

DILLARDS INC  
Form 10-Q  
September 01, 2016  
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 30, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 1-6140

DILLARD'S, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE 71-0388071  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification No.)

1600 CANTRELL ROAD, LITTLE ROCK, ARKANSAS 72201  
(Address of principal executive offices)  
(Zip Code)

(501) 376-5200  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Edgar Filing: DILLARDS INC - Form 10-Q

☒ Yes ☐ No

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 Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

CLASS A COMMON STOCK as of August 27, 2016 30,209,251

CLASS B COMMON STOCK as of August 27, 2016 4,010,401

Table of Contents

Index

DILLARD’S, INC.

	Page Number
 <u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited):</u>	
<u>Condensed Consolidated Balance Sheets as of July 30, 2016, January 30, 2016 and August 1, 2015</u>	<u>3</u>
Condensed Consolidated Statements of Income and Retained Earnings for the Three and Six Months Ended July 30, 2016 and August 1, 2015	<u>4</u>
Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended July 30, 2016 and August 1, 2015	<u>5</u>
Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 30, 2016 and August 1, 2015	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>14</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>24</u>
<u>Item 4. Controls and Procedures</u>	<u>24</u>
 <u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>25</u>
<u>Item 1A. Risk Factors</u>	<u>25</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>26</u>
<u>Item 6. Exhibits</u>	<u>27</u>
<u>SIGNATURES</u>	<u>28</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## DILLARD'S, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands)

	July 30, 2016	January 30, 2016	August 1, 2015
Assets			
Current assets:			
Cash and cash equivalents	\$ 128,250	\$ 202,869	\$ 175,137
Accounts receivable	41,210	47,138	48,783
Merchandise inventories	1,499,265	1,374,505	1,477,241
Federal and state income taxes	21,961	—	15,110
Other current assets	45,948	44,371	47,825
Total current assets	1,736,634	1,668,883	1,764,096
Property and equipment (net of accumulated depreciation and amortization of \$2,494,914, \$2,385,012 and \$2,461,417, respectively)	1,851,831	1,939,832	1,998,875
Other assets	254,543	255,186	252,622
Total assets	\$3,843,008	\$3,863,901	\$4,015,593
Liabilities and stockholders' equity			
Current liabilities:			
Trade accounts payable and accrued expenses	\$ 760,624	\$ 691,310	\$ 733,753
Current portion of capital lease obligations	3,236	3,284	7,701
Federal and state income taxes	—	56,622	—
Total current liabilities	763,860	751,216	741,454
Long-term debt	613,184	613,061	612,938
Capital lease obligations	4,505	7,269	7,740
Other liabilities	242,100	238,980	251,969
Deferred income taxes	250,663	258,070	253,436
Subordinated debentures	200,000	200,000	200,000
Commitments and contingencies			
Stockholders' equity:			
Common stock	1,238	1,238	1,238
Additional paid-in capital	941,709	940,796	938,922
Accumulated other comprehensive loss	(16,746 )	(17,118 )	(29,886 )
Retained earnings	4,078,824	3,994,211	3,869,549
Less treasury stock, at cost	(3,236,329 )	(3,123,822 )	(2,831,767 )
Total stockholders' equity	1,768,696	1,795,305	1,948,056

Total liabilities and stockholders' equity	\$3,843,008	\$3,863,901	\$4,015,593
--	-------------	-------------	-------------

See notes to condensed consolidated financial statements.

Table of Contents

## DILLARD'S, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

(In Thousands, Except Per Share Data)

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Net sales	\$1,452,445	\$1,513,778	\$2,955,687	\$3,087,271
Service charges and other income	36,305	37,066	71,860	76,991
	1,488,750	1,550,844	3,027,547	3,164,262
Cost of sales	993,359	1,020,331	1,931,938	1,980,750
Selling, general and administrative expenses	395,144	404,278	793,488	807,838
Depreciation and amortization	60,607	60,500	121,252	121,653
Rentals	5,880	5,719	11,870	11,476
Interest and debt expense, net	15,979	14,765	31,693	29,992
Gain on disposal of assets	(781)	(52)	(876)	(95)
Income before income taxes and income on and equity in earnings of joint ventures	18,562	45,303	138,182	212,648
Income taxes	6,490	15,650	48,690	73,690
Income on and equity in earnings of joint ventures	11	297	22	563
Net income	12,083	29,950	89,514	139,521
Retained earnings at beginning of period	4,069,151	3,841,990	3,994,211	3,734,891
Cash dividends declared	(2,410)	(2,391)	(4,901)	(4,863)
Retained earnings at end of period	\$4,078,824	\$3,869,549	\$4,078,824	\$3,869,549
Earnings per share:				
Basic and diluted	\$0.35	\$0.75	\$2.55	\$3.43
Cash dividends declared per common share	\$0.07	\$0.06	\$0.14	\$0.12

See notes to condensed consolidated financial statements.

Table of Contents

DILLARD'S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In Thousands)

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Net income	\$12,083	\$29,950	\$89,514	\$139,521
Other comprehensive income:				
Amortization of retirement plan and other retiree benefit adjustments (net of tax of \$115, \$353, \$230 and \$705, respectively)	186	571	372	1,143
Comprehensive income	\$12,269	\$30,521	\$89,886	\$140,664

See notes to condensed consolidated financial statements.

Table of Contents

DILLARD'S, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)

	Six Months Ended	
	July 30, 2016	August 1, 2015
Operating activities:		
Net income	\$89,514	\$139,521
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and other deferred cost	122,354	122,697
Gain on disposal of assets	(876 )	(95 )
Changes in operating assets and liabilities:		
Decrease in accounts receivable	5,928	7,727
Increase in merchandise inventories	(124,760 )	(102,760 )
Increase in other current assets	(664 )	(543 )
Decrease (increase) in other assets	1,013	(102 )
Increase in trade accounts payable and accrued expenses and other liabilities	77,046	2,167
Decrease in income taxes	(82,811 )	(106,638 )
Net cash provided by operating activities	86,744	61,974
Investing activities:		
Purchases of property and equipment	(41,990 )	(87,032 )
Proceeds from disposal of assets	957	234
Decrease in restricted cash	—	7,346
Net cash used in investing activities	(41,033 )	(79,452 )
Financing activities:		
Principal payments on long-term debt and capital lease obligations	(2,812 )	(411 )
Issuance cost of line of credit	—	(2,863 )
Cash dividends paid	(5,011 )	(4,949 )
Purchase of treasury stock	(112,507 )	(202,914 )
Net cash used in financing activities	(120,330 )	(211,137 )
Decrease in cash and cash equivalents	(74,619 )	(228,615 )
Cash and cash equivalents, beginning of period	202,869	403,752
Cash and cash equivalents, end of period	\$128,250	\$175,137
Non-cash transactions:		
Accrued capital expenditures	\$3,600	\$7,512
Stock awards	913	929
Capital lease transactions	—	9,093

See notes to condensed consolidated financial statements.





Table of Contents

DILLARD'S, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Dillard's, Inc. (the "Company") have been prepared in accordance with the rules of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended July 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending January 28, 2017 due to, among other factors, the seasonal nature of the business.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016 filed with the SEC on March 23, 2016.

Reclassifications - Certain items have been reclassified from their prior year classifications to conform to the current year presentation. These reclassifications had no effect on net income or stockholders' equity as previously reported.

Note 2. Business Segments

The Company operates in two reportable segments: the operation of retail department stores ("retail operations") and a general contracting construction company ("construction").

For the Company's retail operations, the Company determined its operating segments on a store by store basis. Each store's operating performance has been aggregated into one reportable segment. The Company's operating segments are aggregated for financial reporting purposes because they are similar in each of the following areas: economic characteristics, class of consumer, nature of products and distribution methods. Revenues from external customers are derived from merchandise sales, and the Company does not rely on any major customers as a source of revenue. Across all stores, the Company operates one store format under the Dillard's name where each store offers the same general mix of merchandise with similar categories and similar customers. The Company believes that disaggregating its operating segments would not provide meaningful additional information.

Table of Contents

The following tables summarize certain segment information, including the reconciliation of those items to the Company's consolidated operations:

(in thousands of dollars)	Retail Operations	Construction	Consolidated
Three Months Ended July 30, 2016:			
Net sales from external customers	\$ 1,403,410	\$ 49,035	\$ 1,452,445
Gross profit	457,275	1,811	459,086
Depreciation and amortization	60,433	174	60,607
Interest and debt expense (income), net	15,994	(15	) 15,979
Income before income taxes and income on and equity in earnings of joint ventures	17,918	644	18,562
Income on and equity in earnings of joint ventures	11	—	11
Total assets	3,789,486	53,522	3,843,008
Three Months Ended August 1, 2015:			
Net sales from external customers	\$ 1,467,709	\$ 46,069	\$ 1,513,778
Gross profit	491,645	1,802	493,447
Depreciation and amortization	60,415	85	60,500
Interest and debt expense (income), net	14,780	(15	) 14,765
Income before income taxes and income on and equity in earnings of joint ventures	44,810	493	45,303
Income on and equity in earnings of joint ventures	297	—	297
Total assets	3,960,032	55,561	4,015,593
Six Months Ended July 30, 2016:			
Net sales from external customers	\$ 2,852,798	\$ 102,889	\$ 2,955,687
Gross profit	1,019,454	4,295	1,023,749
Depreciation and amortization	120,908	344	121,252
Interest and debt expense (income), net	31,723	(30	) 31,693
Income before income taxes and income on and equity in earnings of joint ventures	136,699	1,483	138,182
Income on and equity in earnings of joint ventures	22	—	22
Total assets	3,789,486	53,522	3,843,008
Six Months Ended August 1, 2015:			
Net sales from external customers	\$ 2,986,069	\$ 101,202	\$ 3,087,271
Gross profit	1,102,639	3,882	1,106,521
Depreciation and amortization	121,477	176	121,653
Interest and debt expense (income), net	30,020	(28	) 29,992
Income before income taxes and income on and equity in earnings of joint ventures	211,201	1,447	212,648
Income on and equity in earnings of joint ventures	563	—	563
Total assets	3,960,032	55,561	4,015,593

Intersegment construction revenues of \$23.3 million and \$19.7 million for the three months ended July 30, 2016 and August 1, 2015, respectively, and \$33.2 million and \$42.5 million for the six months ended July 30, 2016 and August 1, 2015, respectively, were eliminated during consolidation and have been excluded from net sales for the respective periods.



Table of Contents

## Note 3. Earnings Per Share Data

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated (in thousands, except per share data).

	Three Months Ended		Six Months Ended	
	July 30,	August 1,	July 30,	August 1,
	2016	2015	2016	2015
Net income	\$ 12,083	\$ 29,950	\$ 89,514	\$ 139,521
Weighted average shares of common stock outstanding	34,536	40,096	35,094	40,644
Basic and diluted earnings per share	\$ 0.35	\$ 0.75	\$ 2.55	\$ 3.43

The Company maintains a capital structure in which common stock is the only equity security issued and outstanding, and there were no shares of preferred stock, stock options, other dilutive securities or potentially dilutive securities issued or outstanding during the three and six months ended July 30, 2016 and August 1, 2015.

## Note 4. Commitments and Contingencies

Various legal proceedings, in the form of lawsuits and claims, which occur in the normal course of business, are pending against the Company and its subsidiaries. In the opinion of management, disposition of these matters, individually or in the aggregate, is not expected to have a material adverse effect on the Company's financial position, cash flows or results of operations.

At July 30, 2016, letters of credit totaling \$26.4 million were issued under the Company's revolving credit facility.

## Note 5. Benefit Plans

The Company has an unfunded, nonqualified defined benefit plan ("Pension Plan") for its officers. The Pension Plan is noncontributory and provides benefits based on years of service and compensation during employment. The Company determines pension expense using an actuarial cost method to estimate the total benefits ultimately payable to officers and allocates this cost to service periods. The actuarial assumptions used to calculate pension costs are reviewed annually. The Company contributed \$0.9 million and \$1.9 million to the Pension Plan during the three and six months ended July 30, 2016 and expects to make additional contributions to the Pension Plan of approximately \$2.1 million during the remainder of fiscal 2016.

The components of net periodic benefit costs are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 30,	August 1,	July 30,	August 1,
	2016	2015	2016	2015
Components of net periodic benefit costs:				
Service cost	\$984	\$ 983	\$1,967	\$ 1,966
Interest cost	1,919	1,684	3,839	3,368
Net actuarial loss	301	924	602	1,848
Net periodic benefit costs	\$3,204	\$ 3,591	\$6,408	\$ 7,182

Net periodic benefit costs are included in selling, general and administrative expenses.

## Note 6. Revolving Credit Agreement

At July 30, 2016, the Company maintained a \$1.0 billion unsecured revolving credit facility (“credit agreement”). The credit agreement matures on May 13, 2020 and is available to the Company for working capital needs and general corporate purposes. The Company pays a variable rate of interest on borrowings under the credit agreement and a commitment fee to the participating banks based on the Company's debt rating. The rate of interest on borrowings is LIBOR plus 1.375%, and the commitment fee for unused borrowings is 0.20% per annum.

Table of Contents

At July 30, 2016, no borrowings were outstanding, and letters of credit totaling \$26.4 million were issued under the credit agreement leaving unutilized availability under the facility of approximately \$973.6 million.

To be in compliance with the financial covenants of the credit agreement, the Company's total leverage ratio cannot exceed 4.0 to 1.0, and the coverage ratio cannot be less than 2.5 to 1.0. At July 30, 2016, the Company was in compliance with all financial covenants related to the credit agreement.

## Note 7. Stock Repurchase Programs

The Company's Board of Directors has authorized the Company to repurchase the Company's Class A Common Stock under open-ended stock plans. These authorizations permit the Company to repurchase its Class A Common Stock in the open market, pursuant to preset trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 or through privately negotiated transactions. On February 25, 2016, the Company's Board of Directors authorized the Company to repurchase \$500 million of the Company's Class A Common Stock under an open-ended stock repurchase plan. The authorization has no expiration date.

The following is a summary of share repurchase activity for the periods indicated (in millions, except per share data):

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Cost of shares repurchased	\$54.1	\$207.9	\$112.5	\$207.9
Number of shares repurchased	0.9	1.8	1.6	1.8
Average price per share	\$61.18	\$112.83	\$70.08	\$112.83

All repurchases of the Company's Class A Common Stock above were made at the market price at the trade date. Accordingly, all amounts paid to reacquire these shares were allocated to Treasury Stock. As of July 30, 2016, \$387.5 million of authorization remained under the Company's stock repurchase plan.

## Note 8. Income Taxes

During the three months ended July 30, 2016, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes partially offset by tax benefits recognized for federal tax credits. During the three months ended August 1, 2015, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes, which included benefits for legislatively-enacted state income tax rate reductions.

During the six months ended July 30, 2016, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes partially offset by tax benefits recognized for federal tax credits. During the six months ended August 1, 2015, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes.

## Note 9. Reclassifications from Accumulated Other Comprehensive Loss ("AOCL")

Reclassifications from AOCL are summarized as follows (in thousands):

Amount Reclassified  
from AOCL

Edgar Filing: DILLARDS INC - Form 10-Q

	Three Months Ended		Six Months Ended		Affected Line Item in the Statement Where Net Income Is Presented
Details about AOCL Components	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015	
Defined benefit pension plan items					
Amortization of actuarial losses	301	924	\$602	\$ 1,848	Total before tax (1)
	115	353	230	705	Income tax expense
	\$186	\$ 571	\$372	\$ 1,143	Total net of tax

(1) These items are included in the computation of net periodic pension cost. See Note 5, Benefit Plans, for additional information.



Table of Contents

## Note 10. Changes in Accumulated Other Comprehensive Loss

Changes in AOCL by component (net of tax) are summarized as follows (in thousands):

	Defined Benefit Pension Plan Items			
	Three Months		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Beginning balance	\$16,932	\$30,457	\$17,118	\$31,029
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCL	(186 )	(571 )	(372 )	(1,143 )
Net other comprehensive income	(186 )	(571 )	(372 )	(1,143 )
Ending balance	\$16,746	\$29,886	\$16,746	\$29,886

## Note 11. Fair Value Disclosures

The estimated fair values of financial instruments presented herein have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of amounts the Company could realize in a current market exchange.

The fair value of the Company's long-term debt and subordinated debentures is based on market prices or dealer quotes.

The fair value of the Company's cash and cash equivalents and accounts receivable approximates their carrying values at July 30, 2016 due to the short-term maturities of these instruments. The fair value of the Company's long-term debt at July 30, 2016 was approximately \$690 million. The carrying value of the Company's long-term debt at July 30, 2016 was \$613.2 million. The fair value of the Company's subordinated debentures at July 30, 2016 was approximately \$212 million. The carrying value of the Company's subordinated debentures at July 30, 2016 was \$200.0 million.

## Note 12. Recently Issued Accounting Standards

## Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

This update was amended by ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date for the Company from the first quarter of fiscal 2017 to the first quarter of fiscal 2018 with early adoption permitted.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This ASU clarifies the implementation guidance on principal versus agent considerations, as it assists in the determination of whether the entity controls the good or service before it is transferred to the customer.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This ASU clarifies two aspects of Topic 606, including identifying performance obligations and the licensing implementation guidance, while retaining the principles for those areas.

## Table of Contents

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. This ASU clarifies three aspects of Topic 606, including the objective of the collectibility criterion, the measurement date for noncash consideration and the requirements for a completed contract. The ASU also includes a practical expedient for contract modifications. Additionally, the amendments allow an entity to exclude amounts collected from customers for all sales taxes from the transaction price.

The Company is currently assessing the impact of these updates on its consolidated financial statements.

### Presentation of Financial Statements - Going Concern

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40), which requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. This ASU is effective for reporting periods ending after December 15, 2016, and we plan to adopt this ASU for the annual period ending on January 28, 2017. We do not believe the adoption of this guidance will have a material impact on the Company's consolidated financial statements.

### Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred taxes in the balance sheet. Under this amendment, entities will no longer be required to separate deferred income tax liabilities and assets into current and noncurrent amounts in the balance sheet. Rather, the amendment requires deferred tax liabilities and assets be classified as noncurrent in the balance sheet. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and early adoption is permitted as of the beginning of an interim or annual reporting period. The Company elected to adopt the accounting standard in the beginning of the fourth quarter of fiscal 2015. The prior period in our consolidated financial statements were retrospectively adjusted.

### Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, to amend Accounting Standards Codification ("ASC") Topic 835. The amendment adds the requirement for an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset and to report amortization of the debt issuance costs as interest expense. ASU No. 2015-03 requires retrospective application and represents a change in accounting principle. The Company adopted ASU No. 2015-03 during the first quarter of fiscal 2016, using retrospective application as permitted. Prior period amounts in our condensed consolidated financial statements have been reclassified to conform with current presentation. As a result, the Company reclassified \$1.7 million and \$1.9 million of debt issuance costs from other assets to reduce long-term debt on our condensed consolidated balance sheets at January 30, 2016 and August 1, 2015, respectively.

### Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements

In August 2015, the FASB issued ASU No. 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, to provide authoritative guidance related to line-of-credit arrangements, which were not addressed in ASU No. 2015-03. An entity may defer and present debt issuance costs related to line-of-credit arrangements as an asset. Subsequently, the debt issuance costs may be amortized as interest expense ratably over the term of the line-of-credit arrangement,

regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company adopted ASU No. 2015-15 at the beginning of the first quarter of fiscal 2016. The adoption of this guidance had no impact on the Company's consolidated financial statements.

#### Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, to simplify the measurement of inventory using the first-in, first out (FIFO) or average cost methods. Under this amendment, inventory under the FIFO or average cost methods should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This update will be effective for the Company beginning in the first quarter of fiscal 2017. Approximately 96% of the Company's merchandise inventories are valued using the retail inventory method, which is outside the scope of ASU No. 2015-11. The remaining 4% of the Company's merchandise inventories are valued at the lower of cost or market using the average cost or specific identified cost methods, and the Company is evaluating the effect of this

Table of Contents

update on these inventory values. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

Leases: Amendments to the FASB Accounting Standards Codification

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842): Amendments to the FASB Accounting Standards Codification, to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under these amendments, lessees are required to recognize lease assets and lease liabilities for leases classified as operating leases under ASC 840. ASU No. 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Company is currently assessing the impact of this update on its consolidated financial statements.

Note 13. Subsequent Event

As of August 31, 2016, the Company had executed an agreement to invest \$20.0 million in our shopping mall joint venture located in Bonita Springs, Florida. The investment will be funded using cash on hand. The joint venture will use these funds to refinance its debt maturing in December 2016.

Table of Contents

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the condensed consolidated financial statements and the footnotes thereto included elsewhere in this report, as well as the financial and other information included in our Annual Report on Form 10-K for the year ended January 30, 2016.

## EXECUTIVE OVERVIEW

The Company's second quarter performance of fiscal 2016 reflected the current challenges facing apparel retailers, as disappointing sales pressured our gross margin and net income performance. During the three months ended July 30, 2016, comparable store sales declined 5% over last year's second quarter. Gross margin from retail operations decreased 92 basis points of net sales primarily due to increased markdowns. Selling, general and administrative expenses ("SG&A") from retail operations increased 60 basis points of net sales while SG&A decreased \$9.2 million. Net income decreased \$17.9 million to \$12.1 million (\$0.35 per share) for the current year second quarter from \$30.0 million (\$0.75 per share) for the prior year second quarter.

During the three months ended July 30, 2016, the Company purchased \$54.1 million of Class A Common Stock under its \$500 million stock repurchase plan. As of July 30, 2016, authorization of \$387.5 million remained under the plan.

As of July 30, 2016, the Company had working capital of \$972.8 million, cash and cash equivalents of \$128.3 million and \$813.2 million of total debt outstanding, excluding capital lease obligations. Cash flows from operating activities were \$86.7 million for the six months ended July 30, 2016.

The Company currently operates 272 Dillard's locations, 22 clearance centers and one internet store.

## Key Performance Indicators

We use a number of key indicators of financial condition and operating performance to evaluate our business, including the following:

	Three Months Ended			
	July 30,	August 1,		
	2016	2015		
Net sales (in millions)	\$1,452.4	\$1,513.8		
Retail stores sales trend	(4 )%	—	%	
Comparable retail stores sales trend	(5 )%	1	%	
Gross profit (in millions)	\$459.1	\$493.4		
Gross profit as a percentage of net sales	31.6	% 32.6	%	
Retail gross profit as a percentage of net sales	32.6	% 33.5	%	
Selling, general and administrative expenses as a percentage of net sales	27.2	% 26.7	%	
Cash flow from operations (in millions)*	\$86.7	\$62.0		
Total retail store count at end of period**	294	297		
Retail sales per square foot	\$29	\$30		
Comparable retail store inventory trend	2	% 3	%	
Annualized retail merchandise inventory turnover	2.4	2.5		

\*Cash flow from operations data is for the six months ended July 30, 2016 and August 1, 2015.

\*\* On August 3, 2016, the Company closed its clearance center in Arlington, Texas, which has been excluded from the total retail store count.

#### General

Net sales. Net sales includes merchandise sales of comparable and non-comparable stores and revenue recognized on contracts of CDI Contractors, LLC ("CDI"), the Company's general contracting construction company. Comparable store sales includes sales for those stores which were in operation for a full period in both the current quarter and the corresponding

## Table of Contents

quarter for the prior year. Comparable store sales excludes changes in the allowance for sales returns.

Non-comparable store sales includes: sales in the current fiscal year from stores opened during the previous fiscal year before they are considered comparable stores; sales from new stores opened during the current fiscal year; sales in the previous fiscal year for stores closed during the current or previous fiscal year that are no longer considered comparable stores; sales in clearance centers; and changes in the allowance for sales returns.

Service charges and other income. Service charges and other income includes income generated through the long-term private label card alliance with Wells Fargo Bank, N.A. ("Wells Fargo Alliance") and former private label card alliance with Synchrony Financial ("Synchrony Alliance"). Other income includes rental income, shipping and handling fees, gift card breakage and lease income on leased departments.

Cost of sales. Cost of sales includes the cost of merchandise sold (net of purchase discounts and non-specific margin maintenance allowances), bankcard fees, freight to the distribution centers, employee and promotional discounts, and direct payroll for salon personnel. Cost of sales also includes CDI contract costs, which comprise all direct material and labor costs, subcontract costs and those indirect costs related to contract performance, such as indirect labor, employee benefits and insurance program costs.

Selling, general and administrative expenses. Selling, general and administrative expenses includes buying, occupancy, selling, distribution, warehousing, store and corporate expenses (including payroll and employee benefits), insurance, employment taxes, advertising, management information systems, legal and other corporate level expenses. Buying expenses consist of payroll, employee benefits and travel for design, buying and merchandising personnel.

Depreciation and amortization. Depreciation and amortization expenses include depreciation and amortization on property and equipment.

Rentals. Rentals includes expenses for store leases, including contingent rent, and data processing and other equipment rentals.

Interest and debt expense, net. Interest and debt expense includes interest, net of interest income and capitalized interest, relating to the Company's unsecured notes, subordinated debentures and borrowings under the Company's credit facility. Interest and debt expense also includes gains and losses on note repurchases, if any, amortization of financing costs and interest on capital lease obligations.

Gain on disposal of assets. Gain on disposal of assets includes the net gain or loss on the sale or disposal of property and equipment.

Income on and equity in earnings of joint ventures. Income on and equity in earnings of joint ventures includes the Company's portion of the income or loss of the Company's unconsolidated joint ventures.

## Seasonality

Our business, like many other retailers, is subject to seasonal influences, with a significant portion of sales and income typically realized during the last quarter of our fiscal year due to the holiday season. Because of the seasonality of our business, results from any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.





Table of Contents

## RESULTS OF OPERATIONS

The following table sets forth the results of operations as a percentage of net sales for the periods indicated (percentages may not foot due to rounding):

	Three Months Ended		Six Months Ended	
	July 30,	August 1,	July 30,	August 1,
	2016	2015	2016	2015
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Service charges and other income	2.5	2.4	2.4	2.5
	102.5	102.4	102.4	102.5
Cost of sales	68.4	67.4	65.4	64.2
Selling, general and administrative expenses	27.2	26.7	26.8	26.2
Depreciation and amortization	4.2	4.0	4.1	3.9
Rentals	0.4	0.4	0.4	0.4
Interest and debt expense, net	1.1	1.0	1.1	1.0
Gain on disposal of assets	(0.1 )	—	—	—
Income before income taxes and income on and equity in earnings of joint ventures	1.3	3.0	4.7	6.9
Income taxes	0.4	1.0	1.6	2.4
Income on and equity in earnings of joint ventures	—	—	—	—
Net income	0.8 %	2.0 %	3.0 %	4.5 %

Table of Contents

## Net Sales

(in thousands of dollars)	Three Months Ended		\$ Change
	July 30, 2016	August 1, 2015	
Net sales:			
Retail operations segment	\$1,403,410	\$1,467,709	\$(64,299)
Construction segment	49,035	46,069	2,966
Total net sales	\$1,452,445	\$1,513,778	\$(61,333)

The percent change in the Company's sales by segment and product category for the three months ended July 30, 2016 compared to the three months ended August 1, 2015 as well as the sales percentage by segment and product category to total net sales for the three months ended July 30, 2016 are as follows:

	% Change 2016-2015	% of Net Sales	
Retail operations segment			
Cosmetics	(4.2 )%	13	%
Ladies' apparel	(3.4 )	25	
Ladies' accessories and lingerie	(5.0 )	16	
Juniors' and children's apparel	(5.9 )	8	
Men's apparel and accessories	(3.3 )	17	
Shoes	(4.1 )	15	
Home and furniture	(12.1 )	3	
		97	
Construction segment	6.4	3	
Total		100	%

Net sales from the retail operations segment decreased \$64.3 million during the three months ended July 30, 2016 compared to the three months ended August 1, 2015, decreasing 4% in total and 5% in comparable stores. Sales of ladies' accessories and lingerie, juniors' and children's apparel and home and furniture decreased significantly over the second quarter last year. Sales of ladies' apparel, men's apparel and accessories, cosmetics and shoes decreased moderately.

The number of sales transactions decreased 7% for the three months ended July 30, 2016 compared to the three months ended August 1, 2015 while the average dollars per sales transaction increased 2%. We recorded an allowance for sales returns of \$7.1 million as of July 30, 2016 and August 1, 2015.

During the three months ended July 30, 2016, net sales from the construction segment increased \$3.0 million or 6.4% compared to the three months ended August 1, 2015 due to an increase in construction projects. The backlog of awarded construction contracts at July 30, 2016 totaled \$339.6 million, increasing approximately 103% from January 30, 2016 and increasing approximately 18% from August 1, 2015.

(in thousands of dollars)	Six Months Ended		\$ Change
	July 30, 2016	August 1, 2015	
Net sales:			
Retail operations segment	\$2,852,798	\$2,986,069	\$(133,271)
Construction segment	102,889	101,202	1,687
Total net sales	\$2,955,687	\$3,087,271	\$(131,584)



Table of Contents

The percent change in the Company's sales by segment and product category for the six months ended July 30, 2016 compared to the six months ended August 1, 2015 as well as the sales percentage by segment and product category to total net sales for the six months ended July 30, 2016 are as follows:

	% Change 2016-2015	% of Net Sales
Retail operations segment		
Cosmetics	(4.2 )%	14 %
Ladies' apparel	(3.9 )	24
Ladies' accessories and lingerie	(7.1 )	15
Juniors' and children's apparel	(5.6 )	9
Men's apparel and accessories	(3.6 )	16
Shoes	(2.1 )	16
Home and furniture	(9.1 )	3
		97
Construction segment	1.7	3
Total		100 %

Net sales from the retail operations segment decreased \$133.3 million during the six months ended July 30, 2016 compared to the six months ended August 1, 2015, decreasing 4% in total and 5% in comparable stores. Sales of ladies' accessories and lingerie, juniors' and children's apparel and home and furniture decreased significantly over the prior year period. Sales of ladies' apparel, cosmetics, men's apparel and accessories and shoes decreased moderately over the prior year period.

The number of sales transactions decreased 6% for the six months ended July 30, 2016 compared to the six months ended August 1, 2015 while the average dollars per sales transaction increased 2%.

Storewide sales penetration of exclusive brand merchandise for the six months ended July 30, 2016 and August 1, 2015 was 22.1%.

During the six months ended July 30, 2016, net sales from the construction segment increased \$1.7 million or 1.7% compared to the six months ended August 1, 2015 due to an increase in construction activity.

## Service Charges and Other Income

	Three Months Ended		Six Months Ended		Three Months	Six Months
(in thousands of dollars)	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015	\$ Change 2016-2015	\$ Change 2016-2015
Service charges and other income:						
Retail operations segment						
Income from Wells Fargo Alliance and former Synchrony Alliance	\$ 24,026	\$ 23,991	\$ 47,891	\$ 50,727	\$ 35	\$ (2,836 )
Shipping and handling income	6,594	6,021	13,057	11,800	573	1,257
Leased department income	1,876	1,798	3,453	3,413	78	40
Other	3,492	5,210	7,104	10,732	(1,718 )	(3,628 )
	35,988	37,020	71,505	76,672	(1,032 )	(5,167 )
Construction segment	317	46	355	319	271	36

Edgar Filing: DILLARDS INC - Form 10-Q

Total service charges and other income	\$ 36,305	\$ 37,066	\$ 71,860	\$ 76,991	\$ (761 )	\$ (5,131 )
--	-----------	-----------	-----------	-----------	-----------	-------------

Service charges and other income is composed primarily of income from the Wells Fargo Alliance and former Synchrony Alliance. Income from the alliances decreased during the six months ended July 30, 2016 compared to the six months ended August 1, 2015 primarily due to a decrease in income from the former Synchrony Alliance.

18

---

Table of Contents

## Gross Profit

(in thousands of dollars)	July 30, 2016	August 1, 2015	\$ Change	% Change
---------------------------	------------------	-------------------	-----------	----------

## Gross profit:

## Three months ended

Retail operations segment	\$457,275	\$491,645	\$(34,370)	(7.0 )%
Construction segment	1,811	1,802	9	0.5
Total gross profit	\$459,086	\$493,447	\$(34,361)	(7.0 )%

## Six months ended

Retail operations segment	\$1,019,454	\$1,102,639	\$(83,185)	(7.5 )%
Construction segment	4,295	3,882	413	10.6
Total gross profit	\$1,023,749	\$1,106,521	\$(82,772)	(7.5 )%

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015

## Gross profit as a percentage of segment net sales:

Retail operations segment	32.6 %	33.5 %	35.7 %	36.9 %
Construction segment	3.7	3.9	4.2	3.8
Total gross profit as a percentage of net sales	31.6	32.6	34.6	35.8

Gross profit declined 99 basis points of net sales and 120 basis points of net sales during the three and six months ended July 30, 2016 compared to the three and six months ended August 1, 2015, respectively.

Gross profit from retail operations declined 92 basis points of net sales during the three months ended July 30, 2016 compared to the three months ended August 1, 2015 primarily due to higher markdowns. Gross margin declined moderately in ladies' accessories and lingerie, juniors' and children's apparel and home and furniture. Gross margin declined slightly in men's apparel and accessories. Gross margin increased slightly in shoes, while remaining essentially flat in ladies' apparel and cosmetics.

Gross profit from retail operations declined 119 basis points of net sales during the six months ended July 30, 2016 compared to the six months ended August 1, 2015 primarily due to higher markdowns. Gross margin declined moderately in ladies' accessories and lingerie, men's apparel and accessories and home and furniture. Gross margin declined slightly in juniors' and children's apparel, while remaining essentially flat in cosmetics and shoes and ladies' apparel.

Gross profit from the construction segment decreased 22 basis point points and increased 33 basis points of construction sales for the three and six months ended July 30, 2016, respectively.

Inventory increased 1% in total and 2% in comparable stores as of July 30, 2016 compared to August 1, 2015. A 1% change in the dollar amount of markdowns would have impacted net income by approximately \$3 million and \$5 million for the three and six months ended July 30, 2016, respectively.





Table of Contents

## Selling, General and Administrative Expenses ("SG&amp;A")

(in thousands of dollars)	July 30, 2016	August 1, 2015	\$ Change	% Change
---------------------------	------------------	-------------------	-----------	----------

## SG&amp;A:

## Three months ended

Retail operations segment	\$393,827	\$403,007	\$(9,180)	(2.3)%
Construction segment	1,317	1,271	46	3.6
Total SG&A	\$395,144	\$404,278	\$(9,134)	(2.3)%

## Six months ended

Retail operations segment	\$790,654	\$805,260	\$(14,606)	(1.8)%
Construction segment	2,834	2,578	256	9.9
Total SG&A	\$793,488	\$807,838	\$(14,350)	(1.8)%

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
SG&A as a percentage of segment net sales:				
Retail operations segment	28.1 %	27.5 %	27.7 %	27.0 %
Construction segment	2.7	2.8	2.8	2.5
Total SG&A as a percentage of net sales	27.2	26.7	26.8	26.2

SG&A increased 50 basis points of net sales during the three months ended July 30, 2016 compared to the three months ended August 1, 2015 while total SG&A decreased \$9.1 million. SG&A from retail operations increased 60 basis points of net sales during the three months ended July 30, 2016 compared to the three months ended August 1, 2015 while total SG&A from retail operations decreased by \$9.2 million. This decrease was primarily due to a decrease in supplies (\$3.4 million), advertising expense (\$2.1 million), services purchased (\$2.0 million), selling payroll expense (\$2.0 million) and utilities expense (\$1.5 million) partially offset by an increase in insurance expense (\$1.4 million).

SG&A increased 68 basis points of net sales during the six months ended July 30, 2016 compared to the six months ended August 1, 2015 while total SG&A decreased \$14.4 million. SG&A from retail operations increased 75 basis points of net sales during the six months ended July 30, 2016 compared to the six months ended August 1, 2015 while total SG&A from retail operations decreased by \$14.6 million. This decrease was primarily due to a decrease in supplies (\$5.1 million), advertising expense (\$4.7 million), services purchased (\$4.4 million), and utilities expense (\$3.1 million) partially offset by an increase in insurance expense (\$3.5 million).

Table of Contents

## Depreciation and Amortization

(in thousands of dollars)	July 30, 2016	August 1, 2015	\$ Change	% Change	
Depreciation and amortization:					
Three months ended					
Retail operations segment	\$60,433	\$60,415	\$ 18	—	%
Construction segment	174	85	89	104.7	
Total depreciation and amortization	\$60,607	\$60,500	\$ 107	0.2	%
Six months ended					
Retail operations segment	\$120,908	\$121,477	\$ (569 )	(0.5 )	%
Construction segment	344	176	168	95.5	
Total depreciation and amortization	\$121,252	\$121,653	\$ (401 )	(0.3 )	%

Depreciation and amortization expense for the three and six months ended July 30, 2016 compared to the three and six months ended August 1, 2015 remained essentially flat due to the timing and composition of capital expenditures.

## Interest and Debt Expense, Net

(in thousands of dollars)	July 30, 2016	August 1, 2015	\$ Change	% Change	
Interest and debt expense (income), net:					
Three months ended					
Retail operations segment	\$15,994	\$14,780	\$ 1,214	8.2	%
Construction segment	(15 )	(15 )	—	—	
Total interest and debt expense, net	\$15,979	\$14,765	\$ 1,214	8.2	%
Six months ended					
Retail operations segment	\$31,723	\$30,020	\$ 1,703	5.7	%
Construction segment	(30 )	(28 )	(2 )	(7.1 )	
Total interest and debt expense, net	\$31,693	\$29,992	\$ 1,701	5.7	%

The increase in net interest and debt expense for the three months ended July 30, 2016 compared to the three months ended August 1, 2015 was primarily attributable to a decrease in capitalized interest and an increase in short term borrowings. The increase in net interest and debt expense for the six months ended July 30, 2016 compared to the six months ended August 1, 2015 was primarily attributable to a decrease in capitalized interest and interest income. Total weighted average debt increased by \$45.6 million and \$22.8 million during the three and six months ended July 30, 2016 compared to the three and six months ended August 1, 2015, respectively.

## Income Taxes

The Company's estimated federal and state effective income tax rate, inclusive of income on and equity in earnings of joint ventures, was approximately 34.9% and 34.3% for the three months ended July 30, 2016 and August 1, 2015, respectively. During the three months ended July 30, 2016, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes partially offset by tax benefits recognized for federal tax credits. During the three months ended August 1, 2015, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes, which included benefits for legislatively-enacted state income tax rate reductions.

The Company's estimated federal and state effective income tax rate, inclusive of income on and equity in earnings of joint ventures, was approximately 35.2% and 34.6% for the six months ended July 30, 2016 and August 1, 2015, respectively. During the six months ended July 30, 2016, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes partially offset by tax benefits recognized for federal

Table of Contents

tax credits. During the six months ended August 1, 2015, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes.

The Company expects the fiscal 2016 federal and state effective income tax rate to approximate 35%. This rate may change if results of operations for fiscal 2016 differ from management's current expectations. Changes in the Company's assumptions and judgments can materially affect amounts recognized in the condensed consolidated balance sheets and statements of income.

**FINANCIAL CONDITION**

A summary of net cash flows for the six months ended July 30, 2016 and August 1, 2015 follows:

(in thousands of dollars)	Six Months Ended		\$ Change
	July 30, 2016	August 1, 2015	
Operating Activities	\$86,744	\$61,974	\$24,770
Investing Activities	(41,033 )	(79,452 )	38,419
Financing Activities	(120,330 )	(211,137 )	90,807
Total Cash Used	\$(74,619)	\$(228,615)	\$153,996

Net cash flows from operations increased \$24.8 million during the six months ended July 30, 2016 compared to the six months ended August 1, 2015. This increase was primarily attributable to an increase of \$75.9 million related to changes in working capital items, primarily due to increases in accounts payable and accrued expenses. This increase in cash flow from operations was partially offset by an increase in inventory and decrease in gross profit.

Synchrony Financial ("Synchrony") owned and managed Dillard's private label credit cards under the Synchrony Alliance that expired in November 2014. Following that scheduled expiration, Wells Fargo Bank, N.A. ("Wells Fargo") purchased the Dillard's private label card portfolio from Synchrony and began managing Dillard's private label cards under the Wells Fargo Alliance. Under the Wells Fargo Alliance, Wells Fargo establishes and owns private label card accounts for our customers, retains the benefits and risks associated with the ownership of the accounts, provides key customer service functions, including new account openings, transaction authorization, billing adjustments and customer inquiries, receives the finance charge income and incurs the bad debts associated with those accounts.

Pursuant to the Wells Fargo Alliance, we receive on-going cash compensation from Wells Fargo based upon the portfolio's earnings. The compensation earned on the portfolio is determined monthly and has no recourse provisions. The amount the Company recognizes is dependent on the level of sales on Wells Fargo accounts, the level of balances carried on Wells Fargo accounts by Wells Fargo customers, payment rates on Wells Fargo accounts, finance charge rates and other fees on Wells Fargo accounts, the level of credit losses for the Wells Fargo accounts, Wells Fargo's ability to extend credit to our customers as well as the cost of customer rewards programs. We participate in the marketing of the private label cards, which includes the cost of customer reward programs. We accept payments on the private label cards in our stores as a convenience to customers who prefer to pay in person rather than by paying online or mailing their payments to Wells Fargo. The Wells Fargo Alliance expires in fiscal 2024.

The Company received income of approximately \$47.9 million and \$50.7 million from the Wells Fargo Alliance and former Synchrony Alliance during the six months ended July 30, 2016 and August 1, 2015, respectively.

Capital expenditures were \$42.0 million and \$87.0 million for the six months ended July 30, 2016 and August 1, 2015, respectively. The decline in capital expenditures was primarily related to the construction of new stores and the remodeling of existing stores during the comparable prior year period. Capital expenditures for fiscal 2016 are

expected to be approximately \$120 million compared to actual expenditures of \$166 million during fiscal 2015.

Changes in restricted cash balances are reflected as an investment activity in the accompanying condensed consolidated statements of cash flows. During the six months ended August 1, 2015, payments of \$7.3 million were made from restricted cash for like-kind property.

We closed the Aiken store in Aiken, South Carolina (105,000 square feet) in May 2016, the South Towne clearance center in Sandy, Utah (100,000 square feet) in July 2016 and the Six Flags clearance center in Arlington, Texas (85,000 square feet) in August 2016. We remain committed to closing under-performing stores where appropriate and may incur future closing costs related to these stores when they close.

Table of Contents

As of August 31, 2016, the Company had executed an agreement to invest \$20.0 million in our shopping mall joint venture located in Bonita Springs, Florida. The investment will be funded using cash on hand. The joint venture will use these funds to refinance its debt maturing in December 2016.

The Company had cash on hand of \$128.3 million as of July 30, 2016. As part of our overall liquidity management strategy and for peak working capital requirements, the Company maintains a \$1.0 billion unsecured credit facility. The credit facility is available for working capital needs and general corporate purposes. The rate of interest on borrowings is LIBOR plus 1.375%, and the commitment fee for unused borrowings is 0.20% per annum. To be in compliance with the financial covenants of the credit agreement, the Company's total leverage ratio cannot exceed 4.0 to 1.0, and the Company's coverage ratio cannot be less than 2.5 to 1.0. At July 30, 2016, the Company was in compliance with all financial covenants related to the credit agreement.

At July 30, 2016, no borrowings were outstanding, and letters of credit totaling \$26.4 million were issued under the credit agreement leaving unutilized availability under the facility of approximately \$973.6 million.

During the six months ended July 30, 2016, the Company repurchased 1.6 million shares of Class A Common Stock at an average price of \$70.08 per share for \$112.5 million. During the six months ended August 1, 2015, the Company repurchased 1.8 million shares of its Common Stock at an average price of \$112.83 for \$208.0 million (including the accrual of \$5.0 million of share repurchases that had not settled as of August 1, 2015). At July 30, 2016, \$387.5 million of authorization remained under the Company's stock repurchase plan. The ultimate disposition of the repurchased stock has not been determined.

During fiscal 2016, the Company expects to finance its capital expenditures, working capital requirements and stock repurchases from cash on hand, cash flows generated from operations and utilization of the credit facility. Depending on conditions in the capital markets and other factors, the Company may from time to time consider other possible financing transactions, the proceeds of which could be used to refinance current indebtedness or for other corporate purposes.

There have been no material changes in the information set forth under caption "Contractual Obligations and Commercial Commitments" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

**OFF-BALANCE-SHEET ARRANGEMENTS**

The Company has not created, and is not party to, any special-purpose entities or off-balance-sheet arrangements for the purpose of raising capital, incurring debt or operating the Company's business. The Company does not have any off-balance-sheet arrangements or relationships that are reasonably likely to materially affect the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or the availability of capital resources.

Table of Contents

NEW ACCOUNTING STANDARDS

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 12 to the accompanying interim condensed financial statements.

FORWARD-LOOKING INFORMATION

This report contains certain forward-looking statements. The following are or may constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995: (a) statements including words such as “may,” “will,” “could,” “should,” “believe,” “expect,” “future,” “potential,” “anticipate,” “intend,” “plan,” “estimate,” or the negative or other variations thereof; (b) statements regarding matters that are not historical facts; and (c) statements about the Company’s future occurrences, plans and objectives, including statements regarding management’s expectations and forecasts for the remainder of fiscal 2016 and beyond, statements concerning the opening of new stores or the closing of existing stores, statements concerning capital expenditures and sources of liquidity, statements concerning share repurchases, statements concerning pension contributions and statements concerning estimated taxes. The Company cautions that forward-looking statements contained in this report are based on estimates, projections, beliefs and assumptions of management and information available to management at the time of such statements and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. Forward-looking statements of the Company involve risks and uncertainties and are subject to change based on various important factors. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management as a result of a number of risks, uncertainties and assumptions. Representative examples of those factors include (without limitation) general retail industry conditions and macro-economic conditions; economic and weather conditions for regions in which the Company’s stores are located and the effect of these factors on the buying patterns of the Company’s customers, including the effect of changes in prices and availability of oil and natural gas; the availability of consumer credit; the impact of competitive pressures in the department store industry and other retail channels including specialty, off-price, discount and Internet retailers; changes in consumer spending patterns, debt levels and their ability to meet credit obligations; changes in legislation, affecting such matters as the cost of employee benefits or credit card income; adequate and stable availability of materials, production facilities and labor from which the Company sources its merchandise at acceptable pricing; changes in operating expenses, including employee wages, commission structures and related benefits; system failures or data security breaches; possible future acquisitions of store properties from other department store operators; the continued availability of financing in amounts and at the terms necessary to support the Company’s future business; fluctuations in LIBOR and other base borrowing rates; potential disruption from terrorist activity and the effect on ongoing consumer confidence; epidemic, pandemic or other public health issues; potential disruption of international trade and supply chain efficiencies; world conflict and the possible impact on consumer spending patterns and other economic and demographic changes of similar or dissimilar nature. The Company’s filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended January 30, 2016, contain other information on factors that may affect financial results or cause actual results to differ materially from forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the information set forth under caption “Item 7A-Quantitative and Qualitative Disclosures About Market Risk” in the Company’s Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

Item 4. Controls and Procedures

The Company has established and maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). The Company's management, with the participation of our Principal Executive Officer and Co-Principal Financial Officers, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the fiscal quarter covered by this quarterly report, and based on that evaluation, the Company's Principal Executive Officer and Co-Principal Financial Officers have concluded that these disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended July 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is involved in litigation relating to claims arising out of the Company's operations in the normal course of business. This may include litigation with customers, employment related lawsuits, class action lawsuits, purported class action lawsuits and actions brought by governmental authorities. As of September 1, 2016, the Company is not a party to any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

Item 1A. Risk Factors

There have been no material changes in the information set forth under caption "Item 1A-Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

Table of Contents

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## (c) Purchases of Equity Securities

## Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
May 1, 2016 through May 28, 2016	679,222	\$ 61.95	679,222	\$399,500,417
May 29, 2016 through July 2, 2016	204,905	58.60	204,905	387,492,709
July 3, 2016 through July 30, 2016	—	—	—	387,492,709
Total	884,127	\$ 61.18	884,127	\$387,492,709

In February 2016, the Company's Board of Directors authorized the repurchase of up to \$500 million of the Company's Class A Common Stock under an open-ended stock repurchase plan. This repurchase plan permits the Company to repurchase its Class A Common Stock in the open market, pursuant to preset trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 or through privately negotiated transactions. The repurchase plan has no expiration date.

During the three months ended July 30, 2016, the Company repurchased 0.9 million shares totaling \$54.1 million. Reference is made to the discussion in Note 7, Stock Repurchase Programs, in the "Notes to Condensed Consolidated Financial Statements" in Part I of this Quarterly Report on Form 10-Q, which information is incorporated by reference herein.

Table of Contents

Item 6. Exhibits

Number Description

31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Co-Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Co-Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.2	Certification of Co-Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.3	Certification of Co-Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

SIGNATURES

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

DILLARD'S, INC.  
(Registrant)

Date: September 1, 2016 /s/ Phillip R. Watts  
Phillip R. Watts  
Senior Vice President, Co-Principal Financial Officer and Principal Accounting Officer

/s/ Chris B. Johnson  
Chris B. Johnson  
Senior Vice President and Co-Principal Financial Officer