

DILLARDS INC
Form 10-Q
November 28, 2012
[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 October 27, 2012

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
(State or other jurisdiction
of incorporation or organization)

71-0388071
(I.R.S. Employer
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). 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.

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CLASS A COMMON STOCK as of November 24, 2012	43,235,431
CLASS B COMMON STOCK as of November 24, 2012	4,010,929

Table of Contents

Index

DILLARD S, INC.

	Page Number
<u>PART I.</u>	
	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	
	<u>Financial Statements (Unaudited):</u>
	<u>Condensed Consolidated Balance Sheets as of October 27, 2012, January 28, 2012 and October 29, 2011</u>
	3
	<u>Condensed Consolidated Statements of Income and Retained Earnings for the Three and Nine Months Ended October 27, 2012 and October 29, 2011</u>
	4
	<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended October 27, 2012 and October 29, 2011</u>
	5
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 27, 2012 and October 29, 2011</u>
	6
	<u>Notes to Condensed Consolidated Financial Statements</u>
	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	15
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
	27
<u>Item 4.</u>	<u>Controls and Procedures</u>
	27
<u>PART II.</u>	
	<u>OTHER INFORMATION</u>
<u>Item 1.</u>	<u>Legal Proceedings</u>
	29
<u>Item 1A.</u>	<u>Risk Factors</u>
	29
<u>Item 6.</u>	<u>Exhibits</u>
	29
<u>SIGNATURES</u>	29

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****DILLARD S, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In Thousands)**

	October 27, 2012	January 28, 2012	October 29, 2011
Assets			
Current assets:			
Cash and cash equivalents	\$ 124,794	\$ 224,272	\$ 106,383
Restricted cash			24,901
Accounts receivable	30,755	28,708	20,262
Merchandise inventories	1,722,443	1,304,124	1,756,526
Other current assets	66,594	34,625	63,069
Total current assets	1,944,586	1,591,729	1,971,141
Property and equipment (net of accumulated depreciation and amortization of \$2,411,756, \$2,235,610 and \$2,393,778)			
	2,345,908	2,440,266	2,476,363
Other assets	268,873	274,142	269,626
Total assets	\$ 4,559,367	\$ 4,306,137	\$ 4,717,130
Liabilities and stockholders equity			
Current liabilities:			
Trade accounts payable and accrued expenses	\$ 1,028,163	\$ 655,653	\$ 1,028,555
Current portion of long-term debt	260	76,789	57,219
Current portion of capital lease obligations	2,099	2,312	2,279
Other short-term borrowings	27,000		142,000
Federal and state income taxes including current deferred taxes	79,989	135,610	68,996
Total current liabilities	1,137,511	870,364	1,299,049
Long-term debt	614,785	614,785	634,812
Capital lease obligations	7,705	9,153	9,723
Other liabilities	247,633	245,218	206,534
Deferred income taxes	282,319	314,598	333,055
Subordinated debentures	200,000	200,000	200,000
Commitments and contingencies			

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Stockholders' equity:

Common stock	1,228	1,225	1,225
Additional paid-in capital	838,264	828,796	828,796
Accumulated other comprehensive loss	(36,280)	(39,034)	(16,597)
Retained earnings	3,274,629	3,107,344	2,968,076
Less treasury stock, at cost	(2,008,427)	(1,846,312)	(1,747,543)
Total stockholders' equity	2,069,414	2,052,019	2,033,957
Total liabilities and stockholders' equity	\$ 4,559,367	\$ 4,306,137	\$ 4,717,130

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		Nine Months Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Net sales	\$ 1,449,623	\$ 1,382,612	\$ 4,486,867	\$ 4,293,557
Service charges and other income	36,722	35,008	110,672	100,135
	1,486,345	1,417,620	4,597,539	4,393,692
Cost of sales	919,623	881,079	2,864,338	2,744,627
Advertising, selling, administrative and general expenses	404,637	404,766	1,196,663	1,190,070
Depreciation and amortization	65,798	64,734	194,033	192,862
Rentals	7,624	11,229	24,530	34,798
Interest and debt expense, net	17,011	17,750	52,139	54,447
Gain on disposal of assets	(1,072)	(1,456)	(2,211)	(3,847)
Asset impairment and store closing charges				1,200
Income before income taxes and income on and equity in losses of joint ventures	72,724	39,518	268,047	179,535
Income taxes (benefit)	24,231	(188,360)	94,531	(138,640)
Income on and equity in losses of joint ventures	21	293	1,003	4,238
Net income	48,514	228,171	174,519	322,413
Retained earnings at beginning of period	3,228,474	2,742,624	3,107,344	2,653,437
Cash dividends declared	(2,359)	(2,719)	(7,234)	(7,774)
Retained earnings at end of period	\$ 3,274,629	\$ 2,968,076	\$ 3,274,629	\$ 2,968,076
Earnings per share:				
Basic	\$ 1.03	\$ 4.38	\$ 3.62	\$ 5.90
Diluted	\$ 1.01	\$ 4.31	\$ 3.55	\$ 5.80
Cash dividends declared per common share	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.14

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		Nine Months Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Net income	\$ 48,514	\$ 228,171	\$ 174,519	\$ 322,413
Other comprehensive income:				
Amortization of retirement plan and other retiree benefit adjustments (net of tax of \$522, \$237, \$1,566 and \$712)	918	411	2,754	1,233
Comprehensive income	\$ 49,432	\$ 228,582	\$ 177,273	\$ 323,646

See notes to condensed consolidated financial statements.

Table of Contents

DILLARD S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in Thousands)

	Nine Months Ended	
	October 27, 2012	October 29, 2011
Operating activities:		
Net income	\$ 174,519	\$ 322,413
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and deferred financing costs	195,489	194,272
Gain on disposal of assets	(2,211)	(3,847)
Gain on repurchase of debt		(173)
Excess tax benefits from share-based compensation	(2,376)	(10,171)
Asset impairment and store closing charges		1,200
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(2,047)	5,688
Increase in merchandise inventories	(418,319)	(466,379)
Increase in other current assets	(31,969)	(20,531)
Decrease (increase) in other assets	9,264	(205,503)
Increase in trade accounts payable and accrued expenses and other liabilities	383,047	338,632
Decrease in income taxes payable	(85,524)	(20,048)
Net cash provided by operating activities	219,873	135,553
Investing activities:		
Purchases of property and equipment	(111,910)	(80,304)
Proceeds from disposal of assets	11,978	22,966
Restricted cash		(24,901)
Distribution from joint venture		2,481
Net cash used in investing activities	(99,932)	(79,758)
Financing activities:		
Purchase of treasury stock	(162,115)	(392,388)
Principal payments on long-term debt and capital lease obligations	(78,190)	(55,773)
Cash dividends paid	(7,364)	(7,533)
Increase in short-term borrowings	27,000	142,000
Issuance cost of line of credit	(5,373)	
Proceeds from stock issuance	4,247	10,820
Excess tax benefits from share-based compensation	2,376	10,171
Net cash used in financing activities	(219,419)	(292,703)
Decrease in cash and cash equivalents	(99,478)	(236,908)
Cash and cash equivalents, beginning of period	224,272	343,291
Cash and cash equivalents, end of period	\$ 124,794	\$ 106,383

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Non-cash transactions:

Accrued capital expenditures	\$	4,900	\$	6,796
Stock awards		2,848		2,762

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 statement have been included. Operating results for the three and nine months ended October 27, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending February 2, 2013 due to 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 28, 2012 filed with the SEC on March 22, 2012.

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.

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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 October 27, 2012:			
Net sales from external customers	\$ 1,424,722	\$ 24,901	\$ 1,449,623
Gross profit	528,971	1,029	530,000
Depreciation and amortization	65,742	56	65,798
Interest and debt expense (income), net	17,042	(31)	17,011
Income (loss) before income taxes and income on and equity in losses of joint ventures	72,760	(36)	72,724
Income on and equity in losses of joint ventures	21		21
Total assets	4,514,849	44,518	4,559,367
Three Months Ended October 29, 2011:			
Net sales from external customers	\$ 1,366,362	\$ 16,250	\$ 1,382,612
Gross profit	501,058	475	501,533
Depreciation and amortization	64,689	45	64,734
Interest and debt expense (income), net	17,791	(41)	17,750
Income (loss) before income taxes and income on and equity in losses of joint ventures	40,041	(523)	39,518
Income on and equity in losses of joint ventures	293		293
Total assets	4,686,248	30,882	4,717,130
Nine Months Ended October 27, 2012:			
Net sales from external customers	\$ 4,402,721	\$ 84,146	\$ 4,486,867
Gross profit	1,618,751	3,778	1,622,529
Depreciation and amortization	193,881	152	194,033
Interest and debt expense (income), net	52,241	(102)	52,139
Income before income taxes and income on and equity in losses of joint ventures	267,756	291	268,047
Income on and equity in losses of joint ventures	1,003		1,003
Total assets	4,514,849	44,518	4,559,367
Nine Months Ended October 29, 2011:			
Net sales from external customers	\$ 4,247,462	\$ 46,095	\$ 4,293,557
Gross profit	1,548,591	339	1,548,930
Depreciation and amortization	192,726	136	192,862
Interest and debt expense (income), net	54,567	(120)	54,447
Income (loss) before income taxes and income on and equity in losses of joint ventures	182,733	(3,198)	179,535
Income on and equity in losses of joint ventures	4,238		4,238
Total assets	4,686,248	30,882	4,717,130

Intersegment construction revenues of \$10.5 million and \$28.3 million for the three and nine months ended October 27, 2012, respectively, and intersegment construction revenues of \$10.8 million and \$25.8 million for the three and nine months ended October 29, 2011, respectively, were eliminated during consolidation and have been excluded from net sales for the respective periods.

Table of Contents**Note 3. Stock-Based Compensation**

The Company has various stock option plans that provide for the granting of options to purchase shares of Class A Common Stock to certain key employees of the Company. Exercise and vesting terms for options granted under the plans are determined at each grant date. There were no stock options granted during the three and nine months ended October 27, 2012 and October 29, 2011.

Stock option transactions for the three months ended October 27, 2012 are summarized as follows:

Stock Options	Shares	Weighted Average Exercise Price	
Outstanding, beginning of period	2,100,000	\$	25.74
Granted			
Exercised	(20,000)		25.74
Expired			
Outstanding, end of period	2,080,000	\$	25.74
Options exercisable at period end	2,080,000	\$	25.74

During the three months ended October 27, 2012 and October 29, 2011, the intrinsic value of stock options exercised was \$1.0 million and \$0.6 million, respectively. At October 27, 2012, the intrinsic value of outstanding and exercisable stock options was \$103.9 million.

Note 4. Asset Impairment and Store Closing Charges

There were no asset impairment and store closing costs recorded during the three and nine months ended October 27, 2012 and the three months ended October 29, 2011.

During the nine months ended October 29, 2011, the Company recorded a pretax charge of \$1.2 million for asset impairment and store closing costs. The charge was for the write-down of a property held for sale.

Following is a summary of the activity in the reserve established for store closing charges for the nine months ended October 27, 2012:

(in thousands)	Balance Beginning of Period	Adjustments and Charges*	Cash Payments	Balance End of Period
Rent, property taxes and utilities	\$ 738	\$ 833	\$ 922	\$ 649

*included in rentals

Reserve amounts are included in trade accounts payable and accrued expenses and other liabilities.

Table of Contents**Note 5. 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		Nine Months Ended	
	October 27,	October 29,	October 27,	October 29,
	2012	2011	2012	2011
Basic:				
Net income	\$ 48,514	\$ 228,171	\$ 174,519	\$ 322,413
Weighted average shares of common stock outstanding	47,127	52,107	48,265	54,611
Basic earnings per share	\$ 1.03	\$ 4.38	\$ 3.62	\$ 5.90
Diluted:				
Net income	\$ 48,514	\$ 228,171	\$ 174,519	\$ 322,413
Weighted average shares of common stock outstanding	47,127	52,107	48,265	54,611
Dilutive effect of stock-based compensation	978	843	951	963
Total weighted average equivalent shares	48,105	52,950	49,216	55,574
Diluted earnings per share	\$ 1.01	\$ 4.31	\$ 3.55	\$ 5.80

Total stock options outstanding were 2,080,000 and 2,245,000 at October 27, 2012 and October 29, 2011, respectively.

Note 6. 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 is not expected to have a material adverse effect on the Company's financial position, cash flows or results of operations.

At October 27, 2012, letters of credit totaling \$61.9 million were issued under the Company's revolving credit facility.

Note 7. 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. Pension expense is determined using various actuarial cost methods 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 made contributions to the Pension Plan of \$1.2 million and \$3.3 million during the three and nine months ended October 27, 2012, respectively. The Company expects to make a contribution to the Pension Plan of approximately \$1.1 million for the remainder of fiscal 2012.

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Components of net periodic benefit costs:				
Service cost	\$ 817	\$ 831	\$ 2,450	\$ 2,494
Interest cost	1,823	1,800	5,470	5,400
Net actuarial loss	1,283	492	3,849	1,475
Amortization of prior service cost	157	157	470	470
Net periodic benefit costs	\$ 4,080	\$ 3,280		