

DILLARDS INC
Form 10-Q
June 04, 2010
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 May 1, 2010

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.

Edgar Filing: DILLARDS INC - Form 10-Q

CLASS A COMMON STOCK as of May 29, 2010 64,539,177

CLASS B COMMON STOCK as of May 29, 2010 4,010,929



Table of Contents

Index

DILLARD S, INC.

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements (Unaudited):</u>
	<u>Condensed Consolidated Balance Sheets as of May 1, 2010, January 30, 2010 and May 2, 2009</u> 3
	<u>Condensed Consolidated Statements of Income and Retained Earnings for the Three Months Ended May 1, 2010 and May 2, 2009</u> 4
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended May 1, 2010 and May 2, 2009</u> 5
	<u>Notes to Condensed Consolidated Financial Statements</u> 6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 12
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 24
<u>Item 4.</u>	<u>Controls and Procedures</u> 24
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 25
<u>Item 1A.</u>	<u>Risk Factors</u> 25
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 25
<u>Item 6.</u>	<u>Exhibits</u> 26
<u>SIGNATURES</u>	26

Table of Contents

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

DILLARD S, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

Edgar Filing: DILLARDS INC - Form 10-Q

(Unaudited)

(In Thousands)

	May 1, 2010	January 30, 2010	May 2, 2009
Assets			
Current assets:			
Cash and cash equivalents	\$ 305,296	\$ 341,693	\$ 102,731
Accounts receivable, net	55,088	63,222	70,353
Merchandise inventories	1,453,551	1,300,680	1,647,116
Federal income tax receivable	144	217	74,415
Other current assets	41,503	43,717	36,817
Total current assets	1,855,582	1,749,529	1,931,432
Property and equipment, net	2,717,977	2,780,837	2,918,518
Other assets	73,484	75,961	83,142
Total assets	\$ 4,647,043	\$ 4,606,327	\$ 4,933,092
Liabilities and stockholders equity			
Current liabilities:			
Trade accounts payable and accrued expenses	\$ 793,393	\$ 676,501	\$ 849,343
Current portion of long-term debt	1,738	1,719	25,553
Current portion of capital lease obligations	1,794	1,775	1,721
Other short-term borrowings			175,000
Federal and state income taxes including current deferred taxes	80,095	89,027	55,762
Total current liabilities	877,020	769,022	1,107,379
Long-term debt	747,145	747,587	752,266
Capital lease obligations	21,987	22,422	23,700
Other liabilities	213,493	213,471	221,680
Deferred income taxes	339,650	349,722	370,578
Subordinated debentures	200,000	200,000	200,000
Operating leases and commitments			
Stockholders equity:			
Common stock	1,210	1,209	1,209
Additional paid-in capital	784,560	782,746	782,382
Accumulated other comprehensive loss	(21,822)	(22,298)	(16,539)
Retained earnings	2,530,433	2,484,447	2,432,438
Less treasury stock, at cost	(1,046,633)	(942,001)	(942,001)
Total stockholders equity	2,247,748	2,304,103	2,257,489
Total liabilities and stockholders equity	\$ 4,647,043	\$ 4,606,327	\$ 4,933,092

See notes to condensed consolidated financial statements.

Table of Contents

DILLARD S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Edgar Filing: DILLARDS INC - Form 10-Q

(Unaudited)

(In Thousands, Except Per Share Data)

	Three Months Ended	
	May 1, 2010	May 2, 2009
Net sales	\$ 1,453,596	\$ 1,473,870
Service charges and other income	29,065	31,426
	1,482,661	1,505,296
Cost of sales	914,261	979,579
Advertising, selling, administrative and general expenses	393,642	414,284
Depreciation and amortization	63,716	65,524
Rentals	13,014	14,500
Interest and debt expense, net	18,856	18,408
Gain on disposal of assets	(104)	(68)
Asset impairment and store closing charges	2,208	
Income before income taxes and equity in losses of joint ventures	77,068	13,069
Income taxes	27,280	4,650
Equity in losses of joint ventures	(954)	(756)
Net income	48,834	7,663
Retained earnings at beginning of period	2,484,447	2,427,727
Cash dividends declared	(2,848)	(2,952)
Retained earnings at end of period	\$ 2,530,433	\$ 2,432,438
Earnings per share:		
Basic and diluted	\$ 0.68	\$ 0.10
Cash dividends declared per common share	\$ 0.04	\$ 0.04

See notes to condensed consolidated financial statements.

Table of Contents

DILLARD S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Edgar Filing: DILLARDS INC - Form 10-Q

(Unaudited)

(In Thousands)

	Three Months Ended	
	May 1, 2010	May 2, 2009
Operating activities:		
Net income	\$ 48,834	\$ 7,663
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and deferred financing	64,182	66,005
Gain on repurchase of debt		(1,476)
Gain on disposal of property and equipment	(104)	(68)
Excess tax benefits from share-based compensation	(26)	
Asset impairment and store closing charges	2,208	
Changes in operating assets and liabilities:		
Decrease in accounts receivable	8,134	17,645
Increase in merchandise inventories	(152,871)	(272,722)
Decrease in other current assets	2,214	16,308
Decrease in other assets	2,049	2,352
Increase in trade accounts payable and accrued expenses and other liabilities	124,578	202,208
(Decrease) increase in income taxes payable	(18,905)	4,506
Net cash provided by operating activities	80,293	42,421
Investing activities:		
Purchases of property and equipment	(8,361)	(4,828)
Proceeds from disposal of property and equipment	47	581
Net cash used in investing activities	(8,314)	(4,247)
Financing activities:		
Principal payments on long-term debt and capital lease obligations	(839)	(4,328)
Cash dividends paid	(2,953)	(2,938)
Purchase of treasury stock	(104,996)	
Proceeds from stock issuance	386	
Excess tax benefits from share-based compensation	26	
Decrease in short-term borrowings		(25,000)
Net cash used in financing activities	(108,376)	(32,266)
(Decrease) increase in cash and cash equivalents	(36,397)	5,908
Cash and cash equivalents, beginning of period	341,693	96,823
Cash and cash equivalents, end of period	\$ 305,296	\$ 102,731
Non-cash transactions:		
Accrued capital expenditures	\$ 1,400	\$ 5,000
Stock awards	1,767	1,330

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 months ended May 1, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending January 29, 2011 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 30, 2010 filed with the SEC on March 26, 2010.

Reclassifications Certain items have been reclassified from their prior year classifications to conform to the current year presentation.

Note 2. Business Segments

The Company operates in two reportable segments: the operation of retail department stores and a general contracting construction company. The construction segment (CDI) that was purchased on August 29, 2008, is engaged in the general contracting and construction business. CDI also constructs and remodels stores for the Company.

For the Company s retail operations reportable segment, 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.

Edgar Filing: DILLARDS INC - Form 10-Q

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

(in thousands of dollars)	Three Months Ended May 1, 2010		
	Retail Operations	Construction	Consolidated
Net sales from external customers	\$ 1,428,851	\$ 24,745	\$ 1,453,596
Gross profit	540,307	(972)	539,335
Depreciation and amortization	63,671	45	63,716
Interest and debt expense (income), net	18,899	(43)	18,856
Income (loss) before income taxes and equity in losses of joint ventures	78,898	(1,830)	77,068
Equity in losses of joint ventures	(954)		(954)
Total assets	4,569,287	77,756	4,647,043

Table of Contents

(in thousands of dollars)	Three Months Ended May 2, 2009		
	Retail Operations	Construction	Consolidated
Net sales from external customers	\$ 1,414,691	\$ 59,179	\$ 1,473,870
Gross profit	491,706	2,585	494,291
Depreciation and amortization	65,481	43	65,524
Interest and debt expense (income), net	18,451	(43)	18,408
Income before income taxes and equity in losses of joint ventures	11,794	1,275	13,069
Equity in losses of joint ventures	(756)		(756)
Total assets	4,836,259	96,833	4,933,092

Intersegment construction revenues of \$6.6 million and \$8.1 million were eliminated during consolidation and have been excluded from net sales for the quarters ended May 1, 2010 and May 2, 2009, respectively.

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 quarters ended May 1, 2010 and May 2, 2009.

Stock option transactions for the three months ended May 1, 2010 are summarized as follows:

Fixed Options	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	4,044,369	\$ 25.79
Granted		
Exercised	(15,000)	\$ 25.74
Expired		
Outstanding, end of period	4,029,369	\$ 25.79
Options exercisable at period end	4,029,369	\$ 25.79

At May 1, 2010, the intrinsic value of outstanding and exercisable stock options was \$9.2 million.

Note 4. Asset Impairment and Store Closing Charges

During the quarter ended May 1, 2010, the Company recorded a pretax charge of \$2.2 million for asset impairment and store closing costs. The charge was for the write-down of one property currently held for sale.

Edgar Filing: DILLARDS INC - Form 10-Q

There were no asset impairment and store closing costs recorded during the quarter ended May 2, 2009.

Following is a summary of the activity in the reserve established for store closing charges for the quarter ended May 1, 2010:

(in thousands)	Balance, Beginning of Period	Adjustments and Charges	Cash Payments	Balance, End of Period
Rentals, property taxes and utilities	\$ 2,498	\$ 244	\$ 631	\$ 2,111

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	
	May 1, 2010	May 2, 2009
Basic:		
Net income	\$ 48,834	\$ 7,663
Weighted average shares of common stock outstanding	72,295	73,644
Basic earnings per share	\$ 0.68	\$ 0.10

	Three Months Ended	
	May 1, 2010	May 2, 2009
Diluted:		
Net income	\$ 48,834	\$ 7,663
Weighted average shares of common stock outstanding	72,295	73,644
Dilutive effect of stock-based compensation		
Total weighted average equivalent shares	72,295	73,644
Diluted earnings per share	\$ 0.68	\$ 0.10

Total stock options outstanding were 4,029,369 and 5,261,375 at May 1, 2010 and May 2, 2009, respectively. Of these, options to purchase 4,029,369 and 5,261,375 shares of Class A common stock at prices ranging from \$24.73 to \$26.57 and \$24.01 to \$30.47 per share were outstanding at May 1, 2010 and May 2, 2009, respectively, but were not included in the computation of diluted earnings per share because the effect of their inclusion would be antidilutive.

Note 6. Comprehensive Income

The following table shows the computation of comprehensive income (in thousands):

	Three Months Ended	
	May 1, 2010	May 2, 2009
Net income	\$ 48,834	\$ 7,663
Other comprehensive income:		

Edgar Filing: DILLARDS INC - Form 10-Q

Amortization of retirement plan and other retiree benefit adjustments, net of taxes		476		333
Total comprehensive income	\$	49,310	\$	7,996

Note 7. Commitments and Contingencies

On May 27, 2009, a lawsuit was filed in the United States District Court for the Eastern District of Arkansas styled Steven Harben, Derivatively on Behalf of Nominal Defendant Dillard's, Inc. v. William Dillard II et al, Case Number 4:09-IV-395. The lawsuit generally seeks return of monies and alleges that certain officers and directors of the Company have been overcompensated and/or received improper benefits at the expense of the Company and its shareholders. While it is too soon to predict the outcome of any litigation filed as recently as this suit, the named officers and directors intend to contest these allegations vigorously.

Table of Contents

On June 10, 2009, a lawsuit was filed in the Circuit Court of Pulaski County, Arkansas styled Billy K. Berry, Derivatively on behalf of Dillard's, Inc. v. William Dillard II et al, Case Number CV-09-4227-2. The lawsuit generally seeks return of monies and alleges that certain officers and directors of the Company have been overcompensated and/or received improper benefits at the expense of the Company and its shareholders. On February 18, 2010, the Circuit Court entered an Order of Dismissal with Prejudice and Final Judgment dismissing the case as to all parties defendant. Plaintiff has appealed the Court's Order. The named officers and directors will continue to contest these allegations vigorously.

Various other 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 May 1, 2010, letters of credit totaling \$89.2 million were issued under the Company's \$1.2 billion revolving credit facility.

Note 8. 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 \$1.1 million during the quarter ended May 1, 2010. The Company expects to make contributions to the Pension Plan of approximately \$4.6 million for the remainder of fiscal 2010.

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

	Three Months Ended	
	May 1, 2010	May 2, 2009
Components of net periodic benefit costs:		
Service cost	\$ 721	\$ 771
Interest cost	1,817	1,826
Net actuarial loss	594	368
Amortization of prior service cost		