and laws expected to be in effect when the asset is realized or the liability settled. A valuation allowance is established, if necessary, to reduce any future income tax asset to an amount that is more likely than not to be realized.

Revenue recognition

For most product sales, revenue is recognized when product is shipped from our facilities and risk of loss and title have passed to the customer, which is in accordance with our customer contracts and the stated shipping terms. All custom manufactured products are manufactured under written contracts. Performance chemicals and biodiesel are sold pursuant to the terms of written purchase orders. In general, customers do not have any rights of return, except for quality disputes. However, all of our products are tested for quality before shipment, and historically returns have been inconsequential. We do not offer volume discounts, rebates or warranties.

Bill and hold transactions for 2007 related to two specialty chemical customers whereby revenue was recognized in accordance with contractual agreements based on product produced and ready for use. These sales were subject to written monthly purchase orders with agreement that production was reasonable. The inventory was custom manufactured and stored at the customer’s request and could not be sold to another buyer. Both customers’ credit and payment terms are similar to other specialty chemical customers. Sales revenue under bill and hold arrangements were $33,494, $3,858, and $0 for the years ended December 31, 2007, 2006 and 2005, respectively.

Shipping and handling fees

Shipping and handling fees related to sales transactions are billed to customers and recorded as sales revenues.

Cost of goods sold and selling, general and administration expense

Cost of goods sold includes the costs of inventory sold, related purchasing, distribution and warehousing costs, costs incurred for shipping and handling, and environmental remediation costs. Netted from cost of goods sold is the biodiesel tax incentive for blending biodiesel with petrodiesel. The biodiesel tax credit amounts to one cent for each percentage point of vegetable oil or animal fat biodiesel that is blended with petrodiesel (and one-half cent for each percentage point of recycled oils and other non-agricultural biodiesel). The credit is recognized as it is earned when biodiesel is blended with petrodiesel.

Selling, general and administration expense includes personnel costs associated with sales, marketing and administration, legal and legal-related costs, consulting and professional services fees, advertising expenses, and other similar costs.

Research and development

All costs identified as research and development costs are charged to expense when incurred.

Planned major maintenance activities

Expenditures for planned major maintenance activities are recognized as expense as incurred.

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

Uncertainty in income taxes

In July 2006, the FASB issued Interpretation No. 48 (“FIN 48”), Accounting for Uncertainty in Income Taxes—an Interpretation of SFAS 109 Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. Under FIN 48, the financial statements reflect expected future tax consequences of such positions presuming the taxing authorities’ full knowledge of the position and all relevant facts, but without considering time values. FIN 48 also revises disclosure requirements and introduces a prescriptive, annual, tabular roll-forward of the unrecognized tax benefits. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material effect on the consolidated financial position, liquidity or results of operations of FutureFuel.

Earnings per share

Basic earnings per share is computed by dividing net income (the numerator) by the weighted average number of outstanding shares (the denominator) for the period. Diluted earnings per share are calculated in accordance with the treasury stock method to determine the dilutive effect of warrants and options. The computation of diluted earnings per share includes the same numerator, but the denominator is increased to include the number of additional common shares from the exercise of warrants and options that would have been outstanding if potentially dilutive common shares had been issued.

The weighted average basic and diluted shares outstanding for the years ended December 31, 2006 and 2005 have been calculated assuming that all shares outstanding at December 31, 2007 were outstanding for all periods presented. The dilutive impact of the warrants, as described in Note 14, was calculated based upon the trading activity of FutureFuel’s common stock from July 13, 2006 to December 31, 2007.

Comprehensive income

Comprehensive income is comprised of net income and other comprehensive income (“OCI”). Comprehensive income comprises all changes in shareholders’ equity from transactions and other events and circumstances from non-owner sources. FutureFuel’s OCI is comprised of gains resulting from its investment in certain marketable debt securities classified as available for sale (see Note 6). For the year ended December 31, 2007, FutureFuel recorded an unrealized gain of $58, net of income taxes of $34, on these securities. There were no elements of other comprehensive income in 2006 or 2005.

Commitments and contingent liabilities

In the ordinary course of its business, FutureFuel enters into supply and sales contracts as deemed commercially desirable. Supply contracts are utilized to ensure the availability of raw materials used in the production process. Sales contracts are utilized to ensure the future sale of produced product.

FutureFuel and its operations from time to time may be parties to or targets of lawsuits, claims, investigations and proceedings including product liability, personal injury, patent and intellectual property, commercial, contract, environmental, health and safety and environmental matters, which are handled and defended in the ordinary course of business. FutureFuel accrues a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When a single amount cannot be reasonably estimated but the cost can be estimated within a range, FutureFuel accrues the minimum amount.

Use of estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during a reporting period. Estimates are used when accounting for allowance for doubtful accounts, depreciation, amortization, asset retirement obligations and income taxes as well as the evaluation of potential losses due to impairments or future liabilities. Actual results could differ materially from those estimates.

(Dollars in thousands, except per share amounts)

Segment Reporting

FutureFuel identifies operating segments when separate financial information is available that is evaluated regularly by its chief operating decision maker in assessing the performance of those segments and in determining how to allocate resources. FutureFuel has determined that it has two reportable segments organized along product lines -- chemicals and biofuels.

3) Business combination

FutureFuel was incorporated on August 12, 2005 to serve as a vehicle for a Business Combination of one or more operating businesses in the oil and gas industry. In 2006 FutureFuel identified such an operating business in Eastman SE. Eastman SE, as owner of the Batesville Plant, began the implementation of a biobased products platform, including the production of biofuels (biodiesel, bioethanol and lignin/biomass solid fuels) and biobased specialty products (biobased lubricants, solvents and intermediates). In addition to the biobased products platform, the Batesville Plant has continued the custom synthesis of fine chemicals and other organic chemicals. On October 31, 2006, FutureFuel acquired all of the issued and outstanding shares of Eastman SE from Eastman Chemical for cash consideration and $0.02 per gallon of biodiesel sold by FutureFuel during the three-year period commencing on November 1, 2006 and ending on October 31, 2009. Immediately subsequent to its acquisition, Eastman SE changed its name to FutureFuel Chemical. The results of FutureFuel Chemical have been included in FutureFuel’s results of operations since October 31, 2006. After final purchase price adjustments, a price of $70,970 was paid for the stock of Eastman SE. Contingent purchase price payments to Eastman Chemical based on volumes of biodiesel sold totaled $11 through December 31, 2006 and $183 through December 31, 2007. The contingent purchase price payments offset a contingent consideration liability that FutureFuel recorded as of the closing date of the acquisition.

The following table summarizes the preliminary estimated fair values of the Eastman SE assets acquired and liabilities assumed and related deferred income taxes as of the acquisition date:

		Eastman SE
Assets acquired		
Current assets	$	24,804
Property, plant and equipment		79,968
Noncurrent deferred income tax asset		373
Intangible assets subject to amortization		567
Other assets		3,211
Total assets		108,923
Liabilities assumed		
Current liabilities		10,353
Long-term contingent consideration		2,198
Other noncurrent liabilities		508
Noncurrent deferred income taxes		23,230
Total liabilities		36,289
Net assets acquired	$	72,634

In the allocation of the fair values of the assets acquired and liabilities assumed, FutureFuel determined there was a balance of $2,370 of negative goodwill. As the purchase of Eastman SE provided for contingent consideration to be paid to Eastman Chemical, the negative goodwill has been allocated to contingent consideration. FutureFuel has not identified any material unrecorded pre-acquisition contingencies where the related asset, liability or impairment is probable and the amount can be reasonably estimated.

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

The following unaudited pro forma consolidated results of operations assume that the acquisition of Eastman SE was completed as of January 1:

		2006	2005
Revenues	$	150,770	$ 119,539
Net income	$	5,142	$3,769
Basic earnings per share	$	0.19	$0.14
Diluted earnings per share	$	0.16	$0.12

Pro-forma data may not be indicative of the results that would have been obtained had these events actually occurred at the beginning of the periods presented, nor does it intend to be a projection of future results.

4) Inventories

The carrying values of inventory were as follows as of December 31:

		2007		2006
At first-in, first-out or average cost (approximates current cost)				
Finished goods	$	8,993	$	7,943
Work in process		1,091		1,750
Raw materials and supplies		15,670		12,894
		25,754		22,587
LIFO reserve		(1,562)		(5)
Total inventories	$	24,192	$	22,582

5) Derivative instruments

The volumes and carrying values of FutureFuel's derivative instruments were as follows at December 31:

	Asset/(Liability)					
	2007			2006		
	Quantity (000 bbls) Long/ (Short)		Fair Market Value	Quantity (000 bbls) Long/ (Short)		Fair Market Value
Regulated fixed price future commitments, included in prepaid expenses and other current assets	-	$	-	(250)	$	(28)
Regulated options, included in prepaid expenses and other current assets	(100)	$	(247)	(100)	$	(419)

The margin account maintained with a broker to collateralize these derivative instruments carried an account balance of $789 and $3,578 at December 31, 2007 and 2006, respectively, and is classified as other current assets in the consolidated balance sheet. The carrying values of the margin account and of the derivative instruments are included in other current assets and comprise the entire account balance.

6) Marketable debt securities

In September 2007, FutureFuel made an investment in certain U.S. treasury bills and notes. These marketable debt securities have maturities ranging from March 2008 to August 2009. FutureFuel anticipates these securities being sold within one year, regardless of the maturity date, and has therefore classified all marketable debt securities as current assets in the accompanying consolidated balance sheet. FutureFuel has designated these securities as being available-for-sale. Accordingly, these securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders' equity. No realized gains or losses have been incurred related to these securities through December 31, 2007.

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

The fair market value of these marketable debt securities, including accrued interest, totaled $15,086 and $0 at December 31, 2007 and December 31, 2006, respectively.

7) Property, plant and equipment

Property, plant and equipment consisted of the following at December 31:

		2007		2006
Land and land improvements	$	4,260	$	4,260
Buildings and building equipment		20,444		19,037
Machinery and equipment		69,309		54,797
Construction in progress		6,126		5,143
Accumulated depreciation		(5,103)		(611)
Total	$	95,036	$	82,626

Depreciation expense totaled $4,599 for the year ended December 31, 2007 and $611 for the year ended December 31, 2006.

8) Intangible assets

In connection with its acquisition of Eastman SE, a certain portion of the purchase price was allocated to the intangible asset customer relationships. Customer relationships consisted of the following at December 31:

		2007		2006
Cost	$	567	$	567
Accumulated amortization		(132)		(19)
	$	435	$	548

Amortization expense totaled $113 and $19 for the years ended December 31, 2007 and 2006, respectively. FutureFuel estimates that amortization expense for 2008 to 2010 will be $113 annually and that amortization expense in 2011 will be $94.

9) Other assets

Other assets is comprised of spare equipment and parts that have not been placed into service as of the balance sheet date and are not expected to be placed into service for the twelve-month period subsequent to the balance sheet date. The balance related to these items totaled $4,191 and $2,765 at December 31, 2007 and 2006, respectively.

10) Accrued expenses and other current liabilities

Accrued expenses and other current liabilities, including those associated with related parties, consisted of the following at December 31:

		2007		2006
Accrued employee liabilities	$	1,722	$	773
Accrued property, use and franchise taxes		1,110		373

Accrued professional fees		30		340
Amounts collected on behalf of Eastman Chemical		-		178
Other		508		93
Total	$	3,370	$	1,757

FutureFuel Chemical entered into a $50 million credit agreement with Regions Bank in March 2007. The loan is a revolving facility the proceeds of which may be used for working capital, capital expenditures and general corporate purposes of FutureFuel Chemical. The facility terminates in March 2010. Advances are made pursuant to a borrowing base. Advances are secured by a perfected first priority security interest in

73

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

accounts receivable and inventory. The interest rate floats at certain margins over LIBOR or base rate based upon the leverage ratio from time to time. There is an unused commitment fee. Beginning December 31, 2007, and on the last day of each fiscal quarter thereafter, the ratio of EBITDA to fixed charges may not be less than 1.5:1. Beginning June 30, 2007, the ratio of total funded debt to EBITDA may not exceed 3.50:1, reduced to 3.25:1 at March 31, 2008, June 30, 2008 and September 30, 2008, and then 3:1 thereafter. FutureFuel has guaranteed FutureFuel Chemical's obligations under this credit agreement.

11) Asset retirement obligations and environmental reserves

The Batesville Plant generates hazardous and non-hazardous wastes, the treatment, storage, transportation and disposal of which are regulated by various governmental agencies. In addition, the Batesville Plant may be required to incur costs for environmental and closure and post closure costs under the Resource Conservation and Recovery Act ("RCRA"). FutureFuel's reserve for asset retirement obligations and environmental contingencies was $566 and $545 as of December 31, 2007 and 2006, respectively. These amounts are recorded in other noncurrent liabilities in the accompanying balance sheet.

The following table summarizes the activity of accrued obligations for asset retirement obligations:

	2007	2006
Beginning balance	$ 545	$ -
Batesville Plant acquisition opening balance	-	508
Accretion expense	21	37
Balance at December 31	$ 566	$ 545

12) Deferred taxes

The following table summarizes the provision for income taxes:

	2007	2006
Income before taxes - U.S.	$ 13,191	$ 4,090
Provision/(benefit) for income taxes:		
Current	$ 2,080	$ 1,818
Deferred	2,201	(687)
State and other		
Current	228	466
Deferred	274	(224)
Total	$ 4,783	$ 1,373

Differences between the provision for income taxes computed using the U.S. federal statutory income tax rate were as follows:

	2007	2006
Amount computed using the statutory rate of 34%	$ 4,485	$ 1,390
Section 199 manufacturing deduction	(183)	(33)
Agri-biodiesel production credit	(564)	(78)
Credit for increasing research activities	(69)	-

Change in the valuation allowance		472		-
State income taxes, net		601		94
Other		41		-
Provision for income taxes	$	4,783	$	1,373

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

The significant components of deferred tax assets and liabilities were as follows as of December 31:

	2007	2006
Deferred tax assets		
Vacation pay	$ 115	$ 52
Allowance for doubtful accounts	16	16
Agri-biodiesel production credit	190	-
Inventory reserves	219	175
Self insurance	123	-
Asset retirement obligation	222	214
Directors and officers fees	122	-
Derivative instruments	444	-
Total deferred tax assets	1,451	457
Deferred tax liabilities		
Derivative instruments	-	(45)
Available for sale securities	(34)	-
Accrued expenses	(18)	-
LIFO inventory	(4,684)	(4,312)
Intangible assets	(170)	(215)
Insurance proceeds	(275)	-
Depreciation	(20,062)	(17,829)
Total deferred tax liabilities	(25,243)	(22,401)
Valuation allowance	(472)	-
Net deferred tax liabilities	$ (24,264)	$ (21,944)
As recorded in the consolidated balance sheet		
Current deferred income tax liability	$ (4,597)	$ (4,242)
Accrued expenses and other current liabilities	-	(44)
Noncurrent deferred income tax liability	(19,667)	(17,658)
Net deferred income tax liabilities	$ (24,264)	$ (21,944)

As discussed in Note 1, FutureFuel adopted the provisions of FIN 48 on January 1, 2007. FutureFuel did not recognize a significant change in liability for uncertain tax positions as a result of its implementation of FIN 48. FutureFuel's unrecognized tax benefits, recorded as an element of other noncurrent liabilities, totaled $559 at December 31, 2007, the total amount of which, if recognized, would reduce FutureFuel's effective tax rate.

We do not expect our unrecognized tax benefits to change significantly over the next 12 months.

FutureFuel records interest and penalties net as a component of income tax expense. As of December 31, 2007, FutureFuel had no accrual for interest or tax penalties.

FutureFuel and its subsidiary, FutureFuel Chemical, files tax returns in the U.S. federal jurisdiction and with various state jurisdictions. FutureFuel was incorporated in 2005 and is subject to examination by U.S., state and local tax authorities from 2005 forward. FutureFuel Chemical is subject to the effects of tax examination that may impact the carryover basis of its assets and liabilities.

75

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

13) Stockholders' equity

On July 12, 2006, Viceroy completed an offering of 22,500,000 units. Each unit consisted of one share of Viceroy's common stock and one warrant to acquire one share. The units were issued at $8.00 per unit. In connection with this offering, the shares and warrants issued were listed on the Alternative Investment Market ("AIM") maintained by the London Stock Exchange plc. The net proceeds of this offering totaled $172,500 and were placed into a trust fund. All or a portion of the trust fund was to be released for, among other things, a Business Combination approved by the holders of Viceroy's common stock. Moreover, the trust fund was to be released in its entirety upon the completion of a Business Combination which, either on its own or when combined with all previous Business Combinations, had an aggregate transaction value of at least 50% of the initial trust amount (which initial trust amount excluded certain deferred placing fees).

Certain of the Viceroy shareholders who purchased units in the July 12, 2006 offering were granted repurchase rights whereby at the time Viceroy sought approval for a Business Combination these shareholders could vote against the Business Combination and require Viceroy to repurchase their common shares for $7.667 per common share plus accrued interest earned on the offering proceeds held in trust net of expenses and income taxes payable on the interest earned. Shareholders who exercised their repurchase rights retained all rights to any warrants that they may have held.

On July 12, 2006, Viceroy and its founding shareholders entered into a registration rights agreement pursuant to which the holders of the majority of founding shares and shares of common stock included in the units purchased in Viceroy's July 2006 offering by a director or his designees are entitled to make up to two demands that Viceroy register with the SEC their founding shares and the shares included in the units purchased in Viceroy's July 2006 offering. The holders of the majority of such shares can elect to exercise these registration rights at any time after the date on which Viceroy has become a reporting company under the Securities Exchange Act of 1934 ("Securities Act"), as amended, and such shares have been released from any applicable escrow agreement and lock-in deeds. In addition, those shareholders have certain "piggyback" registration rights on registration statements filed subsequent to the date on which such shares are released from escrow or other lock up arrangements. Viceroy agreed to bear the expenses incurred in connection with the filing of any such registration statements. There are 11,250,000 shares of Viceroy's common stock subject to this registration rights agreement.

On July 12, 2006, Viceroy entered into an investor rights agreement with each of KBC Peel Hunt Ltd, Viceroy's Nominated Advisor on the AIM, and CRT Capital Group LLC, Viceroy's placing agent, for the benefit of the holders of its shares of common stock and warrants in which Viceroy agreed, at its cost, to provide "piggyback" registration rights as to any shares of its common stock that are not, at the time, freely saleable identical to the "piggyback" registration rights of the founding shareholders described above, plus the right to piggyback on any registration statement filed pursuant to the founding shareholders' demand registration rights described above, provided that in the event such piggyback rights are exercised in an underwritten offering, the number of shares of Viceroy's common stock registered will be subject to a cutback, pro rata with the founding shareholders, if the underwriter so requires. There are 15,450,000 shares of Viceroy's common stock subject to this investor rights agreement.

In addition, the July 12, 2006 investor rights agreement stipulates that Viceroy has agreed, at its cost, to file with the SEC no later than the 180th day after the date of a consummation of a Business Combination which, either on its own or when combined with all previous Business Combinations, had an aggregate transaction value of at least 50% of the initial trust amount (which initial trust amount excluded certain deferred placing fees) ("Registration Trigger"), a registration statement ("Exchange Act Registration Statement") on Form 10 to register its common shares. Additionally, Viceroy agreed to use commercially reasonable efforts to cause the Exchange Act Registration Statement to become effective under the Securities Act no later than 270 days after the Registration Trigger and use reasonable commercial efforts promptly upon effectiveness of the Exchange Act Registration Statement to list the common shares of Viceroy on the American Stock Exchange, the New York Stock Exchange, NASDAQ or a similarly recognized trading platform in the United States. Viceroy did not make any assurances that any such listing application would be accepted.

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

If the Exchange Act Registration Statement was not declared effective on or prior to the 270th day after the date of the Registration Trigger ("Registration Default"), Viceroy would have paid liquidated damages to each holder of its common stock issued in connection with its July 2006 offering. The liquidated damages would have been:

- paid to each holder in the form of common stock in Viceroy in an amount equal to 0.5% per month of the number of each holder's common shares in Viceroy;
- payable promptly after the occurrence of the Registration Default, but in no event later than two days after the end of the month in which the Registration Default has occurred;
- payable within two days of the end of each month, until the Registration Default has been cured, provided that a pro rata payment shall be made with respect to a month a portion of which Viceroy has been in default; and
- payable for a maximum of 12 months.

The investors rights agreement provided that the liquidated damages specified above were the only exclusive remedy available to holders of Viceroy's common shares for any failure by Viceroy to comply with the requirements of the investors rights agreement.

On April 24, 2007, Viceroy filed the Exchange Act Registration Statement. On June 23, 2007, the Exchange Act Registration Statement became effective. This was prior to the 270th day after the date of the Registration trigger. Consequently, no liquidated damages, as described above, were paid.

Viceroy has also agreed to use reasonable commercial efforts to maintain its listing on the AIM for at least two years.

At the October 27, 2006 special meeting of the shareholders of Viceroy, the acquisition of Eastman SE by Viceroy was approved by the shareholders of Viceroy. Shareholders owning 1,425,000 common shares of Viceroy voted against the acquisition and exercised their repurchase rights. Accordingly, such shares are deemed to be held for redemption, are not deemed to be outstanding, and are not included in equity in the post-acquisition period. The repurchase price totaled $7.71 per share, calculated as $7.667 plus $0.043 of accrued interest earned on the offering proceeds held in trust net of expenses and income taxes payable on the interest earned per share. Pursuant to the terms of the July 12, 2006 offering, the repurchase price was payable by Viceroy only when those shareholders who exercised their repurchase rights surrendered to Viceroy their common share certificates. Through December 31, 2006, shareholders owing 1,175,000 common shares of FutureFuel had surrendered their shares to FutureFuel and FutureFuel had paid an aggregate $9,059 to repurchase these shares. At December 31, 2006, FutureFuel remained obligated to repurchase 250,000 common shares at the $7.71 per share repurchase price. The $1,928 payable to these shareholders was paid in January 2007.

As discussed in Note 1, immediately subsequent to the acquisition Viceroy changed its name to FutureFuel Corp. and Eastman SE changed its name to FutureFuel Chemical Company.

14) Earnings per share

The computation of basic and diluted earnings per common share was as follows:

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

	2007	2006	2005
Net income available to common stockholders	$ 8,408	$ 2,717	$ -
Weighted average number of common shares outstanding	26,700,000	26,700,000	5,625,000
Effect of warrants	5,586,996	5,118,772	-
Weighted average diluted number of common shares outstanding	32,286,996	31,818,772	5,625,000
Basic earnings per share	$ 0.31	$ 0.10	$ -
Diluted earnings per share	$ 0.26	$ 0.09	$ -

15) Employee benefit plans

Defined contribution savings plan

FutureFuel currently offers its employees a company 401(k) match and a defined contribution savings plan, which covers substantially all employees. Under this plan, FutureFuel matches the amount of employee contributions, subject to specified limits and makes a retirement savings safe harbor contribution to employees' 401(k) savings plans. Plan related expenses totaled $1,552 and $120 for the years ended December 31, 2007 and 2006, respectively. No expense related to this plan was incurred from August 12, 2005 (Inception) to October 31, 2006.

16) Related party transactions

FutureFuel enters into transactions with companies affiliated with or controlled by a director and significant shareholder.

FutureFuel leases oil storage capacity from an affiliate under a storage and thruput agreement. This agreement provides for the storage of biodiesel, biodiesel/petrodiesel blends, palm oil, methanol and other biodiesel feedstocks in above-ground storage tankage at designated facilities of the affiliate. Lease expense related to this agreement totaled $126 and $9 for the years ended December 31, 2007 and 2006, respectively, and $0 for the period from August 12, 2005 (Inception) to December 31, 2005.

FutureFuel entered into a commodity trading advisor agreement with an affiliate. Pursuant to the terms of this agreement the affiliate provides advice to FutureFuel concerning the purchase, sale, exchange, conversion and/or hedging of commodities as FutureFuel may request from time to time. Expenditures related to this agreement totaled $127 and $20 in the years ended December 31, 2007 and 2006, respectively.

FutureFuel entered into a railcar sublease agreement with an affiliate. Pursuant to the terms of this sublease, FutureFuel leases from the affiliate railcars upon the same terms, conditions and price the affiliate leases the railcars. Lease terms for individual railcars begin upon delivery of the railcars. Forty railcars were received through December 31, 2007 but no railcars had been received in 2006 under this agreement. Expenditures incurred under this agreement were $72 and $0, respectively, and $0 for the period from August 12, 2005 (Inception) to December 31, 2005.

FutureFuel reimburses an affiliate for travel and other administrative services incurred on its behalf. Such reimbursement is performed at cost with the affiliate realizing no profit on the transaction. These reimbursements totaled $78 and $123 in 2007 and 2006, respectively, and $0 for the period from August 12, 2005 (Inception) to

December 31, 2005.

At December 31, 2005, FutureFuel had unsecured promissory notes payable to shareholders (one of these shareholders was an officer and director of FutureFuel and the other was affiliated with one) of $200 in aggregate. The loans were non-interest bearing and were payable upon the consummation of a Business Combination. Due to the short-term nature of the notes, the fair value of the notes approximated their

78

carrying value. These notes were repaid in November 2006 in connection with the consummation of the acquisition of Eastman SE.

Accounts payable included $121 and $112 and accrued expenses and other current liabilities included $0 and $40 due to related parties at December 31, 2007 and 2006, respectively.

As new payment instructions were adopted by FutureFuel Chemical's customers subsequent to its acquisition by FutureFuel, Eastman Chemical collected trade accounts receivable on FutureFuel Chemical's behalf. These collections were subsequently remitted to FutureFuel Chemical. At December 31, 2006, Eastman Chemical had collected $3,046 of trade accounts receivable on FutureFuel Chemical's behalf. No amounts were outstanding at December 31, 2007.

17) Segment information

FutureFuel has determined that is has two reportable segments organized along product lines – chemicals and biofuels. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 2.

Chemicals

FutureFuel's chemicals segment manufactures diversified chemical products that are sold externally to third party customers. This segment comprises two components: "custom manufacturing" (manufacturing chemicals for specific customers); and "performance chemicals" (multi-customer specialty chemicals).

Biofuels

FutureFuel's biofuels business segment manufactures and markets biodiesel. Biodiesel commercialization was achieved in October 2005 at the Batesville Plant. Biodiesel revenues are generally derived in one of two ways. Revenues are generated under tolling agreements whereby customers supply key biodiesel feed stocks which FutureFuel then converts into biodiesel at the Batesville Plant in exchange for a fixed price processing charge per gallon of biodiesel produced. Revenues are also generated through the sale of biodiesel to customers through FutureFuel's distribution network at the Batesville Plant and through distribution facilities available at a leased oil storage facility near Little Rock, Arkansas at negotiated prices.

Summary of long-lived assets and revenues by geographic area

All of FutureFuel's long-lived assets are located in the U.S.

Most of FutureFuel's sales are transacted with title passing at the time of shipment from the Batesville Plant, although some sales are transacted based on title passing at the delivery point. While many of FutureFuel's chemicals are utilized to manufacture products that are shipped, further processed and/or consumed throughout the world, the chemical products, with limited exceptions, generally leave the United States only after ownership has transferred from FutureFuel to the customer. Rarely is FutureFuel the exporter of record, never is FutureFuel the importer of record into foreign countries and FutureFuel is not always aware of the exact quantities of its products that are moved into foreign markets by its customers. FutureFuel does track the addresses of its customers for invoicing purposes and uses this address to determine whether a particular sale is within or without the United States. FutureFuel's revenues for the year ended December 31, 2007 and 2006 attributable to the United States and foreign countries (based upon the billing addresses of its customers) were as follows:

Fiscal Year	United States	All Foreign Countries	Total
December 31, 2007	$ 141,233	$ 28,555	$ 169,788
December 31, 2006	$ 21,474	$ 1,569	$ 23,043
August 12, 2005 (Inception) to December 31, 2005	$ -	$ -	$ -

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

For the years ended December 31, 2007 and 2006, revenues from Mexico accounted for 11% and 7%, respectively, of total revenues. Beginning in the third quarter of 2007, FutureFuel Chemical Company began selling significant quantities of biodiesel to companies in Canada, at which time revenues from Canada became a material component of total revenues. Revenues from Canada accounted for 5% of total revenues for the year ended December 31, 2007. Other than Mexico and Canada, revenues from a single foreign country during 2007 or 2006 did not exceed 3% of total revenues.

Summary of business by segment

	2007	2006	2005
Revenues			
Chemicals	$ 144,474	$ 21,282	$ -
Biofuels	25,314	1,761	-
Revenues	$ 169,788	$ 23,043	$ -
Segment gross margins			
Chemicals	$ 27,107	$ 6,054	$ -
Biofuels	(9,874)	(3,110)	-
Segment gross margins	17,233	2,944	-
Corporate expenses	(7,578)	(2,182)	(1)
Income (loss) before interest and taxes	9,655	762	(1)
Interest income	3,567	3,365	1
Interest and other expense	(31)	(37)	-
Provision for income taxes	(4,783)	(1,373)	-
Net income	$ 8,408	$ 2,717	$ -

Depreciation is allocated to segment costs of goods sold based on plant usage. The total assets and capital expenditures of FutureFuel have not been allocated to individual segments as large portions of these assets are shared to varying degrees by each segment, causing such an allocation to be of little value.

18) Commitments

Lease agreements

FutureFuel has entered into lease agreements for oil storage capacity, railcars, isotainers, gas cylinders, argon tanks and office machines. Minimum rental commitments under existing noncancellable operating leases as of December 31, 2007 were as follows:

2008	724
2009	482
2010	419
2011	393
2012	331
Thereafter	1,316
Total	$ 3,665

Lease expenses totaled $408 and $9 for the years ended December 31, 2007 and 2006, respectively, and $0 from August 12, 2005 (Inception) to December 31, 2005.

Purchase obligations

FutureFuel has entered into contracts for the purchase of goods and services including contracts for the expansion of FutureFuel's biodiesel related infrastructure, the development, implementation and maintenance of an enterprise resource planning computer software package and the licensing of a chemical modeling software product.

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

Deferred payments to Eastman Chemical

In connection with the purchase of shares of Eastman SE, FutureFuel agreed to pay Eastman Chemical $0.02 per gallon of biodiesel sold by FutureFuel during the three-year period commencing on October 31, 2006 and ending on October 31, 2009. Payments to Eastman Chemical in 2007 and 2006 for this agreement totaled $172 and $11, respectively.

19) Quarterly financial information (unaudited)

	Quarter			
	1st	2nd	3rd	4th
2007				
Revenues	$ 37,506	$ 41,620	$ 46,558	$ 44,104
Gross profit (loss)	$ (2,448)	$ 5,582	$ 6,885	$ 7,214
Net income (loss)	$ (2,040)	$ 2,907	$ 3,343	$ 4,198
Net income (loss) per common share:				
Basic	$ (0.08)	$ 0.11	$ 0.13	$ 0.16
Diluted	$ (0.08)	$ 0.09	$ 0.10	$ 0.13
2006				
Revenues	$ -	$ -	$ -	$ 23,043
Gross profit	$ -	$ -	$ -	$ 2,944
Net income (loss)	$ (188)	$ 1	$ 1,151	$ 1,753
Net income (loss) per common share:				
Basic	$ (0.01)	$ -	$ 0.04	$ 0.07
Diluted	$ (0.01)	$ -	$ 0.04	$ 0.05

Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly amounts will not necessarily equal the total for the year.

20) Recently issued accounting standards

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which addresses the measurement of fair value by companies when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS No. 157 provides a common definition of fair value to be used throughout GAAP which is intended to make the measurement of fair value more consistent and comparable and improve disclosures about those measures. With the exception of other non-financial assets and liabilities, SFAS No. 157 will be effective for an entity's financial statements issued for fiscal years beginning after November 15, 2007. With respect to other non-financial assets and liabilities, the Financial Accounting Standards Board has provided a one-year implementation deferral. FutureFuel is currently evaluating the effect SFAS No. 157 will have on its consolidated financial position, liquidity, and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value at specified election dates. Upon adoption, an entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Most of the provisions apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available for sale and trading securities. SFAS No. 159 will be effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. FutureFuel is currently evaluating the effect SFAS No. 159 will have on its consolidated financial position, liquidity, and results of operations.

Notes to Consolidated Financial Statements of FutureFuel Corp.
(Dollars in thousands, except per share amounts)

21) Restatement of consolidated financial results

On October 31, 2006, FutureFuel acquired Eastman SE. For purposes of preparing its financial statements, FutureFuel accounted for the acquisition as a reverse acquisition; FutureFuel did not apply purchase accounting to the transaction. Upon further review of the accounting for the acquisition of Eastman SE in connection with the filing of its Form 10 Registration Statement, FutureFuel reassessed its accounting for the acquisition and determined that FutureFuel's financial statements should be restated to apply purchase accounting to the acquisition. The consolidated financial statements of FutureFuel along with the accompanying notes to the financial statements contained herein reflect this restatement.

The following sets forth FutureFuel Chemical Company's balance sheets as of December 31, 2005 and 2004, the statements of operations, statements of cash flows and statements of changes in stockholder's equity for each of the years in the two-year period ended December 31, 2005, and the statements of operations and statements of cash flows for the ten-month period ended October 31, 2006, together with KPMG LLP's report thereon.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
FutureFuel Corp.:

We have audited the accompanying statements of operations, changes in stockholder's equity, and cash flows for the ten months ended October 31, 2006 and for the year ended December 31, 2005 of FutureFuel Chemical Company (the Company), formerly known as Eastman SE, Inc. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows for the ten months ended October 31, 2006 and for the year ended December 31, 2005 of FutureFuel Chemical Company, formerly known as Eastman SE, Inc., in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

St. Louis, Missouri
December 27, 2007

FutureFuel Chemical Company,
formerly known as Eastman SE, Inc.
Statements of Operations
For the Ten Months Ended October 31, 2006 and the Year Ended December 31, 2005
(Dollars in thousands)

	Predecessor	
	Ten Months Ended October 31, 2006	Year Ended December 31, 2005
Revenues	$ 111,125	$ 104,364
Revenues - related parties	16,602	15,175
Cost of goods sold	101,816	88,484
Cost of goods sold - related parties	16,602	15,175
Distribution	1,158	1,604
Gross profit (loss)	8,151	14,276
Selling, general and administrative expenses	5,403	7,662
Research and development expenses	3,996	5,975
	9,399	13,637
Income (loss) from operations	(1,248)	639
Interest expense	-	(31)
	-	(31)
Income (loss) before income taxes	(1,248)	608
Provision (benefit) for income taxes	(773)	227
Net income (loss)	$ (475)	$ 381

The accompanying notes are an integral part of these financial statements.

FutureFuel Chemical Company,
formerly known as Eastman SE, Inc.
Statements of Cash Flows
For the Ten Months Ended October 31, 2006 and the Year Ended December 31, 2005
(Dollars in thousands)

	Predecessor	
	Ten Months Ended October 31, 2006	Year Ended December 31, 2005
Cash flows provide by operating activities		
Net income (loss)	$ (475)	$ 381
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Asset impairment charges	-	-
Depreciation	7,531	8,940
Provision (benefit) for deferred income taxes	601	(148)
Noncash environmental charges (credits) from parent	148	(2,682)
Losses on disposals of fixed assets	95	67
Changes in operating assets and liabilities:		
Accounts receivable	7,412	(533)
Inventory	(2,413)	2,121
Prepaid expenses and other current assets	(38)	-
Other assets	(606)	(382)
Accounts payable	2,271	(57)
Accrued expenses and other current liabilities	(5,657)	(129)
Other noncurrent liabilities	(335)	(22)
Net cash provided by operating activities	8,534	7,556
Cash flows used in investing activities		
Proceeds from the sale of fixed assets	-	60
Capital expenditures	(8,549)	(6,654)
Net cash used in investing activities	(8,549)	(6,594)
Cash flows provided by (used in) financing activities		
Transfers to parent, net	15	(962)
Net cash provided by (used in) financing activities	15	(962)
Net change in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	$ -	$ -

The accompanying notes are an integral part of these financial statements.

FutureFuel Chemical Company,
formerly known as Eastman SE, Inc.
Statements of Changes in Stockholder's Equity
For the Ten Months Ended October 31, 2006 and the Year Ended December 31, 2005
(Dollars in thousands)

	Predecessor	
	Net Investment of Parent	Total Stockholder's Equity
Balance - December 31, 2004	79,276	79,276
Net income	381	381
Net transfers to parent	(3,584)	(3,584)
Balance - December 31, 2005	76,073	76,073
Net income (loss)	(475)	(475)
Net transfer to parent	153	153
Balance - October 31, 2006	$ 75,751	$ 75,751

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements of FutureFuel Chemical Company, formerly known as Eastman SE, Inc.
(Dollars in thousands)

1) Nature of operations and basis of presentation

Eastman SE, Inc.

Eastman SE, Inc. ("Eastman SE") was incorporated under the laws of the state of Delaware on September 1, 2005 and subsequent thereto operated as a wholly-owned subsidiary of Eastman Chemical Company ("Eastman Chemical") through October 31, 2006. Eastman SE was incorporated for purposes of effecting a sale of Eastman Chemical's manufacturing facility in Batesville, Arkansas (the "Batesville Plant"). Commencing January 1, 2006, Eastman Chemical began transferring the assets associated with the business of the Batesville Plant to Eastman SE.

The Batesville Plant was constructed to produce proprietary photographic chemicals for Eastman Kodak Company ("Eastman Kodak"). Over the years, Eastman Kodak shifted the plant's focus away from the photographic imaging business to the custom synthesis of fine chemicals and organic chemical intermediates used in a variety of end markets, including paints and coatings, plastics and polymers, pharmaceuticals, food supplements, household detergents and agricultural products.

In 2005, the Batesville Plant began the implementation of a biobased products platform. This includes the production of biofuels (biodiesel, bioethanol and lignin/biomass solid fuels) and biobased specialty chemical products (biobased solvents, chemicals and intermediates). In addition to biobased products, the Batesville Plant continues to manufacture fine chemicals and other organic chemicals.

Viceroy Acquisition Corporation

Viceroy Acquisition Corporation ("Viceroy") was incorporated under the laws of the state of Delaware on August 12, 2005 to serve as a vehicle for the acquisition by way of asset acquisition, merger, capital stock exchange, share purchase or similar transaction ("Business Combination") of one or more operating businesses in the oil and gas industry.

On July 21, 2006, Viceroy entered into an acquisition agreement with Eastman Chemical to purchase all of the issued and outstanding stock of Eastman SE. On October 27, 2006, a special meeting of the shareholders of Viceroy was held and the acquisition of Eastman SE was approved by the shareholders. On October 31, 2006, Viceroy acquired all of the issued and outstanding shares of Eastman SE from Eastman Chemical. Immediately subsequent to the acquisition, Viceroy changed its name to FutureFuel Corp. ("FutureFuel") and Eastman SE changed its name to FutureFuel Chemical Company ("FutureFuel Chemical").

Basis of Presentation

Through October 31, 2006, the operations of the Batesville Plant were included in the consolidated financial statements of Eastman Chemical. Accordingly, the accompanying statements of operations and related statements of cash flows have been prepared from Eastman Chemical's historical accounting records and are presented on a carve-out basis to include the historical financial position, results of operations and cash flows applicable to Eastman SE through October 31, 2006. As a result of the lack of capital structure of Eastman SE prior to October 31, 2006, the net investment of the parent has been presented in lieu of stockholder's equity. These financial statements are presented as the predecessor financial statements to FutureFuel Corp. The financial statements for Eastman SE do not reflect the application of purchase accounting and are presented on a different cost basis than periods following the acquisition and, therefore, are not comparable.

Corporate Allocations

The financial statements of Eastman SE include allocations of certain corporate services provided by Eastman Chemical's management, including finance, legal, information systems, human resources and distribution. Eastman Chemical has utilized its experience with the business of the Batesville Plant and its judgment in allocating such corporate services and other support to the periods prior to October 31, 2006. Costs allocated for such services were:

Notes to the Financial Statements of FutureFuel Chemical Company, formerly known as Eastman SE, Inc.
(Dollars in thousands)

	Ten Months Ended October 31, 2006	Year Ended December 31, 2005
Cost of goods sold	$ -	$ 99
Distribution	438	874
Selling, general and administrative	4,398	5,327
Research and development	652	2,388
Total cost and expenses allocated	$ 5,488	$ 8,688

Allocations were made to cost of goods sold, distribution and selling, general and administrative expenses primarily based on a percentage of revenues and allocations to research and development expenditures were made primarily on actual time and effort incurred, which management believes represents reasonable allocation methodologies. These allocations and estimates are not necessarily indicative of the costs and expenses that would have resulted if Eastman SE had been operating as a separate entity.

Eastman Chemical used a centralized approach to cash management, hedging and the financing of its operations. As a result, debt and related interest income and expense, and certain cash and cash equivalents, were maintained at the corporate office and are not included in the accompanying consolidated financial statements. In addition, allocations related to LIFO inventories were made on the basis of the specific attributes of the inventories and related products sold by Eastman SE.

2) Significant accounting policies

Accounts receivable, allowance for doubtful accounts and credit risk

Accounts receivable are recorded at the invoiced amount and do not bear interest. Eastman SE has established procedures to monitor credit risk and has not experienced significant credit losses in prior years. Accounts receivable have been reduced by an allowance for amounts that may be uncollectible in the future. This estimated allowance is based upon management’s evaluation of the collectibility of individual invoices and is based upon management’s evaluation of the financial condition of its customers and historical bad debt experience. Write-offs are recorded at the time a customer receivable is deemed uncollectible.

Through October 31, 2006, Eastman SE participated in an agreement that allowed Eastman Chemical to sell certain domestic accounts receivable under a planned continuous sale program to a third party. The agreement permitted the sale of undivided interests in domestic trade accounts receivable, which Eastman Chemical continued to service until collection.

Customer concentrations

Significant portions of Eastman SE’s sales are made to a relatively small number of customers. All sales of nonanoyloxybenzenesulfonate (“NOBS”), a bleach activator, are made to a leading North American consumer products company pursuant to a supply contract that is set to expire in June 2008. Sales of NOBS totaled $69,982 and $66,959 for the ten months ended October 31, 2006 and for the year ended December 31, 2005, respectively. Additionally, all sales of a herbicide and certain other intermediates used in the production of this herbicide are made to one customer. Sales of this herbicide and its intermediates totaled $21,559 and $25,063 for the ten months ended October

31, 2006 and the year ended December 31, 2005, respectively.

Inventory

Eastman SE determines the cost of substantially all raw materials and finished goods inventories by the last-in, first-out ("LIFO") method. Eastman SE writes down its inventories for estimated obsolescence or unmarketable inventory equal to the difference between the carrying value of inventory and the estimated market value based upon current demand and market conditions.

Notes to the Financial Statements of FutureFuel Chemical Company, formerly known as Eastman SE, Inc.
(Dollars in thousands)

Financial and derivative instruments

The carrying values of accounts receivable, accounts payable and accrued expenses and other current liabilities approximate their fair values due to the short-term maturities of these instruments.

Property, plant and equipment

Property, plant and equipment is carried at cost. Maintenance and repairs are charged to earnings; replacements and betterments are capitalized. When Eastman SE retires or otherwise disposes of assets, it removes the cost of such asset and related accumulated depreciation from the accounts. Eastman SE records any profit and loss on retirement or other disposition in earnings. Asset impairments are reflected as increases in accumulated depreciation. Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings and building equipment	20 – 50 years
Machinery and equipment	3 – 33 years
Transportation equipment	5 – 33 years
Other	5 – 33 years

Impairment of assets

Eastman SE evaluates the carrying value of long-lived assets when events or changes in circumstances indicate that the carrying value may not be recoverable. Such events and circumstances include, but are not limited to, significant decreases in the market value of the asset, adverse changes in the extent or manner in which the asset is being used, significant changes in business climate, or current or projected cash flow losses associated with the use of the assets. The carrying value of a long-lived asset is considered impaired when the total projected undiscounted cash flows from such assets are separately identifiable and are less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. For long-lived assets to be held for use in future operations and for fixed (tangible) assets, fair value is determined primarily using either the projected cash flows discounted at a rate commensurate with the risk involved or appraisal. For long-lived assets to be disposed of by sale or other than sale, fair value is determined in a similar manner, except that fair values are reduced for disposal costs.

Asset retirement obligations

Eastman SE establishes reserves for closure/post-closure costs associated with the environmental and other assets it maintains. Environmental assets include but are not limited to waste management units such as incinerators, landfills, storage tanks and boilers. When these types of assets are constructed or installed, a reserve is established for the future costs anticipated to be associated with the closure of the site based on an expected life of the environmental assets, the applicable regulatory closure requirements and Eastman SE’s environmental policies and practices. These expenses are charged into earnings over the estimated useful life of the assets. Currently, Eastman SE estimates the useful life of each individual asset up to 35 years. Changes made in estimates of the asset retirement obligation costs or the estimate of the useful lives of these assets are reflected in earnings as an increase or decrease in the period such changes are made.

Environmental costs are capitalized if they extend the life of the related property, increase its capacity and/or mitigate or prevent future contamination. The cost of operating and maintaining environmental control facilities is charged to expense.

Income taxes

Through October 31, 2006, Eastman SE was included in the consolidated federal tax return of Eastman Chemical. For purposes of the financial results presented up to that date, the provision for income taxes has been prepared using the separate return method. As Eastman SE did not file a separate federal tax return prior to October 31, 2006 and no tax sharing agreement was in place, any amounts payable or

Notes to the Financial Statements of FutureFuel Chemical Company, formerly known as Eastman SE, Inc.
(Dollars in thousands)

receivable were actually due to or receivable from Eastman Chemical and are included in the net investment of parent and transfers to parent.

Income taxes are accounted for using the asset and liability method. Under this method, income tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts of assets and liabilities and their respective income tax basis. A future income tax asset or liability is estimated for each temporary difference using enacted and substantively enacted income tax rates and laws expected to be in effect when the asset is realized or the liability settled. A valuation allowance is established, if necessary, to reduce any future income tax asset to an amount that is more likely than not to be realized.

Revenue recognition

Revenue from product sales are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable and collectibility is reasonably assured.

Through October 31, 2006, certain sales from Eastman SE to then affiliated companies, such as Eastman Chemical, were recorded with no margin based on the interdivision arrangements.

Shipping and handling fees

Shipping and handling fees related to sales transactions are billed to customers and recorded as sales revenues.

Cost of goods sold and selling, general and administration expense

Cost of goods sold includes the costs of inventory sold, related purchasing, distribution and warehousing costs, costs incurred for shipping and handling, and environmental remediation costs.

Selling, general and administration expense includes personnel costs associated with sales, marketing and administration, legal and legal-related costs, consulting and professional services fees, advertising expenses, and other similar costs.

Research and development

All costs identified as research and development costs are charged to expense when incurred.

Planned major maintenance activities

Expenditures for planned major maintenance activities are recognized as expense as incurred.

Comprehensive income (loss)

As it has not historically recognized any other comprehensive income (loss), the comprehensive income (loss) of Eastman SE is comprised entirely of its net income (loss). As Eastman SE recognizes revenues, expenses, gains or losses that, under accounting principles generally accepted in the U.S., are included in comprehensive income but excluded from net income, these items will be recognized as a component of other comprehensive income in its financial statements.

Commitments and contingent liabilities

In the ordinary course of its business, Eastman SE enters into supply and sales contracts as deemed commercially desirable. Supply contracts are utilized to ensure the availability of raw materials used in the production process. Sales contracts are utilized to ensure the future sale of produced product.

Eastman SE and its operations from time to time may be parties to or targets of lawsuits, claims, investigations and proceedings including product liability, personal injury, patent and intellectual property,

Notes to the Financial Statements of FutureFuel Chemical Company, formerly known as Eastman SE, Inc.
(Dollars in thousands)

commercial, contract, environmental, health and safety and environmental matters, which are handled and defended in the ordinary course of business. Eastman SE accrues a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When a single amount cannot be reasonably estimated but the cost can be estimated within a range, Eastman accrues the minimum amount.

Use of estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during a reporting period. Estimates are used when accounting for allowance for doubtful accounts, depreciation, amortization, asset retirement obligations and income taxes as well as the evaluation of potential losses due to impairments or future liabilities. Actual results could differ materially from those estimates.

Segment reporting

Eastman SE identifies operating segments when separate financial information is available that is evaluated regularly by its chief operating decision maker in assessing the performance of those segments and in determining how to allocate resources. Eastman SE has determined that it has two reportable segments organized along product lines - chemicals and biofuels.

3) Property, plant and equipment

Depreciation expense totaled $7,531 and $8,940 for the ten months ended October 31, 2006 and the year ended December 31, 2005, respectively.

4) Asset retirement obligations and environmental reserves

The Batesville Plant generates hazardous and non-hazardous wastes, the treatment, storage, transportation and disposal of which are regulated by various governmental agencies. In addition, the Batesville Plant may be required to incur costs for environmental and closure and post closure costs under the Resource Conservation and Recovery Act (“RCRA”).

Certain closure and post-closure liabilities were not transferred to the Batesville Plant and were retained by Eastman Chemical. As these liabilities related to the operations of the Batesville Plant, charges (credits) of $148 and $(2,682) for the ten months ended October 31, 2006 and the year ended December 31, 2005, respectively, were included in cost of goods sold within the accompanying consolidated statements of operations in deriving the results of operations.

5) Income taxes

The following table summarizes the provision for income taxes for the periods ended:

	Ten Months Ended October 31, 2006	Year Ended December 31, 2005

Income (loss) before taxes - U.S.	$	(1,248)	$	608
Provision/(benefit) for income taxes:				
Current	$	(1,238)	$	313
Deferred		511		(132)
State and other				
Current		(136)		62
Deferred		90		(16)
Total	$	(773)	$	227

91

Notes to the Financial Statements of FutureFuel Chemical Company, formerly known as Eastman SE, Inc.
(Dollars in thousands)

Differences between the provision for income taxes computed using the U.S. federal statutory income tax rate were as follows as of:

	Ten Months Ended October 31, 2006	Year Ended December 31, 2005
Amount computed using the statutory rate of 35%	$ (437)	$ 213
Section 199 manufacturing deduction	-	(10)
Agri-biodiesel production credit	(303)	-
State income taxes, net	(33)	24
Provision for income taxes	$ (773)	$ 227

6) Impairments and severance charges

Impairments and severance charges totaled approximately $2,462 in the year ended December 31, 2005. These charges consisted of severance charges of $2,462.

Eastman SE recognized $2,462 in severance charges in the year ended December 31, 2005 from ongoing cost reduction efforts related to employee separation programs announced in April 2004.

No impairment charges or severance costs were incurred in the ten months ended October 31, 2006.

7) Employee benefit plans

Eastman Chemical maintains certain deferred benefit plans that provide eligible employees, including those who have been a part of the operations of Eastman SE, with retirement benefits. For the purposes of the their presentation within the financial statements of Eastman SE, costs recognized for these benefits are allocated based on the employee participants and are summarized based on the following component plans.

Defined benefit pension plans

Eastman Chemical maintains defined benefit plans that provide eligible employees, which included those of the Batesville Plant, retirement benefits. Costs recognized for these benefits are recorded using estimated amounts, which may change as actual costs derived for the year are determined.

Defined contribution plans

Eastman Chemical sponsors a defined contribution employee stock ownership plan (the “ESOP”) in which the employees of the Batesville Plant participated while they were employed by Eastman Chemical. The ESOP is a qualified plan under Section 401(a) of the Internal Revenue Code, which is a component of the Eastman Investment Plan and Employee Stock Ownership Plan (“EIP/ESOP”).

Postretirement welfare plans

Eastman Chemical provides life insurance and health care benefits for eligible retirees, and health care benefits for retirees' eligible survivors in the United States.

Eastman SE was allocated $3,005 of expense related to these employee benefit plans for the ten months ended October 31, 2006 and $4,386 for the year ended December 31, 2005. Eastman Chemical aggregated the cost of defined benefit and defined contribution plans and a breakout between the two is not available for financial reporting at the plant level.

8) Related party transactions

In addition to receiving support services such as research and development, legal, finance, treasury, income tax, public relations, executive management functions, and certain other administrative services from

Notes to the Financial Statements of FutureFuel Chemical Company, formerly known as Eastman SE, Inc.
(Dollars in thousands)

Eastman Chemical or Eastman Chemical affiliates through October 31, 2006, Eastman SE purchased a significant portion of its raw materials and sold a significant portion of its product produced to Eastman Chemical or affiliates of Eastman Chemical. Purchases of raw materials from affiliates of Eastman Chemical totaled $5,789 for the ten months ended October 31, 2006 and $5,014 for the year ended December 31, 2005. Sales of Eastman SE products to Eastman Chemical or affiliates of Eastman Chemical totaled $5,952 for the ten months ended October 31, 2006 and $2,493 for the year ended December 31, 2005.

Historically, Eastman SE processed certain products for Eastman Chemical or Eastman Chemical affiliates for which the ownership of the product had not been transferred to Eastman SE. Eastman SE historically processed such products on a cost basis without recognizing a selling margin. As the risks and rewards of ownership were not transferred to Eastman SE, the related inventories, revenues and costs have not been reflected in the accompanying financial statements. The financial statements include the cost of processing and the corresponding revenue received for processing such products. The costs of product processed on behalf of Eastman Chemical or Eastman Chemical affiliates totaled $10,650 for the ten months ended October 31, 2006 and $12,682 for the year ended December 31, 2005.

9) Segment information

Eastman SE has determined that is has two reportable segments organized along product lines – chemicals and biofuels. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 2.

Chemicals

Eastman SE's chemicals segment manufactures diversified chemical products that are sold externally to third party customers and to Eastman Chemical. This segment comprises two components: "custom manufacturing" (manufacturing chemicals for specific customers); and "performance chemicals" (multi-customer specialty chemicals).

Biofuels

Eastman SE's biofuels business segment manufactures and markets biodiesel. Biodiesel commercialization was achieved in October 2005. Biodiesel revenues are generally derived in one of two ways. Revenues are generated under tolling agreements whereby customers supply key biodiesel feed stocks which Eastman SE then converts into biodiesel at the Batesville Plant in exchange for a fixed price processing charge per gallon of biodiesel produced. Revenues are also generated through the sale of biodiesel to customers through Eastman SE's distribution network at the Batesville Plant and through distribution facilities available at a leased oil storage facility near Little Rock, Arkansas at negotiated prices.

Summary of long-lived assets and revenues by geographic area

All of Eastman SE's long-lived assets are located in the U.S.

Most of Eastman SE's sales are transacted with title passing at the time of shipment from the Batesville Plant, although some sales are transacted based on title passing at the delivery point. While many of Eastman SE's chemicals are utilized to manufacture products that are shipped, further processed and/or consumed throughout the world, the chemical products, with limited exceptions, generally leave the United States only after ownership has transferred from Eastman SE to the customer. Rarely is Eastman SE the exporter of record, never is Eastman SE the importer of record into foreign countries and Eastman SE is not always aware of the exact quantities of its products that are moved into foreign markets by its customers. Eastman SE does track the addresses of its customers for invoicing purposes and uses this address to determine whether a particular sale is within or without the United States. Eastman SE's revenues for the ten months ended October 31, 2006 and for the year ended December 31, 2005 attributable to the United States and foreign countries (based upon the billing addresses of its customers) were as follows:

Notes to the Financial Statements of FutureFuel Chemical Company, formerly known as Eastman SE, Inc.
(Dollars in thousands)

Period Ended	United States	All Foreign Countries	Total
October 31, 2006	$ 110,419	$ 17,308	$ 127,727
December 31, 2005	$ 105,719	$ 13,820	$ 119,539

For the year ended December 31, 2005 and for the ten months ended October 31, 2006, revenues from Mexico accounted for 10% and 12%, respectively, of total revenues. Other than Mexico, revenues from a single foreign country during 2005 and 2006 did not exceed 1% of total revenues.

Summary of business by segment

	Ten Months Ended October 31, 2006	Year Ended December 31, 2005
Revenues		
Chemicals	$ 116,148	$ 119,539
Biofuels	11,579	-
Total Revenues	$ 127,727	$ 119,539
Segment gross margins		
Chemicals	$ 16,124	$ 16,837
Biofuels	(7,973)	-
Segment gross margins	8,151	16,837
Corporate expenses	(9,399)	(16,198)
Income (loss) before interest and taxes	(1,248)	639
Interest expense	-	(31)
Provision for income taxes	773	(227)
Net income (loss)	$ (475)	$ 381

Eastman SE's 2005 biofuel revenues and related gross margin were inconsequential. Due to the inconsequential nature of the amounts, 2005 biofuel gross margin has been included in the chemicals gross margin for that year.

Depreciation is allocated to segment costs of goods sold based on plant usage. The total assets and capital expenditures of Eastman SE have not been allocated to individual segments as large portions of these assets are shared to varying degrees by each segment, causing such an allocation to be of little value.

10) Commitments

Lease agreements

Eastman SE historically had entered into lease agreements for information technology equipment and railcars. Lease expenses totaled $106 and $182 for the ten months ended October 31, 2006 and the year ended December 31, 2005, respectively. Eastman SE terminated its lease commitments in anticipation of the acquisition by Viceroy and had no minimum rental commitments under existing noncancellable operating leases as of October 31, 2006.

Purchase obligations

Eastman SE has entered into contracts for the purchase of goods and services including contracts for the expansion of its biodiesel related infrastructure, the purchase of biodiesel related feedstocks and the licensing of a chemical modeling software product.

94

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

During 2006 and 2007, KPMG LLP was engaged as an independent accountant to audit our financial statements. On December 13, 2007, our audit committee requested proposals from certain accounting firms to audit our financial statements for 2007 and perform the quarterly work for 2008. As a result of those proposals, on February 13, 2008, our audit committee selected RubinBrown LLP to serve as our independent accountant. KPMG LLP continued to perform services with respect to our Form 10 Registration Statement and Form 10-Q for the period ended June 30, 2007. Upon the completion of those services, KPMG LLP no longer served as our independent accountants.

KPMG LLP's report on our financial statements for 2005 and 2006, as well as FutureFuel Chemical Company's financial statements for 2004, 2005 and the ten months ended October 31, 2006, did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles. During our two most recent fiscal years ended December 31, 2007, there were no disagreements with KPMG LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Item 9A(T). Controls and Procedures.

Under the supervision and with the participation of our Chief Executive Officer and our Principal Financial Officer and other senior management personnel, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and our Principal Financial Officer have concluded that these disclosure controls and procedures as of December 31, 2007 were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the Company's registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Identification of Directors

Our directors are as follows.

Name	Age	Director Since	Term Expires
Paul A. Novelly, executive chairman of the board	64	2005	2009
Lee E. Mikles, chief executive officer and president	52	2005	2008
Edwin A. Levy	70	2005	2008
Thomas R. Evans	53	2006	2008
Richard L. Knowlton	75	2007	2009
Paul G. Lorenzini	68	2007	2009
Donald C. Bedell	67	2008	2008

Mr. William J. Doré was also a director whose term expired in 2007. However, he resigned as a director effective June 1, 2007 and our board determined not to fill his position at this time. In the event his position is filled, his successor will hold that position only until the annual shareholder meeting in 2008 and, if reelected at such meeting, such successor will then hold office until 2010.

Mr. Douglas D. Hommert was also a director whose term expired in 2010. However, he resigned as a director on January 14, 2008, and our board filled his position with the appointment of Donald C. Bedell. Mr. Bedell will hold that position until the annual shareholder meeting in 2008 and, if reelected at such meeting, he will then hold office until 2010. Mr. Hommert continues to be our executive vice president, secretary and treasurer.

There is no arrangement or understanding between any of the above directors and any other person pursuant to which such person was or is to be selected as a director.

Identification of Executive Officers

Our executive officers are as follows.

Name	Position	Age	Officer Since
Paul A. Novelly	Executive chairman of the board	64	2005
Lee E. Mikles	Chief executive officer and president	52	2005
Douglas D. Hommert	Executive vice president, secretary and treasurer	52	2005

There is no arrangement or understanding between any of the above officers and any other person pursuant to which such person was or is to be selected as an officer.

Identification of Certain Significant Employees

The following individuals are executive officers of FutureFuel Chemical Company who are expected to make significant contributions to our business.

Name	Position	Age	Officer Since
David Baker	Vice president - operations support	61	2006
Gary Hess	Vice president - sales and marketing	56	2006
Benjamin Ladd	Chief financial officer and treasurer	31	2006
Samuel Dortch	Vice president - operations	59	2007

Randall W. Powell was the president and chief operating officer of FutureFuel Chemical Company. However, he retired on October 1, 2007 and his responsibilities have been assumed by several members of FutureFuel Chemical Company's management team and, to date, a president has not been appointed to replace Mr. Powell.

Business Experience

Paul A. Novelly has been our chairman of the board since inception. For at least the past five years, Mr. Novelly has been chairman and chief executive officer of Apex Oil Company, Inc., a privately-held company based in St. Louis, Missouri engaged in the trading, storage, marketing and transportation of petroleum products, including liquid terminal facilities in the Midwest and Eastern United States, and towboat and barge operations on the inland waterway system. Mr. Novelly is president and a director of AIC Limited, a Bermuda-based oil trading company, chairman and a director of World Point Terminals Inc., a publicly-held Canadian company based in Calgary which owns and operates petroleum storage facilities in the Bahamas and United States, and chief executive officer of St. Albans Global Management, Limited Partnership, LLLP, which provides corporate management services. He currently serves on boards of directors at The Bear Stearns Companies Inc., a broker-dealer and global securities and investment firm, and Boss Holdings, Inc., a distributor of work gloves, boots and rainwear and other consumer products, and within the past five years also served on the board of directors of Intrawest Corporation, a company that is a world leader in destination resorts and adventure travel.

Lee E. Mikles has been our chief executive officer and a member of our board since inception. In addition, he served as our principal financial officer before our acquisition of FutureFuel Chemical Company and thereafter through January 31, 2008. Mr. Mikles was chairman of Mikles/Miller Management, Inc., a registered investment adviser and home to the Kodiak family of funds, between 1992 and 2005. He was also chairman of Mikles/Miller Securities, LLC, a registered broker-dealer, between 1999 and 2005. Additionally, Mr. Mikles has served on the board of directors of Official Payments Corporation, Coastcast Corporation, Nelnet, Inc., Imperial Bank and Imperial Bancorp. He currently serves on the board of directors of Boss Holdings, Inc. and Pacific Capital Bankcorp. and is the chair of the audit committee for Boss Holdings, Inc.

Douglas D. Hommert has been our executive vice president, secretary and treasurer since inception. He was a member of our board from inception through January 14, 2008. He became our principal financial officer on February 1, 2008. Mr. Hommert has been executive vice president and general counsel of Apex Oil Company, Inc. since September 2002. Between October 1988 and September 2002, he was a partner in the St. Louis law firm of Lewis, Rice & Fingersh, L.C. With that firm, he practiced in the areas of business law, taxation, mergers and acquisitions, financing and partnerships. He was licensed as a Certified Public Accountant in 1982.

Edwin A. Levy has been a member of our board since November 2005. In 1979, Mr. Levy co-founded Levy, Harkins & Co., Inc., an investment advisory firm, where he now serves as chairman of the board and individual advisor. Mr. Levy was a director of Traffix, Inc. between November 1995 and 2006, and served as a member of its audit committee and stock options committee. He is a director of World Point Terminals Inc., a publicly-held Canadian company based in Calgary which owns and operates petroleum storage facilities in the Bahamas and United States, and in the past five years was a director of Forward Industries, Inc., a publicly-held company in the business of designing, manufacturing and distributing custom carrying case solutions.

Thomas R. Evans has been a member of our board since May 2006. Since June 2004, he has served as president and chief executive officer of Bankrate, Inc., an Internet based aggregator of financial rate information. Mr. Evans was elected to Bankrate, Inc.'s board of directors in May 2004. From 1999 to 2002, Mr. Evans was chairman and chief executive officer of Official Payments Corporation, an Internet processor of payment to government entities.

Richard L. Knowlton has been a member of our board since January 2007. Between 1956 and 1995, Mr. Knowlton worked for Hormel Foods Corporation, a multinational manufacturer and marketer of consumer-branded meat and food products. He started as a merchandising manager and became the president and chief operating officer in 1979. He became the chief executive officer and chairman of the board in 1981 and retired in 1995. Mr. Knowlton currently serves as a director on The Hormel Foundation and the Horatio Alger Association and is a member of the Business Advisory Council for the University of Colorado Leeds School of Business, the Mayo Laboratory Services Advisory Board and the Eisenhower Medical Center Board. Mr. Knowlton served as a director of NG America Insurance Holdings, Inc. between 2000 and 2005 and SUPERVALU INC. between 1994 and 2005.

Paul G. Lorenzini has been a member of our board since January 2007. In January 1970, Mr. Lorenzini co-founded Packaging Consultants, Inc., a distribution business supplying packaging materials to the food industry. In 1983, Bunzl PLC, a supplier of supermarket and food service packaging, acquired Packaging Consultants, Inc. Mr. Lorenzini continued to work for Bunzl PLC and in 1986 became president of Bunzl USA. He subsequently became the chief executive officer of Bunzl USA and retired in July 2004 with the title of chairman emeritus. Mr. Lorenzini served as a director of Bunzl PLC between 1999 and 2004.

Donald C. Bedell has been a member of our board since March 17, 2008. Mr. Bedell is chairman of the board of privately held Castle Partners and its affiliates, based in Sikeston, Missouri, which operate over 35 skilled nursing and health care facilities throughout Missouri, Arkansas and Arizona. Mr. Bedell is a director of several privately held commercial banks, including First Community Bank of Batesville, Arkansas and is a member of the executive committee of such bank and its holding company. He also serves as a director of World Point Terminals Inc., a Toronto Stock Exchange listed company, serving as chairman of World Point's Corporate Governance and Human Resources Committees. FutureFuel Corp.'s chairman, Paul A. Novelly, is the chairman of the board of World Point Terminals Inc.

David Baker was the vice president - manufacturing operations of FutureFuel Chemical Company between October 31, 2006 and October 14, 2007 and has been vice president - operations support since October 15, 2007. In 1967, he joined Eastman Chemical Company's filter products division in Kingsport, Tennessee as a development engineer. In 2001, Mr. Baker was named managing director of Eastman Chemical Company's Peboc division, relocating to the United Kingdom. The Peboc division manufactures specialty chemicals including active pharmaceutical ingredients. In August 2005, Mr. Baker relocated to Kingsport as a business development manager in performance chemicals exclusive manufacturing. Mr. Baker is a registered professional engineer and past president of the East Tennessee Society of Professional Engineers.

Gary Hess was the vice president - commercial operations of FutureFuel Chemical Company between October 31, 2006 and October 14, 2007 and has been vice president - sales and marketing since October 15, 2007. Mr. Hess was the vice president for commercial operations for Bayer Corporation, where he had responsibility for sales, marketing, customer service, purchasing, research and development and quality control, prior to joining Eastman Chemical Company in December 2002 as the market development executive for agrochemicals. During his tenure with Bayer Corporation, Mr. Hess resided two years in Germany where he directed the market development efforts in pharmaceutical intermediates and photographic chemicals. In 2004, he was appointed to the position of global business leader for exclusive manufacturing with responsibility for sales, marketing and business development.

Benjamin Ladd became FutureFuel Chemical Company's chief financial officer on October 31, 2006. Between October 2003 and October 2006, inclusive, Mr. Ladd has been a fund manager and financial consultant for St. Albans Global Management, Limited Partnership, LLLP, which provides corporate management services. In this position, he assisted with the management of capital in the equity and derivative markets worldwide and was responsible for all financial analysis and reporting related to the firm's merchant banking and consulting activities. From 1999 to 2003, Mr. Ladd served in various capacities for Green Manning & Bunch, Ltd., a middle-market investment banking firm in Denver, Colorado.

Samuel Dortch was the vice president - operations services of FutureFuel Chemical Company between July 30, 2007 and October 14, 2007 and has been vice president - operations since October 15, 2007. In 1972, Mr. Dortch joined Eastman Chemical Company's technical services division in Kingsport, Tennessee as a development chemical engineer. He has served in numerous management positions in Kingsport, Batesville and at Eastman Kodak's Kirby, England facility. In 2004, Mr. Dortch became manager of research and development at the Batesville plant and director of research and development in December 2006.

Section 16(a) Beneficial Ownership Reporting Compliance

Other than Samuel Dortch, each of our directors and executive officers, as well as Fir Tree LLC and its related parties Camellia Partners, LLC, Jeffrey Tannenbaum and Andrew Fredman, did not timely file their respective Forms 3 during 2007. The Form 3 for Donald Bedell was timely filed. To our knowledge, based upon the reports provided to us under Section 16(a) of the Exchange Act, no other filing required under such section was not timely filed.

Code of Ethics

We have adopted a code of ethics and business conduct that applies to all of our employees and the employees of our subsidiaries, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of this code of ethics and business conduct has been posted on our Internet website and may be accessed at http://ir.futurefuelcorporation.com/governance.cfm.

Nominating Committee

Our board has established a nominating committee and has adopted a charter for such nominating committee. A copy of this nominating committee charter has been posted on our Internet website and may be accessed at http://ir.futurefuelcorporation.com/governance.cfm. The nominating committee charter contains procedures for Company shareholders to submit recommendations for nomination to our board. There have not been any changes to those procedures since that charter was attached as an exhibit to our Form 10 Registration Statement filed with the SEC on April 24, 2007.

Audit Committee

We have a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act, and have adopted an audit committee charter. A copy of this audit committee charter has been posted on our Internet website and may be accessed at http://ir.futurefuelcorporation.com/governance.cfm. The current members of the audit committee are as follows:

Paul Lorenzini
Thomas R. Evans
Richard L. Knowlton

Audit Committee Expert

Our board of directors has determined that each member of our audit committee is an audit committee financial expert. Each such member of our audit committee is independent, as independence for audit committee members is defined in the listing standards applicable to us.

Item 11. Executive Compensation.

General

Our board of directors has established a remuneration committee. The remuneration committee's responsibilities include, among other things, determining our policy on remuneration to our (that is, FutureFuel Corp.'s) officers and directors and the executive officers and directors of FutureFuel Chemical Company. Given that we were a start-up company and only consummated our acquisition of FutureFuel Chemical Company on October 31, 2006, we determined for 2006 not to pay salaries, bonuses or other forms of compensation to any of our executive officers who have been elected by the FutureFuel Chemical Company board of directors to an executive officer position with FutureFuel Chemical Company. The FutureFuel Corp. board also determined not to pay any compensation to any member of its board of directors or to any member of the board of any subsidiary for the year 2006. On January 16, 2008, our remuneration committee recommended that we pay each of our then directors $25,000 in compensation, and $25,000 to our past director William J. Doré. The remuneration committee also recommended that we pay $100,000 in compensation to each of Paul A. Novelly and Paul G. Lorenzini for services provided in 2007 to our subsidiary, FutureFuel Chemical Company, and to reimburse an affiliate of Lee E. Mikles $100,000 for expenses incurred by such affiliate in 2007 in the course of Mr. Mikles performing services for us and our subsidiary, FutureFuel Chemical Company. Our board approved such payments on January 22, 2008. No compensation for our directors or executive officers has been set at this time for the calendar year 2008. Rather, our board believes it is more appropriate to set such compensation later in the year when 2008 results are capable of reasonable estimation.

We pay salaries, bonuses and other forms of compensation to the officers of FutureFuel Chemical Company as described below. For purposes of the following discussion of executive compensation, the term "executive officers" includes executive officers of both FutureFuel Corp. and FutureFuel Chemical Company. However, only Paul A. Novelly, Lee E. Mikles and Douglas D. Hommert have been elected officers of FutureFuel Corp. by our board of directors.

Compensation Discussion and Analysis

We have not yet established a comprehensive executive compensation philosophy, nor have we determined definitively the material elements of the compensation of our executive officers. The current elements of our compensation program include base salary, bonuses and certain retirement, insurance and other benefits generally available to all employees. In addition, our board adopted an Omnibus Incentive Plan which was approved by our shareholders at our 2007 annual meeting on June 26, 2007. As of the date of filing this Form 10-K, the Plan has not been implemented by our board and no awards have been granted thereunder. Such Plan when implemented by our board would provide equity-based compensation to our executive officers.

We formed a remuneration committee of our board, which will determine compensation arrangements for our executive officers. Our remuneration committee has established a compensation program that is designed to attract, as needed, individuals with the skills necessary for us to achieve our business plan, to motivate those individuals, to reward those individuals fairly over time and to retain those individuals who continue to perform at or above the levels that we expect. Our executive compensation program is designed to afford our executive officers a sense of ownership in us, and to link rewards to measurable Company and individual performance. These arrangements include appropriate salaries, annual bonus opportunities and long-term incentives awards linked to equity and equity awards under the omnibus incentive plan adopted during 2007.

Cash Salaries and Bonuses

At this time, we have determined that we will pay $100,000 compensation to Mr. Novelly for services rendered by Mr. Novelly to our subsidiary, FutureFuel Chemical Company during 2007, and to reimburse an affiliate of Mr.

Mikles $100,000 for expenses incurred by such affiliate in the course of Mr. Mikles performing services for us and our subsidiary, FutureFuel Chemical Company. Such services included reviewing business operations and reducing operating costs. The $100,000 was determined by Messrs. Novelly and Mikles as reasonable in relation to the services rendered, and was approved by our remuneration committee and our board. No compensation will be paid to Mr. Hommert for 2007, nor to Messrs. Novelly, Mikles or Hommert for 2006. Each of Messrs. Novelly, Mikles and Hommert were granted founder shares as described elsewhere herein, and our board of directors determined that the payment of cash compensation to them was unnecessary for 2006 and to Mr. Hommert for 2007. Our executive chairman, Mr. Novelly, also receives compensation from our affiliate, St. Albans Global Management, Limited Partnership, LLLP. Our chief executive officer, Mr. Mikles, receives compensation, in addition to the amounts received from us, from existing business enterprises and investments, none of which are affiliated with us. Our executive vice president, secretary and treasurer, Mr. Hommert, receives compensation from our affiliate, Apex Oil Company, Inc. Except as described above, none of Messrs. Novelly, Mikles or Hommert received any increase in their salary, bonus or other income to compensate them for their services to us. As to our other executive officers, we continued their base salaries paid by Eastman Chemical Company with a modest percentage increase in both 2006 and 2007. We expect that our remuneration committee will establish future salaries for our executive officers commensurate with those paid by companies comparable to us and to FutureFuel Chemical Company, as applicable.

For the year 2007, we established a bonus pool for the employees of our subsidiary, FutureFuel Chemical Company. The total bonus target amount was determined at 10% of the estimated (as of December 15, 2007) after-tax earnings of FutureFuel Chemical for the year ended December 31, 2007. We believe the 10% amount was reasonable and provides an incentive for such employees to continue implementing the business plan that we have installed at FutureFuel Chemical Company. Such bonuses were paid by January 4, 2008. All employees hired after January 1, 2007 received $250. All employees hired prior to January 1, 2007 received 40 hours of pay at their normal hourly rate. Additional bonuses for nine executive and management employees of FutureFuel Chemical Company ranged between $15,000 to $25,000 depending upon their positions with FutureFuel Chemical Company, with the larger bonuses going to Messrs. Baker, Dortch, Hess and Ladd. All remaining salaried employees of FutureFuel Chemical Company received one week salary plus an additional amount ranging from $0 to $6,000 as determined by FutureFuel Chemical Company's vice presidents of operations and operations support.

We expect to establish an annual cash bonus program for fiscal years commencing after 2007 in an amount equal to 10% of after-tax earnings of FutureFuel Chemical Company, but solely on a discretionary basis. In determining actual bonus payouts for such years, we expect that the remuneration committee will consider performance against Company performance goals to be established, as well as individual performance goals. We expect that this annual cash bonus program will apply to certain key executives of FutureFuel Chemical Company in addition to the executives whose compensation is described herein. The actual amount of bonuses, if any, will be determined near the end of our fiscal year.

Omnibus Incentive Plan

Our board of directors adopted an omnibus incentive plan which was approved by our shareholders at our 2007 annual shareholder meeting on June 26, 2007. The purpose of the plan is to:

- encourage ownership in us by key personnel whose long-term employment with or engagement by us or our subsidiaries (including FutureFuel Chemical Company) is considered essential to our continued progress and, thereby, encourage recipients to act in our shareholders' interests and share in our success;
- encourage such persons to remain in our employ or in the employ of our subsidiaries; and
- provide incentives to persons who are not our employees to promote our success.

The plan authorizes us to issue stock options (including incentive stock options and nonqualified stock options), stock awards and stock appreciation rights. To date, no stock options, stock awards or stock appreciation rights have been issued. For the reasons set forth above, we were required to restate our financial statements to apply purchase accounting to our acquisition of FutureFuel Chemical Company. Until those statements were restated, trading in our shares and warrants on AIM were suspended. We did not believe it was appropriate to issue stock options, stock awards or stock appreciation rights while such trading was suspended. Now that trading has resumed, we will consider issuing such stock options, stock awards and/or stock appreciation rights pursuant to the criteria set forth below.

Eligible participants in the plan include: (i) members of our board of directors and our executive officers; (ii) regular, active employees of us or of any of our subsidiaries; and (iii) persons engaged by us or by any of our subsidiaries to render services to us or our subsidiaries as an advisor or consultant.

Awards under the plan are limited to shares of our common stock, which may be shares reacquired by us, including shares purchased in the open market, or authorized but un-issued shares. Awards will be limited to 10% of the issued and outstanding shares of our common stock in the aggregate, or approximately 2,670,000 shares as of December 31, 2007. Also, as of that date, the aggregate market value of 2,670,000 shares of our common stock was approximately $21,360,000.

The plan will be administered by: (i) our board; (ii) a committee of our board appointed for that purpose; or (iii) if no such committee is appointed, our board's remuneration committee (the "Administrator"). To date, no committee has been appointed. The Administrator may appoint agents to assist it in administering the plan. The Administrator may delegate to one or more individuals the day-to-day administration of the plan and any of the functions assigned to the Administrator in the plan. Such delegation may be revoked at any time. All decisions, determinations and interpretations by the Administrator regarding the plan and the terms and conditions of any award granted thereunder will be final and binding on all participants.

The plan became effective upon its approval by our shareholders on June 26, 2007 and continues in effect for a term of ten years thereafter unless amended and extended by us or unless earlier terminated. The individuals and number of persons who may be selected to participate in the plan in the future is at the discretion of the Administrator and, therefore, are not determinable at this time. Likewise, the number of stock options, stock awards and stock appreciation rights that will be granted, or that would have been granted during the last completed fiscal year if the plan had been in effect, to eligible participants pursuant to the plan are not determinable at this time.

The Administrator may grant a stock option or provide for the grant of a stock option either from time to time in the discretion of the Administrator or automatically upon the occurrence of events specified by the Administrator, including the achievement of performance goals or the satisfaction of an event or condition within the control of the participant or within the control of others. Each option agreement must contain provisions regarding: (i) the number of shares of common stock that may be issued upon exercise of the option; (ii) the type of option; (iii) the exercise price of the shares and the means of payment for the shares; (iv) the term of the option; (v) such terms and conditions on the vesting or exercisability of the option as may be determined from time to time by the Administrator; (vi) restrictions on the transfer of the option and forfeiture provisions; and (vii) such further terms and condition not inconsistent with the plan as may be determined from time to time by the Administrator. Unless otherwise specifically determined by the Administrator or otherwise set forth in the plan, the vesting of an option will occur only while the participant is employed or rendering services to us or one of our subsidiaries, and all vesting will cease upon a participant's termination of employment for any reason.

The Administrator may grant annual performance vested options. Performance will be tied to annual cash flow targets (our consolidated income plus depreciation plus amortization) in amounts to be determined. Annual performance vested options will vest 25% for each year that the annual cash flow target is achieved (with provisions for subsequent year catch-ups).

The Administrator may grant cumulative performance vested options. Performance will be tied to cumulative cash flow in amounts to be determined for periods to be determined.

The Administrator may issue other options based upon the following performance criteria either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit, subsidiary or business segment, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Administrator: (i) cash flow; (ii) earnings (including gross margin, earnings before interest and taxes, earnings before taxes, and net earnings); (iii) earnings per share; (iv) growth in earnings or earnings per share; (v) stock price; (vi) return on equity or average shareholders' equity; (vii) total shareholder return; (viii) return on capital; (ix) return on assets or net assets; (x) return on investment; (xi) revenue; (xii) income or net income; (xiii) operating income or net operating income; (xiv) operating profit or net operating profit; (xv) operating margin; (xvi) return on operating revenue; (xvii) market share; (xviii) overhead or other expense reduction; (xix) growth in shareholder value relative to the moving average of the S&P 500 Index or a peer group index; (xx) strategic plan development and implementation; and (xxi) any other similar criteria.

Such options will vest and expire (including on a pro rata basis) on such terms as may be determined by the Administrator from time to time consistent with the terms of the plan.

The Administrator may award our common stock to participants. The grant, issuance, retention or vesting of each stock award may be subject to such performance criteria and level of achievement versus these criteria as the Administrator determines, which criteria may be based on financial performance, personal performance evaluations or completion of service by the participant. Unless otherwise provided for by the Administrator, upon the participant's termination of employment other than due to death or retirement, the unvested portions of the stock award and the shares of our common stock subject thereto will generally be forfeited. Unless otherwise provided for by the Administrator, if a participant's termination of employment is due to death or retirement, all outstanding stock awards will continue to vest provided certain conditions to be determined are met. Unless otherwise provided for by the Administrator, if a participant's termination of employment is due to his death, a portion of each outstanding stock award granted to such participant will immediately vest and all forfeiture provisions and repurchase rights will lapse as to a prorated number of shares of common stock determined by dividing the number of whole months since the grant date by the number of whole months between the grant date and the date that the stock award would have fully vested.

The Administrator may grant stock appreciation rights either alone or in conjunction with other awards. The Administrator will determine the number of shares of common stock to be subject to each award of stock appreciation rights. The award of stock appreciation rights will not be exercisable for at least six months after the date of grant except as the Administrator may otherwise determine in the event of death, disability, retirement or voluntary termination of employment of the participant. Except as otherwise provided by the Administrator, the award of stock appreciation rights will not be exercisable unless the person exercising the award of stock appreciation rights has been at all times during the period beginning with the date of the grant thereof and ending on the date of such exercise, employed by or otherwise performing services for us or one of our subsidiaries.

In the event there is a change in control of the Company, as determined by our board, our board may, in its discretion: (i) provide for the assumption or substitution of, or adjustment to, each outstanding award; (ii) accelerate the vesting of awards and terminate any restrictions on cash awards or stock awards; and (iii) provide for the cancellation of awards for a cash payment to the participant.

Retirement Benefits

We have adopted a 401(k) plan for FutureFuel Chemical Company which is generally available to all of its employees.

Founder's Grant

Certain of our executive officers were granted founders shares as described herein. Please refer to the discussion under "Item 12. - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters - Founding Shares Owned by the Founding Shareholders" below. Our board of directors considered the grants of the founders shares to such executive officers to be adequate to compensate them for their services to us in our start-up stage (that is, from our organization in August 2005 through the end of 2006).

Life Insurance and Other Employee Benefits

Our executive officers who are not officers of FutureFuel Corp. participate in employee welfare plans (life insurance, medical insurance, disability insurance, vacation pay and the like) maintained by FutureFuel Chemical Company for all of its employees. We do not provide life insurance or other employee benefits for our executive officers who have been elected to officer positions with both FutureFuel Corp. and FutureFuel Chemical Company.

The Remuneration Committee

Our remuneration committee currently consists of Mr. Levy, Mr. Knowlton and Mr. Lorenzini. Each of these individuals is an "independent director" under the rules of the New York Stock Exchange, a "Non-Employee Director" within the meaning of Section 16 of the Exchange Act, and an "outside director" within the meaning of §162(m) of the Internal Revenue Code of 1986, as amended.

Summary Compensation Table

Our executive officers were paid the following compensation for the three-year period ended December 31, 2007.

Summary Compensation Table

Person	Year	Salary	Bonus (e)	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensa-tion	Change in Pension Value and Non-Qualified Deferred Compensa-tion Earnings	All Other Compensa-tion (b)	Total
Paul A. Novelly(c) Executive chairman FutureFuel Corp.	2007	$ 0	$ 100,000	$ 0	$ 0	$ 0	$ 0	$ 25,000	$ 125,000
	2006	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	2005	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Lee E. Mikles(c) Chief executive officer FutureFuel Corp.	2007	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 25,000	$ 25,000
	2006	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	2005	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Douglas D. Hommert(c) Executive vice president, secretary and treasurer, FutureFuel Corp.	2007	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	2006	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	2005	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Randall W. Powell(a)(d) President, FutureFuel Chemical Company	2007	$ 194,231	$ 0	$ 0	$ 0	$ 0	$ 0	$ 77,619	$ 271,850
	2006	$ 189,041	$ 296,232	$ 0	$ 0	$ 0	$ 0	$ 179,862	$ 665,135
	2005	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Benjamin Ladd(a) Chief financial officer, FutureFuel Chemical Company	2007	$ 147,117	$ 27,885	$ 0	$ 0	$ 0	$ 0	$ 99,547	$ 274,549
	2006	$ 23,750	$ 40,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 63,750
	2005	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2007	$ 170,005	$ 28,270	$ 0	$ 0	$ 0	$ 0	$ 24,634	$ 222,909

David Baker(a) Vice president - operations support, FutureFuel Chemical Company	2006	$ 140,618	$ 64,044	$ 0	$ 0	$ 0	$ 0	$ 28,389	$ 233,051
	2005	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gary Hess(a) Vice president - sales and marketing, FutureFuel Chemical Company	2007	$ 170,000	$ 18,268	$ 0	$ 0	$ 0	$ 0	$ 11,359	$ 199,628
	2006	$ 125,984	$ 41,500	$ 0	$ 0	$ 0	$ 0	$ 20,531	$ 188,015
	2005	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Samuel Dortch(a)(f) Vice president, operations, FutureFuel Chemical Company	2007	$ 145,000	$ 27,788	$ 0	$ 0	$ 0	$ 0	$ 9,689	$ 182,477
	2006	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2005	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

(a) Executive officers of FutureFuel Chemical Company. Prior to November 1, 2006, Messrs. Powell, Baker, Hess and Dortch were employed by Eastman Chemical Company. Prior to November 1, 2006, Mr. Ladd was employed by St. Albans Global Management, Limited Partnership, LLLP, an affiliate of Mr. Novelly. For 2006, the table includes both amounts paid by FutureFuel Chemical Company as well as by Eastman Chemical Company, if applicable.

(b) For Messrs. Novelly and Mikles, includes $25,000 in directors fees for 2007 as described below. Includes our contributions (including accrued contributions) to vested and unvested defined contribution plans and the dollar value of any insurance premiums paid by, or on behalf of, us during or for the covered fiscal year with respect to life and disability insurance for the benefit of the named person. 2006 also includes the following payments by Eastman Chemical Company to or for the benefit of the named individual: special pay makeup, employee recognition, personal umbrella, non-qualified stock options to purchase stock of Eastman Chemical Company, pay-in-lieu of vacation, stock awards to purchase stock of Eastman Chemical Company, and lump sum payment. 2007 includes a separation allowance of $55,769 and vacation cash-out of $7,212 for Mr. Powell, a relocation allowance of $13,077 for Mr. Baker, and nondeductible moving expenses (grossed up) of $78,746 and deductible moving expenses (not grossed up) of $11,123 for Mr. Ladd.

(c) Our executive officers. For the year 2006, we did not pay Messrs. Novelly, Mikles or Hommert any form of compensation. See the discussion above. However, we did reimburse them for certain ordinary and necessary business expenses that they incurred in connection with our business. We reimbursed an affiliate of Mr. Mikles $100,000 in 2008 as set forth above for expenses incurred by such affiliate in 2007 in connection with Mr. Mikles performing services for us and FutureFuel Chemical Company in 2007.

(d) Mr. Powell retired effective October 1, 2007. However, after such date, we have employed Mr. Powell as a consultant and have paid him a consulting fee of $50,000 for 2008. Such amount is not included in the table above.

(e) Earned in 2007 but paid in 2008.

(f) Mr. Dortch did not become an officer of FutureFuel Chemical Company until 2007.

None of the above-named persons is a party to an employment agreement or employment arrangement with us or with FutureFuel Chemical Company.

Compensation of Directors

At this time, we have determined that we will pay $100,000 compensation to Mr. Lorenzini for services rendered by Mr. Lorenzini to our subsidiary, FutureFuel Chemical Company during 2007. Such services included reviewing and, where appropriate, reducing operating costs. Such amount was determined by Messrs. Novelly and Mikles, and recommended to and approved by both our remuneration committee and our board. In addition, we have determined to pay to each of our directors, other than Mr. Hommert, $25,000 for services provided as director in 2007. We believe the founders shares issued to Mr. Hommert were adequate compensation for his services rendered as a director. The $25,000 was determined by Mr. Novelly as a reasonable amount and was recommended to the remuneration committee and our board, who approved such payments. We also determined to pay our past director, Mr. William J. Doré, $25,000 for services rendered as a director. No directors fees have been determined for 2008 or thereafter, but rather will be set towards the end of our fiscal year.

The following is the compensation our directors earned for 2007.

Director	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-Qualified Deferred Compensation Earnings	All Other Compensation	Total
Paul A. Novelly	$ 25,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 25,000
Lee E. Mikles	$ 25,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 25,000
Edwin A. Levy	$ 25,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 25,000
Thomas R. Evans	$ 25,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 25,000
Richard L. Knowlton	$ 25,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 25,000
Paul G. Lorenzini	$ 125,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 125,000
William J. Doré	$ 25,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 25,000
Douglas D. Hommert	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

Compensation Committee Interlocks and Insider Participation

The members of our remuneration committee during 2007 were Mr. Levy, Mr. Knowlton and Mr. Lorenzini and the committee is chaired by Mr. Levy. None of such individuals are or have been an officer or employee of the Company.

Mr. Novelly, our executive chairman of the board, and Mr. Mikles, our chief executive officer and one of our directors, are both directors of Boss Holdings, Inc. Mr. Novelly is a member of Boss Holdings, Inc.'s compensation committee and Mr. Mikles is a member of its audit committee. Mr. Novelly and Mr. Levy, one of our directors and a member of our remuneration committee, are both directors of World Point Terminal Inc.; World Point Terminal Inc. does not have a separate compensation committee.

Compensation Committee Report

The remuneration committee of our board has reviewed and discussed the Compensation Discussion and Analysis set forth above with our management. Based on this review and discussions, the remuneration committee recommended to our board of directors that the Compensation Discussion and Analysis be included in this annual report on Form 10-K.

Edwin A. Levy. Richard L. Knowlton and Paul G. Lorenzini

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Securities Authorized for Issuance Under Equity Compensation Plans

Our board of directors adopted an omnibus incentive plan which was approved by our shareholders at our 2007 annual shareholder meeting on June 26, 2007. We do not have any other equity compensation plan. The following information regarding this plan is as of December 31, 2007

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	0	n/a	2,670,000

Security Ownership of Certain Beneficial Owners

As of the date of this report, 26,700,000 shares of our common stock are issued and outstanding and we have issued warrants to purchase 22,500,000 additional shares of our common stock. The shares of common stock are our only voting securities issued and outstanding. The following table sets forth the number and percentage of shares and warrants owned by all persons known by us to be the beneficial owners of more than 5% of our shares of common stock and warrants as of the most recent practicable date.

	Common Stock		Warrants		Fully Diluted	
Name and Address of Beneficial Owner	Amount of Beneficial Ownership	Percent of Common Stock	Amount of Beneficial Ownership	Percent of Warrants	Amount of Beneficial Ownership	Percent of Common Stock and Warrants(f)
Paul A. Novelly, 8235 Forsyth Blvd., 4th Floor, Clayton, MO 63105(a)	7,406,250	27.7%	5,268,750	23.4%	12,675,000	25.8%
Lee E. Mikles, 1486 E. Valley Road, Santa Barbara, CA 93108(b)	2,100,000	7.9%	12,500	0.1%	2,112,500	4.3%
SOF Investments, L.P., 645 5th Avenue, 21st Floor, New York, NY 10022(c)	1,800,000	6.7%	1,800,000	8.0%	3,600,000	7.3%
Fir Tree, LLC, Camellia Partners, LLC, Jeffrey	1,600,000	6.0%	1,350,000	6.0%	2,950,000	6.0%

Tannenbaum and Andrew Fredman 505 Fifth Avenue, 23rd Floor New York, NY 10017(d)						
Morstan Nominees Limited, 25 Cabot Square, Canary Wharf, London E144QA, U.K.(g)	1,435,841	5.4%	1,493,761	6.6%	2,929,602	6.0%
N.C.B. Trust Limited, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, U.K(e).	1,365,000	5.1%	1,042,800	4.6%	2,407,800	4.9%
Vidacos Nominees Limited, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom(h)	765,527	2.9%	1,631,965	7.3%	2,397,492	4.9%

108

(a) Includes 6,781,250 shares of common stock and 4,643,750 warrants held by St. Albans Global Management, Limited Partnership, LLLP and 625,000 shares of common stock and 625,000 warrants held by Apex Holding Co. Mr. Novelly is the chief executive officer of both of these entities and thereby has voting and investment power over such shares, but he disclaims beneficial ownership except to the extent of a minor pecuniary interest.

(b) Includes 2,000,000 shares of common stock held by Lee E. Mikles Revocable Trust dated March 26, 1996 and 100,000 shares of common stock held by Lee E. Mikles Gift Trust dated October 6, 1999. Also includes 12,500 warrants held by the Alison L. Mikles Irrevocable Trust. Miss Mikles is the minor child of Mr. Mikles and lives in Mr. Mikles household. However, Mr. Mikles is not the trustee of such trust and disclaims beneficial ownership.

(c) Based solely upon review of a Schedule 13G filed on February 14, 2008, we understand that SOF Investments, L.P. is the record and direct beneficial owner of the shares and warrants listed above, MSD Capital, L.P. is the general partner of SOF Investments and may be deemed to indirectly beneficially own securities owned by SOF Investments, and MSD Capital Management LLC is the general partner of MSD Capital. We have no knowledge as to the beneficial owners of MSD Capital Management LLC.

(d) Based solely upon information contained in a Form 3 filed with the SEC on March 7, 2008, Fir Tree, L.L.C. is the general partner of Fir Tree Value Master Fund, LP, a Cayman Islands exempted limited partnership ("Fir Tree Value"), and Camellia Partners, LLC is the general partner of Fir Tree Capital Opportunity Master Fund, LP, a Cayman Islands exempted limited partnership ("Fir Tree Capital Opportunity"). Fir Tree, L.L.C. and Camellia Partners, LLC hold indirectly the common stock through the accounts of Fir Tree Capital Opportunity and Fir Tree Value; Jeffrey Tannenbaum, a principal of Fir Tree, L.L.C. and Camellia Partners, LLC, and Andrew Fredman, another principal of Camellia Partners, LLC, at the time of purchase, controlled the disposition and voting of the common stock. We have no knowledge as to the beneficial owners of Fir Tree, L.L.C. or Camellia Partners, LLC.

(e) We have no knowledge as to the beneficial owners of N.C.B. Trust Limited.

(f) Assumes the exercise of all warrants issued and outstanding as of the date of this report.

(g) We have no knowledge as to the beneficial owners of Morstan Nominees Limited.

(h) Includes shares of common stock and warrants held by Vidacos Nominees Limited Designation: BAR; Vidacos Nominees Limited Designation: 1952; Vidacos Nominees Limited Designation: 1953; Vidacos Nominees Limited Designation: 2071; Vidacos Nominees Limited Designation: BEAR; Vidacos Nominees Limited Designation: DMG7; and Vidacos Nominees Limited Designation: SSBL. We have no knowledge as to the beneficial owners of these entities.

Security Ownership of Management

The following table sets forth information regarding the beneficial ownership of our common stock and warrants as of the date of this report by each of our directors and executive officers. Unless otherwise indicated, we believe that all persons named in the table below have sole voting and investment power with respect to all shares of common stock beneficially owned by them and none of such shares or warrants have been pledged as security.

	Common Stock		Warrants		Fully Diluted	
Name and Address of Beneficial Owner	Amount of Beneficial Ownership	Percent of Common Stock	Amount of Beneficial Ownership	Percent of Warrants	Amount of Beneficial Ownership	Percent of Common Stock and Warrants(d)
Paul A. Novelly(a)	7,406,250	27.7%	5,268,750	23.4%	12,675,000	25.8%
Lee E. Mikles(b)	2,100,000	7.9%	12,500	0.1%	2,112,500	4.3%
Douglas D. Hommert(c)	250,000	0.9%	--	--	250,000	0.5%
Edwin A. Levy	250,000	0.9%	--	--	250,000	0.5%
Thomas R. Evans	30,000	0.1%	30,000	0.1%	60,000	0.1%
Richard L. Knowlton	--	--	--	--	--	--
Paul G. Lorenzini	--	--	--	--	--	--
Donald C. Bedell	--	--	--	--	--	--
All directors and executive officers	10,036,250	37.50%	5,311,250	23.60%	15,347,500	31.20%

(a) Includes 6,781,250 shares of common stock and 4,643,750 warrants held by St. Albans Global Management, Limited Partnership, LLLP and 625,000 shares of common stock and 625,000 warrants held by Apex Holding Co. Mr. Novelly is the chief executive officer of both of these entities and thereby has voting and investment power over such shares, but he disclaims beneficial ownership except to the extent of a minor pecuniary interest.

(b) Includes 2,000,000 shares of common stock held by Lee E. Mikles Revocable Trust dated March 26, 1996 and 100,000 shares of common stock held by Lee E. Mikles Gift Trust dated October 6, 1999. Also includes 12,500 warrants held by the Alison L. Mikles Irrevocable Trust. Miss Mikles is the minor child of Mr. Mikles and lives in Mr. Mikles household. However, Mr. Mikles is not the trustee of such trust and disclaims beneficial ownership.

(c) Includes 250,000 shares of common stock held by the Douglas D. Hommert Revocable Trust, which is a trust established by Mr. Hommert for the benefit of his descendants, of which Mr. Hommert is the trustee.

(d) Assumes the exercise of all warrants issued and outstanding as of the date of this report.

Founding Shares Owned by the Founding Shareholders

Prior to our July 2006 offering, there were 5,625,000 shares of our common stock issued as follows ("founding shares").

Founding Shareholder	Shares	Relationship to the Company
St. Albans Global Management, Limited Partnership, LLLP	2,250,000	Shareholder (affiliate of Mr. Novelly)
Lee E. Mikles Revocable Trust	2,000,000	Shareholders (affiliate of Mr. Mikles)
Douglas D. Hommert Revocable Trust	250,000	Shareholder (affiliate of Mr. Hommert)
Edwin A. Levy	250,000	Director and Shareholder
Joe C. Leach	250,000	Shareholder
Edwin Wahl	150,000	Shareholder
Jeffery Call	150,000	Shareholder
Mark R. Miller	100,000	Shareholder

Lee E. Mikles Gift Trust	100,000	Shareholder (affiliate of Mr. Mikles)
Ken Fenton	75,000	Shareholder
RAS, LLC	50,000	Shareholder

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Transactions with Related Persons.

Sales of Products

From time to time, FutureFuel Chemical Company may sell to Apex Oil Company, Inc. and/or its affiliates biofuels (including biodiesel and bioethanol) produced by FutureFuel Chemical Company, and Apex Oil Company, Inc. and/or its affiliates may sell to FutureFuel Chemical Company diesel fuel, gasoline and other petroleum products for use in FutureFuel Chemical Company's biofuels business. Such sales will be at then posted prices for comparable products plus or minus applicable geographical differentials.

Time Sharing Agreement

Effective April 18, 2007, we entered into a Time Sharing Agreement with Apex Oil Company, Inc. pursuant to which Apex Oil Company, Inc. leases certain airplanes to us. Pursuant to this Time Sharing Agreement, we are charged for certain expenses incurred with respect to specific flights of the airplanes while they are being used for our business purposes. These expenses are authorized by the Federal Aviation Regulations Part 91.501(d).

Review, Approval or Ratification of Transactions with Related Persons

Any transaction in which we (or one of our subsidiaries) are a participant, the amount involved exceeds the lesser of $120,000 or 5% of our net income, total assets or total capital, and in which any party related to us has or will have a direct or indirect material interest must be approved by a majority of the disinterested members of our board of directors as fair to us and our shareholders. This policy was adopted by our board on January 8, 2007 and can be found through the "Investor Relations - Corporate Governance" section of our internet website (http://www.FutureFuelCorporation.com). All of the agreements described above in this Item 13 have been approved by a majority of the disinterested members of our board of directors.

In addition, we have adopted a Code of Ethics and Business Conduct which sets forth legal and ethical standards of conduct for our directors, officers and employees and the directors, officers and employees of our subsidiaries, including FutureFuel Chemical Company. This Code is designed to deter wrongdoing and to promote: (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (ii) full, fair, accurate, timely and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in other public communications made by us; (iii) compliance with applicable governmental laws, rules and regulations; (iv) the prompt internal reporting of violations of this Code to appropriate persons identified in this Code; and (v) accountability for adherence to this Code. This Code was adopted by our board on November 30, 2005, is in writing and can be found through the "Investor Relations - Corporate Governance" section of our internet website (http://www.FutureFuelCorporation.com).

Each of the transactions described above (under the caption "Transactions with Management, Promoters and Others") was undertaken in compliance with our Code of Ethics and Business Conduct and approved by a majority of the disinterested members of our board of directors.

Director Independence

We are a listed issuer whose securities are listed on AIM. AIM has requirements that a majority of our board of directors be independent. AIM's definition of "independent director" can be found through the "Investor Relations - Corporate Governance" section of our internet website (http://www.FutureFuelCorporation.com). The Securities and Exchange Commission has also promulgated Rule 10A-3, which sets forth the independence requirements for members of an audit committee. The following members of our board of directors are independent under both AIM's and the Securities and Exchange Commission's definitions of independence:

Edwin A. Levy
Thomas R. Evans
Richard L. Knowlton
Paul G. Lorenzini
Donald C. Bedell

In addition, each member of our board of directors' remuneration, audit and nominating committees are comprised of directors who are independent under such definitions.

Item 14. Principal Accountant Fees and Services.

Audit Fees

During fiscal 2007, we incurred no fees for audit and financial statement review services from RubinBrown LLP and $464,900 for audit, financial statement review and services provided in connection with our statutory and regulatory filings from KPMG LLP. During fiscal 2006, we incurred fees of $675,000 for audit, financial statement review and services provided in connection with our statutory and regulatory filings from KPMG LLP.

Audit-Related Fees

During fiscal 2007 and 2006, no fees were incurred for audit-related fees from either RubinBrown LLP or KPMG LLP.

Tax Fees

During fiscal 2007, we incurred fees of $2,500 for tax compliance, tax advice and tax planning services from RubinBrown LLP. No fees were incurred for these services from KPMG LLP. No tax fees were incurred during fiscal 2006 from either RubinBrown LLP or KPMG LLP.

All Other Fees

We incurred $10,730 in fees from RubinBrown LLP during fiscal 2007 related to the settlement of final working capital amounts stemming from our acquisition of Eastman SE, Inc. No other fees were incurred by us from RubinBrown LLP in fiscal 2006. During fiscal 2006, we incurred $170,177 in fees from KPMG LLP for services provided in connection with our admission and readmission to AIM.

Pre-Approval Policies

The Audit Committee approves the engagement of our independent auditors prior to their rendering audit or non-audit services and sets their compensation. Pursuant to SEC regulations, the Audit Committee approves all fees payable to the independent auditors for all routine and non-routine services provided. The Audit Committee considers and approves the budget for the annual audit and financial statement review services prior to the initiation of the work. Non-routine services in the ordinary course of business which are not prohibited under SEC regulation, such as tax planning, tax compliance and other services generally are pre-approved on a case-by-case basis.

Forward Looking Information

This report contains or incorporates by reference "forward-looking statements". When used in this document, the words "anticipate," "believe," "estimate," "expect," "plan," and "intend" and similar expressions, as they relate to us, Future Chemical Company or our respective management, are intended to identify forward-looking statements. These forward-looking statements are based on current management assumptions and are subject to uncertainties and inherent risks that could cause actual results to differ materially from those contained in any forward-looking statement. We caution you therefore that you should not rely on any of these forward-looking statements as statements of historical fact or as guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions as well as, but not limited to, the following:

- our board's selection of FutureFuel Chemical Company as a prospective target business;
- conflicts of interest of our officers and directors;
- potential future affiliations of our officers and directors with competing businesses;
- the control by our founding shareholders of a substantial interest in us;
- the highly competitive nature of the chemical and alternative fuel industries;
- fluctuations in energy prices may cause a reduction in the demand or profitability of the products or services we may ultimately produce or offer or which form a portion of our business;
- changes in technology may render our products or services obsolete;
- failure to comply with governmental regulations could result in the imposition of penalties, fines or restrictions on operations and remedial liabilities;
- the operations of FutureFuel Chemical Company's biofuels business may be harmed if the applicable government were to change current laws and/or regulations;
- our board may have incorrectly evaluated FutureFuel Chemical Company's potential liabilities;
- our board may have FutureFuel Chemical Company engage in hedging transactions in an attempt to mitigate exposure to price fluctuations in petroleum product transactions and other portfolio positions which may not ultimately be successful; and
- we may not continue to have access to capital markets and commercial bank financing on favorable terms and FutureFuel Chemical Company may lose its ability to buy on open credit terms.

Although we believe that the expectations reflected by such forward-looking statements are reasonable based on information currently available to us, no assurances can be given that such expectations will prove to have been correct. All forward-looking statements included herein and all subsequent oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as to their particular dates.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) List separately all financial statements filed as part of this report.

1. FutureFuel Corp.'s audited consolidated Balance Sheets as of December 31, 2007 and 2006 and the related consolidated Statements of Operations, Statements of Changes in Stockholders' Equity and Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005.

2. FutureFuel Chemical Company's audited consolidated Balance Sheets as at December 31, 2005 and 2004, and the audited Statements of Operations, Statements of Changes in Stockholder's Equity and Statements of Cash Flows for each of the years in the two-year period ended December 31, 2005 and the audited Statements of Operations and Statements of Cash Flows for the ten-month period ended October 31, 2006.

(b) Exhibits required by Item 601 of Regulation S-K.

2. Acquisition Agreement dated July 21, 2006 between FutureFuel Corp. and Eastman Chemical Company (incorporated by reference to Exhibit No. 2 to Form 10 filed April 24, 2007)

3.1. Fourth Amended and Restated Certificate of Incorporation filed on June 27, 2007 (incorporated by reference to Exhibit No. 3.1.f to Amendment No. 2 to Form 10 filed February 29, 2008)

3.2. FutureFuel Corp.'s Bylaws (incorporated by reference to Exhibit No. 3.2.a to Form 10 filed April 24, 2007)

4.1. Stock Escrow Agreement dated July 12, 2006 among FutureFuel Corp., Capita IRG (Offshore) Limited, St. Albans Global Management, Limited Partnership, LLLP, Lee E. Mikles as Trustee of the Lee E. Mikles Gift Trust dated October 6, 1999, Lee E. Mikles as Trustee of the Lee E. Mikles Revocable Trust dated March 26, 1996, Douglas D. Hommert as Trustee of the Douglas D. Hommert Revocable Trust, Edwin A. Levy, Joe C. Leach, Mark R. Miller, RAS LLC, Edwin L. Wahl, Jeffery H. Call and Ken Fenton (incorporated by reference to Exhibit No. 4.1 to Form 10 filed April 24, 2007)

4.2. Warrant Deed dated July 12, 2006 between FutureFuel Corp. and Capita IRG (Offshore) Limited (incorporated by reference to Exhibit No. 4.2 to Form 10 filed April 24, 2007)

4.3 Insider Letters dated July 12, 2006 to FutureFuel Corp., CRT Capital Group LLC and KBC Peel Hunt Ltd from the following persons: (incorporated by reference to Exhibit No. 4.3 to Form 10 filed April 24, 2007)

4.3a	Paul Anthony Novelly
4.3b	St. Albans Global Management, Limited Partnership, LLLP
4.3c	Lee E. Mikles
4.3d	Lee E. Mikles as Trustee of the Lee E. Mikles Gift Trust dated October 6, 1999
4.3e	Lee E. Mikles as Trustee of the Lee E. Mikles Revocable Trust dated March 26, 1996
4.3f	Douglas D. Hommert

4.3g	Douglas D. Hommert as Trustee of the Douglas D. Hommert Revocable Trust
4.3h	Edwin A. Levy

115

4.3i	Joe C. Leach
4.3j	Mark R. Miller
4.3k	RAS LLC
4.3l	William J. Doré
4.3m	Thomas R. Evans
4.3n	Edwin L. Wahl
4.3o	Jeffery H. Call
4.3p	Ken Fenton

4.4. Investor Rights Agreement dated July 12, 2006 among FutureFuel Corp., CRT Capital Group LLC and KBC Peel Hunt Ltd (incorporated by reference to Exhibit No. 4.4 to Form 10 filed April 24, 2007)

4.5. Registration Rights Agreement dated July 12, 2006 among FutureFuel Corp., St. Albans Global Management, Limited Partnership, LLLP, Lee E. Mikles as Trustee of the Lee E. Mikles Gift Trust dated October 6, 1999, Lee E. Mikles as Trustee of the Lee E. Mikles Revocable Trust dated March 26, 1996, Douglas D. Hommert as Trustee of the Douglas D. Hommert Revocable Trust, Edwin A. Levy, Joe C. Leach, Mark R. Miller, RAS LLC, Edwin L. Wahl, Jeffery H. Call and Ken Fenton (incorporated by reference to Exhibit No. 4.5 to Form 10 filed April 24, 2007)

4.6. Lock-in Deed dated July 12, 2006 among FutureFuel Corp., KBC Peel Hunt Ltd, St. Albans Global Management, Limited Partnership, LLLP, Lee E. Mikles as Trustee of the Lee E. Mikles Gift Trust dated October 6, 1999, Lee E. Mikles as Trustee of the Lee E. Mikles Revocable Trust dated March 26, 1996, Douglas D. Hommert as Trustee of the Douglas D. Hommert Revocable Trust, Edwin A. Levy, Paul Anthony Novelly, Lee E. Mikles, Douglas D. Hommert, Thomas R. Evans and William J. Doré (incorporated by reference to Exhibit No. 4.6 to Form 10 filed April 24, 2007)

10.1 Placing Agreement dated July 12, 2006 among CRT Capital Group LLC, KBC Peel Hunt Ltd, FutureFuel Corp. and FutureFuel Corp.'s Directors (incorporated by reference to Exhibit No. 10.1 to Form 10 filed April 24, 2007)

10.2 Offshore Registrar Agreement dated July 12, 2006 between FutureFuel Corp. and Capita IRG (Offshore) Limited (incorporated by reference to Exhibit No. 10.2 to Form 10 filed April 24, 2007)

10.3 Warrant Solicitation Fee Letter dated July 12, 2006 between FutureFuel Corp. and CRT Capital Group LLC (incorporated by reference to Exhibit No. 10.3 to Form 10 filed April 24, 2007)

10.4 Storage and Thruput Agreement dated November 1, 2006 between FutureFuel Chemical Company and Center Point Terminal Company (incorporated by reference to Exhibit No. 10. to Form 10 filed April 24, 2007)

10.5 Commodity Trading Advisor Agreement dated November 1, 2006 between FutureFuel Chemical Company and Apex Oil Company, Inc. (incorporated by reference to Exhibit No. 10.5 to Form 10 filed April 24, 2007)

10.6 Service Agreement dated November 1, 2006 between FutureFuel Corp. and Pinnacle Consulting, Inc. (incorporated by reference to Exhibit No. 10.6 to Form 10 filed April 24, 2007)

10.7 NOBS Supply Agreement dated January 1, 1999 between Eastman Chemical Company and The Procter & Gamble Manufacturing Company, as amended October 6, 1999, October 1, 2001, July 10, 2002, April 22, 2003 and June 18, 2003 (portions of the exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit No. 10.7 to Form 10 filed April 24, 2007)

10.8 Custom Manufacturing Agreement dated September 1, 1992 between Tomen Corporation and Eastman Kodak Company, as amended October 2, 1992, February 1, 1993, March 19, 1993, September 28, 1995, October 30, 1998, May 24, 1999, November 10, 1999, December 12, 2000 and July 25, 2006 (portions of the exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit No. 10.8 to Form 10 filed April 24, 2007)

10.9 Conversion Agreement dated October 1, 1993 between Tomen Corporation and Eastman Chemical Company, as amended March 7, 1994, May 13, 1994, May 17, 1994, June 14, 1994, July 19, 1994, August 17, 1994, February 10, 1995, May 25, 1995, October 15, 1997, March 27, 1998, June 23, 1998, September 29, 1998, October 30, 1998, November 10, 1999 and July 25, 2006 (portions of the exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit No. 10.9 to Form 10 filed April 24, 2007)

10.10 Credit Agreement dated March 14, 2007 between FutureFuel Chemical Company and Regions Bank (portions of the exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit No. 10.10 to Form 10 filed April 24, 2007)

10.11 Revolving Credit Promissory Note dated March 14, 2007 executed by FutureFuel Chemical Company and payable to the order of Regions Bank (incorporated by reference to Exhibit No. 10.11 to Form 10 filed April 24, 2007)

10.12 Security Agreement -Accounts and Inventory dated March 14, 2007 executed by FutureFuel Chemical Company in favor of Regions Bank (incorporated by reference to Exhibit No. 10.12 to Form 10 filed April 24, 2007)

10.13 Continuing Unlimited Guaranty Agreement dated March 14, 2007 executed by FutureFuel Corp. in favor of Regions Bank (incorporated by reference to Exhibit No. 10.13 to Form 10 filed April 24, 2007)

10.14 Car Subleasing Agreement dated November 1, 2006 between Apex Oil Company, Inc. and FutureFuel Chemical Company (incorporated by reference to Exhibit No. 10.14 to Form 10 filed April 24, 2007)

10.15 Time Sharing Agreement dated April 18, 2007 between Apex Oil Company, Inc. and FutureFuel Corp. (incorporated by reference to Exhibit No. 10.15 to Form 10 filed April 24, 2007)

10.16 Omnibus Incentive Plan (incorporated by reference to Exhibit No. 10.16 to Amendment No. 1 to Form 10 filed June 26, 2007)

11. Statement re Computation of per Share Earnings

21. Subsidiaries of FutureFuel Corp. (incorporated by reference to Exhibit No. 21 to Form 10 filed April 24, 2007)

24. Power of Attorney

31(a). Rule 13a-15(e)/15d-15(e) Certification of chief executive officer

31(b). Rule 13a-15(e)/15d-15(e) Certification of principal financial officer

32. Section 1350 Certification of chief executive officer and principal financial officer

117

99. Table contained in Item 1 of the Form 10-K

118

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

FUTUREFUEL CORP.

By: /s/ Douglas D. Hommert

Douglas D. Hommert, Executive Vice President, Secretary,
Treasurer and Principal Financial Officer

/s/ Paul A. Novelly

Paul A. Novelly, Director

/s/ Lee E. Mikles

Lee. E. Mikles, Director and Chief Executive Officer

/s/Edwin A. Levy

Edwin A. Levy, Director

/s/ Thomas R. Evans

Thomas R. Evans, Director

/s/ Richard L. Knowlton

Richard L. Knowlton, Director

/s/ Paul G. Lorenzini

Paul G. Lorenzini, Director

Date: March 31, 2008

119