

DILLARDS INC
Form 10-Q
December 03, 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 October 30, 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 November 27, 2010	58,123,234
CLASS B COMMON STOCK as of November 27, 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 October 30, 2010, January 30, 2010 and October 31, 2009</u>	3
<u>Condensed Consolidated Statements of Operations and Retained Earnings for the Three and Nine Months Ended October 30, 2010 and October 31, 2009</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 30, 2010 and October 31, 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>	14
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	26
<u>Item 4.</u>	
<u>Controls and Procedures</u>	26
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	27
<u>Item 1A.</u>	
<u>Risk Factors</u>	27
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
<u>Item 6.</u>	
<u>Exhibits</u>	28
<u>SIGNATURES</u>	28

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DILLARD S, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands)

	October 30, 2010	January 30, 2010	October 31, 2009
Assets			
Current assets:			
Cash and cash equivalents	\$ 167,119	\$ 341,693	\$ 74,077
Accounts receivable, net	51,421	63,222	66,190
Merchandise inventories	1,708,504	1,300,680	1,752,076
Federal income tax receivable		217	1,057
Other current assets	66,065	43,717	55,736
Total current assets	1,993,109	1,749,529	1,949,136
Property and equipment, net	2,649,718	2,780,837	2,825,617
Other assets	69,264	75,961	77,314
Total assets	\$ 4,712,091	\$ 4,606,327	\$ 4,852,067
Liabilities and stockholders equity			
Current liabilities:			
Trade accounts payable and accrued expenses	\$ 1,049,231	\$ 676,501	\$ 1,032,821
Current portion of long-term debt	49,145	1,719	1,700
Current portion of capital lease obligations	2,153	1,775	1,757
Federal and state income taxes including current deferred taxes	29,791	89,027	44,587
Total current liabilities	1,130,320	769,022	1,080,865
Long-term debt	697,704	747,587	748,024
Capital lease obligations	11,921	22,422	22,853
Other liabilities	211,247	213,471	208,336
Deferred income taxes	344,334	349,722	358,023
Subordinated debentures	200,000	200,000	200,000
Commitments and contingencies			
Stockholders equity:			
Common stock	1,211	1,209	1,209
Additional paid-in capital	785,411	782,746	782,746
Accumulated other comprehensive loss	(20,870)	(22,298)	(15,874)

Edgar Filing: DILLARDS INC - Form 10-Q

Retained earnings	2,546,338	2,484,447	2,407,886
Less treasury stock, at cost	(1,195,525)	(942,001)	(942,001)
Total stockholders equity	2,116,565	2,304,103	2,233,966
Total liabilities and stockholders equity	\$ 4,712,091	\$ 4,606,327	\$ 4,852,067

See notes to condensed consolidated financial statements.

Table of Contents**DILLARD S, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS****(Unaudited)****(In Thousands, Except Per Share Data)**

	Three Months Ended		Nine Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Net sales	\$ 1,344,118	\$ 1,359,331	\$ 4,186,624	\$ 4,260,972
Service charges and other income	28,919	31,385	89,864	90,209
	1,373,037	1,390,716	4,276,488	4,351,181
Cost of sales	857,474	893,008	2,702,171	2,873,598
Advertising, selling, administrative and general expenses	398,494	402,120	1,184,190	1,213,125
Depreciation and amortization	64,953	66,135	193,124	198,050
Rentals	11,641	13,965	36,598	42,401
Interest and debt expense, net	18,043	18,357	55,361	55,776
Loss (gain) on disposal of assets	934	(116)	(3,292)	(773)
Asset impairment and store closing charges			2,208	
Income (loss) before income taxes and equity in losses of joint ventures	21,498	(2,753)	106,128	(30,996)
Income taxes (benefit)	6,035	(12,560)	33,075	(22,950)
Equity in losses of joint ventures	(1,082)	(1,796)	(3,010)	(2,937)
Net income (loss)	14,381	8,011	70,043	(10,983)
Retained earnings at beginning of period	2,534,594	2,402,828	2,484,447	2,427,727
Cash dividends declared	(2,637)	(2,953)	(8,152)	(8,858)
Retained earnings at end of period	\$ 2,546,338	\$ 2,407,886	\$ 2,546,338	\$ 2,407,886
Earnings (loss) per share:				
Basic and diluted	\$ 0.22	\$ 0.11	\$ 1.02	\$ (0.15)
Cash dividends declared per common share	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.12

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 30, 2010	October 31, 2009
Operating activities:		
Net income (loss)	\$ 70,043	\$ (10,983)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property and deferred financing	194,520	199,475
Gain on disposal of property and equipment	(3,292)	(773)
Gain on repurchase of debt	(21)	(1,653)
Excess tax benefits from share-based compensation	(353)	
Asset impairment and store closing charges	2,208	
Changes in operating assets and liabilities:		
Decrease in accounts receivable	11,801	21,808
Increase in merchandise inventories	(407,824)	(377,682)
Decrease in federal income tax receivable	217	73,358
Increase in other current assets	(22,901)	(2,611)
Decrease in other assets	5,411	7,298
Increase in trade accounts payable and accrued expenses liabilities and other liabilities	373,373	372,368
Decrease in income taxes payable	(64,271)	(19,224)
Net cash provided by operating activities	158,911	261,381
Investing activities:		
Purchases of property and equipment	(73,750)	(51,095)
Proceeds from disposal of property and equipment	6,094	8,868
Net cash used in investing activities	(67,656)	(42,227)
Financing activities:		
Principal payments on long-term debt and capital lease obligations	(16,522)	(33,057)
Cash dividends paid	(8,472)	(8,843)
Purchase of treasury stock	(241,574)	
Proceeds from stock issuance	386	
Excess tax benefits from share-based compensation	353	
Decrease in short-term borrowings		(200,000)
Net cash used in financing activities	(265,829)	(241,900)
Decrease in cash and cash equivalents	(174,574)	(22,746)
Cash and cash equivalents, beginning of period	341,693	96,823
Cash and cash equivalents, end of period	\$ 167,119	\$ 74,077

Non-cash transactions:

Edgar Filing: DILLARDS INC - Form 10-Q

Accrued capital expenditures	\$	2,500	\$	6,188
Stock awards		2,292		1,694
Capital lease transactions		3,966		

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. and its subsidiaries (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 30, 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

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 30, 2010:			
Net sales from external customers	\$ 1,320,568	\$ 23,550	\$ 1,344,118
Gross profit	485,629	1,015	486,644
Depreciation and amortization	64,906	47	64,953
Interest and debt expense (income), net	18,118	(75)	18,043
Income (loss) before income taxes and equity in losses of joint ventures	21,586	(88)	21,498
Equity in losses of joint ventures	(1,082)		(1,082)
Total assets	4,644,060	68,031	4,712,091
Three Months Ended October 31, 2009:			
Net sales from external customers	\$ 1,315,515	\$ 43,816	\$ 1,359,331
Gross profit	464,768	1,555	466,323
Depreciation and amortization	66,097	38	66,135
Interest and debt expense (income), net	18,409	(52)	18,357
(Loss) income before income taxes and equity in losses of joint ventures	(3,092)	339	(2,753)
Equity in losses of joint ventures	(1,796)		(1,796)
Total assets	4,769,606	82,461	4,852,067
Nine Months Ended October 30, 2010:			
Net sales from external customers	\$ 4,108,112	\$ 78,512	\$ 4,186,624
Gross profit	1,483,197	1,256	1,484,453
Depreciation and amortization	192,987	137	193,124
Interest and debt expense (income), net	55,520	(159)	55,361
Income (loss) before income taxes and equity in losses of joint ventures	107,908	(1,780)	106,128
Equity in losses of joint ventures	(3,010)		(3,010)
Total assets	4,644,060	68,031	4,712,091
Nine Months Ended October 31, 2009:			
Net sales from external customers	\$ 4,096,064	\$ 164,908	\$ 4,260,972
Gross profit	1,380,430	6,944	1,387,374
Depreciation and amortization	197,927	123	198,050
Interest and debt expense (income), net	55,943	(167)	55,776
(Loss) income before income taxes and equity in losses of joint ventures	(34,320)	3,324	(30,996)
Equity in losses of joint ventures	(2,937)		(2,937)
Total assets	4,769,606	82,461	4,852,067

Intersegment construction revenues of \$9.5 million and \$22.2 million for the three and nine months ended October 30, 2010, respectively, and intersegment construction revenues of \$17.7 million and \$38.6 million for the three and nine months ended October 31, 2009, 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 30, 2010 and October 31, 2009.

Stock option transactions for the three months ended October 30, 2010 are summarized as follows:

Fixed Options	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	4,009,369	\$ 25.79
Granted		
Exercised		
Expired		
Outstanding, end of period	4,009,369	\$ 25.79
Options exercisable at period end	4,009,369	\$ 25.79

At October 30, 2010, the intrinsic value of outstanding stock options and exercisable stock options was \$18.5 thousand.

Note 4. Asset Impairment and Store Closing Charges

There were no asset impairment and store closing costs recorded during the three months ended October 30, 2010 or three and nine months ended October 31, 2009.

During the nine months ended October 30, 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.

Following is a summary of the activity in the reserve established for store closing charges for the nine months ended October 30, 2010:

(in thousands)	Balance Beginning of Period	Adjustments and Charges*	Cash Payments	Balance End of Period
Rent, property taxes and utilities	\$ 2,498	\$ 509	\$ 1,430	\$ 1,577

*included in rentals

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

Table of Contents**Note 5. Earnings (Loss) 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 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Basic:				
Net income (loss)	\$ 14,381	\$ 8,011	\$ 70,043	\$ (10,983)
Weighted average shares of common stock outstanding	65,923	73,833	68,635	73,768
Basic earnings (loss) per share	\$ 0.22	\$ 0.11	\$ 1.02	\$ (0.15)
Diluted:				
Net income (loss)	\$ 14,381	\$ 8,011	\$ 70,043	\$ (10,983)
Weighted average shares of common stock outstanding	65,923	73,833	68,635	73,768
Dilutive effect of stock-based compensation				
Total weighted average equivalent shares	65,923	73,833	68,635	73,768
Diluted earnings (loss) per share	\$ 0.22	\$ 0.11	\$ 1.02	\$ (0.15)

Total stock options outstanding were 4,009,369 and 4,144,369 at October 30, 2010 and October 31, 2009, respectively. Of these, options to purchase 4,009,369 and 4,144,369 shares of Class A Common Stock at prices ranging from \$24.73 to \$26.57 were outstanding at October 30, 2010 and October 31, 2009, respectively, but were not included in the computations of diluted earnings (loss) per share because the effect of their inclusion would be antidilutive. A negligible amount of dilution, included in the weighted average shares computation for the nine months ended October 30, 2010, was insignificant for presentation in the table above.

Note 6. Comprehensive Income (Loss)

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

Three Months Ended

Nine Months Ended

Edgar Filing: DILLARDS INC - Form 10-Q

	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Net income (loss)	\$ 14,381	\$ 8,011	\$ 70,043	\$ (10,983)
Other comprehensive income:				
Amortization of retirement plan and other retiree benefit adjustments, net of taxes	476	333	1,428	998
Total comprehensive income (loss)	\$ 14,857	\$ 8,344	\$ 71,471	\$ (9,985)

Table of Contents

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. On September 30, 2010, the court dismissed the lawsuit in its entirety. It is not known whether plaintiff intends to file an appeal. If so, the named officers and directors intend to contest these allegations vigorously.

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 October 30, 2010, letters of credit totaling \$89.0 million were issued under the Company s 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 and \$3.2 million during the three and nine months ended October 30, 2010, respectively. The Company expects to make a contribution to the Pension Plan of approximately \$1.1 million for the remainder of fiscal 2010.

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

	Three Months Ended		Nine Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Components of net periodic benefit costs:				
Service cost	\$ 721	\$ 771	\$ 2,165	\$ 2,313

Edgar Filing: DILLARDS INC - Form 10-Q

Interest cost		1,817		1,826		5,451		5,477
Net actuarial loss		594		368		1,782		1,105
Amortization of prior service cost		157		157		470		470
Net periodic benefit costs	\$	3,289	\$	3,122	\$	9,868	\$	9,365

Table of Contents

Note 9. Revolving Credit Agreement

At October 30, 2010, the Company maintained a \$1.0 billion revolving credit facility (credit agreement) with JPMorgan Chase Bank (JPMorgan) as the lead agent for various banks, secured by the inventory of Dillard s, Inc. operating subsidiaries. The credit agreement expires December 12, 2012.

Borrowings under the credit agreement accrue interest starting at either JPMorgan s Base Rate minus 0.5% or LIBOR plus 1.0% (1.25% at October 30, 2010) subject to certain availability thresholds as defined in the credit agreement.

Limited to 85% of the inventory of certain Company subsidiaries, availability for borrowings and letter of credit obligations under the credit agreement was \$1.0 billion at October 30, 2010. No borrowings were outstanding at October 30, 2010. Letters of credit totaling \$89.0 million were issued under this credit agreement leaving unutilized availability under the facility of approximately \$911 million at October 30, 2010. There are no financial covenant requirements under the credit agreement provided availability exceeds \$100 million. The Company pays an annual commitment fee to the banks of 0.25% of the committed amount less outstanding borrowings and letters of credit.

Under the credit agreement, the Company unilaterally reduced the previous \$1.2 billion credit facility by \$200 million to \$1.0 billion, effective September 1, 2010, in order to reduce the amount of commitment fees. Planned inventory levels would not allow for utilization of the full \$1.2 billion. All other aspects of the credit agreement remain unchanged.

Note 10. Stock Repurchase Program

In August 2010, the Company was authorized by its board of directors to repurchase up to \$250 million of its Class A Common Stock under an open-ended plan (2010 Stock Plan). This authorization permits the Company to repurchase its Class A Common Stock in the open market or through privately negotiated transactions. During the three months ended October 30, 2010, the Company repurchased 2.9 million shares of stock under the 2010 Stock Plan for approximately \$71.3 million at an average price of \$24.86 per share. At October 30, 2010, \$178.7 million remained under the 2010 Stock Plan.

In November 2007, the Company was authorized by its board of directors to repurchase up to \$200 million of its Class A Common Stock under an open-ended plan (2007 Stock Plan). This authorization permitted the Company to repurchase its Class A Common Stock in the open market or through privately negotiated transactions.

During the nine months ended October 30, 2010, the Company repurchased 7.2 million shares of stock for approximately \$182.6 million at an average price of \$25.39 per share, which completed the remaining authorization under the 2007 Stock Plan. No shares were repurchased under the 2007 Stock Plan during the three and nine months ended October 31, 2009.

Note 11. Income Taxes

The total amount of unrecognized tax benefits as of October 30, 2010 and October 31, 2009 was \$14.0 million and \$20.7 million, respectively, of which \$10.3 million and \$15.3 million, respectively, would, if recognized, affect the effective tax rate. The Company classifies accrued interest expense and penalties relating to income tax in the condensed consolidated financial statements as income tax expense. The total interest and penalties recognized in the condensed consolidated statements of operations and retained earnings during the three months ended October 30, 2010 and October 31, 2009 was \$0.0 million and \$(1.2) million, respectively, and during the nine months ended October 30, 2010 and October 31, 2009 was \$(1.4) million and \$(0.9) million, respectively. The total accrued interest and penalties in the condensed consolidated balance sheets as of October 30, 2010 and October 31, 2009 was \$4.6 million and \$8.5 million, respectively. The estimated range of the reasonably possible uncertain tax benefit decrease in the next twelve months is between \$3 million and \$5 million. No significant changes occurred in the tax years subject to examination by major tax jurisdictions during the three and nine months ended October 30, 2010. Changes in the Company's assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of operations.

Table of Contents

During the three months ended October 30, 2010, income taxes included the recognition of tax benefits primarily due to a decrease in a capital loss valuation allowance. During the three months ended October 31, 2009, income taxes included the recognition of tax benefits primarily due to a state administrative settlement, decrease in a capital loss valuation allowance, and federal tax credits.

During the nine months ended October 30, 2010, income taxes included the recognition of tax benefits primarily due to a state administrative settlement, a decrease in a capital loss valuation allowance, and federal tax credit refund claims. During the nine months ended October 31, 2009, income taxes included the recognition of tax benefits primarily due to a state administrative settlement, decrease in a capital loss valuation allowance, and federal tax credits.

Note 12. Loss (Gain) on Disposal of Assets

During the three and nine months ended October 30, 2010, the Company received proceeds of \$1.9 million from the sale of a former retail store location, resulting in a loss of \$1.1 million that was recorded in loss (gain) on disposal of assets.

Additionally, during the nine months ended October 30, 2010, the Company received proceeds of \$4.0 million from the sale of a former retail store location, resulting in a gain of \$4.0 million that was recorded in loss (gain) on disposal of assets.

Note 13. Note Repurchase

During the three and nine months ended October 30, 2010, the Company repurchased \$1.2 million face amount of 7.13% notes with an original maturity on August 1, 2018. This repurchase resulted in a pretax gain of approximately \$21 thousand which was recorded in net interest and debt expense during the three and nine months ended October 30, 2010.

During the three and nine months ended October 31, 2009, the Company repurchased \$3.4 million and \$8.4 million face amount, respectively, of 9.125% notes with an original maturity on August 1, 2011. This repurchase resulted in a pretax gain of approximately \$0.1 million and \$1.7 million which was recorded in net interest and debt expense during the three and nine months ended October 31, 2009, respectively.

Note 14. Fair Value Disclosures

The estimated fair values of financial instruments which are 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.

Edgar Filing: DILLARDS INC - Form 10-Q

The fair value of the Company's long-term debt and subordinated debentures is based on market prices or dealer quotes (for publicly traded unsecured notes) and on discounted future cash flows using current interest rates for financial instruments with similar characteristics and maturities (for bank notes and mortgage notes).

The fair value of the Company's cash and cash equivalents and trade accounts receivable approximates their carrying values at October 30, 2010 due to the short-term maturities of these instruments. The fair value of the Company's long-term debt at October 30, 2010 was approximately \$729 million. The carrying value of the Company's long-term debt at October 30, 2010 was \$747 million. The fair value of the Company's subordinated debentures at October 30, 2010 was approximately \$187 million. The carrying value of the Company's subordinated debentures at October 30, 2010 was \$200 million.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The FASB's accounting guidance utilizes a fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value into three broad levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities

Table of Contents

- Level 2: Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions

(in thousands)	Fair Value of Assets (Liabilities)	Basis of Fair Value Measurements		
		Quoted Prices In Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-lived assets held for sale				
As of October 30, 2010	\$ 28,748	\$	\$	\$ 28,748
As of January 30, 2010	33,956			33,956
As of October 31, 2009	31,825			31,825

During the nine months ended October 30, 2010, long-lived assets held for sale with a carrying value of \$34.0 million were written down to their fair value of \$31.7 million, resulting in an impairment charge of \$2.2 million, which was included in earnings for the period. The inputs used to calculate the fair value of these long-lived assets included selling prices from commercial real estate transactions for assets in markets that we estimated would be used by a market participant in valuing these assets.

During the nine months ended October 30, 2010, the Company also sold a former retail store location with a carrying value of \$3.0 million.

Note 15. Recently Issued Accounting Standards*Consolidation of Variable Interest Entities*

On January 31, 2010, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) to accounting for variable interest entities. These changes require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; to eliminate the solely quantitative approach previously required for determining the primary beneficiary of a variable interest entity; to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. The adoption of these changes had no material impact on the Company's condensed consolidated financial statements.

Fair Value Measurements and Disclosures

Edgar Filing: DILLARDS INC - Form 10-Q

In January 2010, the FASB issued ASU 2010-06, an update to Topic 820, *Fair Value Measurements and Disclosures*. ASU 2010-06 provides an update specifically to Subtopic 820-10 that requires new disclosures including details of significant transfers in and out of Level 1 and Level 2 measurements and the reasons for the transfers and a gross presentation of activity within the Level 3 roll forward, presenting separately information about purchases, sales, issuances and settlements. ASU 2010-06 is effective for the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 roll forward, which is required for interim and annual reporting periods beginning after December 15, 2010. The adoption of ASU 2010-06 did not have a material impact on the Company's condensed consolidated financial statements.

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, 2010.

EXECUTIVE OVERVIEW

Dillard's, Inc. (the Company, we, us or our) experienced an improved third quarter of fiscal 2010 over the prior year. Net sales from retail operations were \$1,320.6 million during the quarter ended October 30, 2010, an increase of \$5.1 million, or less than 1%, from the quarter ended October 31, 2009, while sales in comparable stores increased 1%. Gross profit from retail operations improved 150 basis points of retail sales, primarily due to our inventory management efforts and resulting decrease in markdown activity.

Net sales from construction operations during the quarter ended October 30, 2010 were \$23.6 million, down \$20.3 million or 46% from the quarter ended October 31, 2009. While gross profit from construction operations improved 80 basis points of construction sales, the construction industry continues to experience a decline in demand for construction services coupled with competitive pricing pressures.

Advertising, selling, administrative and general expenses company-wide were reduced by \$3.6 million during the quarter ended October 30, 2010 compared to the quarter ended October 31, 2009, primarily as a result of the Company's cost control measures combined with store closures.

The Company recorded net income for the third quarter of 2010 of \$14.4 million, or \$0.22 per share, compared to net income of \$8.0 million, or \$0.11 per share, for the third quarter of 2009. Included in net income for the quarter ended October 30, 2010 is a \$1.1 million loss (\$0.02 per share) related to the sale of a closed store and a \$1.2 million income tax benefit (\$0.02 per share) for a decrease in a capital loss valuation allowance. Included in net income for the quarter ended October 31, 2009 was a \$10.6 million tax benefit (\$0.14 per share) primarily due to state administrative settlement and a decrease in a capital loss valuation allowance.

As of October 30, 2010, we had working capital of \$862.8 million, cash and cash equivalents of \$167.1 million and \$946.8 million of total debt outstanding, excluding capital lease obligations. Cash flows from operating activities were \$158.9 million for the nine months ended October 30, 2010. Our improved cash position enabled us to repurchase \$71.3 million (approximately 2.9 million shares) of our Class A Common Stock during the quarter.

As of October 30, 2010, we operated 310 total stores, including 14 clearance centers, and one internet store, a decrease of 3 stores from the same period last year.

Table of Contents**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(2)	
	October 30, 2010	October 31, 2009
Net sales (in millions)	\$ 1,344.1	\$ 1,359.3
Net sales trend(1)	(1)%	(11)%
Gross profit (in millions)	\$ 486.6	\$ 466.3
Gross profit as a percentage of net sales	36.2%	34.3%
Cash flow from operations (in millions)	\$ 158.9	\$ 261.4
Total retail store count at end of period	310	313
Retail sales per square foot	\$ 25	\$ 24
Retail store sales trend	0%	(11)%
Comparable retail store sales trend	1%	(9)%
Comparable retail store inventory trend	(2)%	(23)%
Retail merchandise inventory turnover	2.4	2.3

(1)The net sales trend rate for the three months ended October 31, 2009 is based on retail segment sales only for comparability with the quarter ended November 1, 2008.

(2)Cash flow from operations data is for the nine months ended October 30, 2010 and October 31, 2009.

Seasonality and Inflation

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.

We do not believe that inflation has had a material effect on our results during the periods presented; however, there can be no assurance that our business will not be affected by such in the future. Recent economic volatility in Asia, including rising labor costs and an unstable supply of merchandise, as well as increasing costs of transportation and cotton may put pressure on the Company's gross margin during fiscal 2011 though it is too soon to predict the effects of these changes.

Table of Contents

RESULTS OF OPERATIONS

The following table sets forth the results of operations and percentage of net sales for the periods indicated.

	Three Months Ended		Nine Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Net sales	100.0%	100.0%	100.0%	100.0%
Service charges and other income	2.1	2.3	2.1	2.1
	102.1	102.3	102.1	102.1
Cost of sales	63.8	65.7	64.5	67.4
Advertising, selling, administrative and general expenses	29.6	29.6	28.3	28.5
Depreciation and amortization	4.8	4.9	4.6	4.6
Rentals	0.9	1.0	0.9	1.0
Interest and debt expense, net	1.3	1.3	1.3	1.3
Loss (gain) on disposal of assets	0.1	(0.0)	(0.1)	(0.0)
Asset impairment and store closing charges	0.0	0.0	0.1	0.0
Income (loss) before income taxes and equity in losses of joint ventures	1.6	(0.2)	2.5	(0.7)
Income taxes (benefit)	0.4	(0.9)	0.8	(0.5)
Equity in losses of joint ventures	(0.1)	(0.1)	0.0	(0.1)
Net income (loss)	1.1%	0.6%	1.7%	(0.3)%

Net Sales

(in thousands of dollars)	Three Months Ended		\$ Change
	October 30, 2010	October 31, 2009	
Net sales:			
Retail operations segment	\$ 1,320,568	\$ 1,315,515	\$ 5,053
Construction segment	23,550	43,816	(20,266)
Total net sales	\$ 1,344,118	\$ 1,359,331	\$ (15,213)

The percent change by category in the Company's retail operations segment sales for the three months ended October 30, 2010 compared to the three months ended October 31, 2009 as well as the percentage by segment and category to total net sales for the three months ended October 30, 2010 is as follows:

	Three Months % Change 2010-2009	% of Net Sales
Retail operations segment		

Edgar Filing: DILLARDS INC - Form 10-Q

Cosmetics	1.2%	15%
Ladies apparel and accessories	0.5	36
Juniors and children s apparel	1.2	9
Men s apparel and accessories	(2.9)	16
Shoes	3.9	16
Home and furniture	(5.7)	6
		98
Construction segment		2
Total		100%

Net sales from the retail operations segment increased \$5.1 million, or less than 1%, during the three months ended October 30, 2010 compared to the three months ended October 31, 2009 while sales in comparable stores increased 1% between the same periods. Sales of ladies apparel and accessories were up slightly, and sales of cosmetics,

Edgar Filing: DILLARDS INC - Form 10-Q

Table of Contents

juniors and children's apparel and shoes were up moderately. Sales in the home and furniture category were down significantly for the three-month period.

The number of sales transactions decreased 1% for the three months ended October 30, 2010 over the comparable prior year period while the average dollars per sales transaction were up slightly. We recorded an allowance for sales returns of \$7.2 million and \$6.2 million as of October 30, 2010 and October 31, 2009, respectively.

Net sales from the construction segment decreased \$20.3 million or 46% during the three months ended October 30, 2010 compared to the three months ended October 31, 2009 primarily because the fragile recovery of the United States economy continues to have a negative impact on demand for construction projects in private industry.

(in thousands of dollars)	Nine Months Ended		\$ Change
	October 30, 2010	October 31, 2009	
Net sales:			
Retail operations segment	\$ 4,108,112	\$ 4,096,064	\$ 12,048
Construction segment	78,512	164,908	(86,396)
Total net sales	\$ 4,186,624	\$ 4,260,972	\$ (74,348)

The percent change by category in the Company's retail operations segment sales for the nine months ended October 30, 2010 compared to the nine months ended October 31, 2009 as well as the percentage by segment and category to total net sales for the nine months ended October 30, 2010 is as follows:

	Nine Months	
	% Change 2010-2009	% of Net Sales
Retail operations segment		
Cosmetics	(0.8)%	15%
Ladies' apparel and accessories	0.9	38
Juniors' and children's apparel	(0.9)	9
Men's apparel and accessories	(0.9)	16
Shoes	4.8	15
Home and furniture	(7.6)	5
		98
Construction segment		
		2
Total		100%

Net sales from the retail operations segment increased \$12.0 million, or less than 1% during the nine months ended October 30, 2010 compared to the nine months ended October 31, 2009 while sales in comparable stores increased 1% between the same periods. Sales of ladies' apparel and accessories were up slightly, and sales of shoes were up moderately. Sales in the home and furniture category were down significantly for the nine-month period.

Edgar Filing: DILLARDS INC - Form 10-Q

The number of sales transactions decreased 1% for the nine months ended October 30, 2010 over the comparable prior year period while the average dollars per sales transaction were up slightly.

Net sales from the construction segment decreased \$86.4 million or 52% during the nine months ended October 30, 2010 compared to the nine months ended October 31, 2009 primarily because the fragile recovery of the United States economy continues to have a negative impact on demand for construction projects in private industry. We expect this decreased demand will continue throughout fiscal 2010 and into the first half of fiscal 2011.

We continue to believe that in light of recent signs of modest economic improvement in the United States, we may continue to see some sales growth in the retail operations segment during the coming months; however, there is no guarantee of improved sales performance. Any further deterioration in the United States economy could have an adverse effect on consumer confidence and consumer spending habits, which could result in reduced customer traffic and comparable store sales, higher inventory levels and markdowns, and lower overall profitability.

Table of Contents**Service Charges and Other Income**

(in thousands of dollars)	Three Months Ended		Nine Months Ended		Three	Nine
	October 30,	October 31,	October 30,	October 31,	Months	Months
	2010	2009	2010	2009	\$ Change	\$ Change
					2010-2009	2010-2009
Service charges and other income:						
Retail operations segment						
Leased department income	\$ 2,311	\$ 2,184	\$ 6,844	\$ 8,245	\$ 127	\$ (1,401)
Income from GE marketing and servicing alliance	20,926	24,049	64,133	65,780	(3,123)	(1,647)
Shipping and handling income	3,659	3,303	11,547	10,419	356	1,128
Other	2,000	1,823	6,896	5,496	177	1,400
	28,896	31,359	89,420	89,940	(2,463)	(520)
Construction segment	23	26	444	269	(3)	175
Total	\$ 28,919	\$ 31,385	\$ 89,864	\$ 90,209	\$ (2,466)	\$ (345)

Service charges and other income is composed primarily of income generated through the long-term marketing and servicing alliance (Alliance) with GE Consumer Finance (GE), which owns and manages the Dillard's branded proprietary credit cards. Income from the Alliance decreased during the three and nine months ended October 30, 2010 compared to the three and nine months ended October 31, 2009 primarily due to reduced finance charge and late charge fee income related to recent credit regulation legislation partially offset by decreased credit losses. Leased department income declined during the nine months ended October 30, 2010 compared to the nine months ended October 31, 2009 primarily because the licensee for the fine jewelry department ceased operations of all licensed outlets during fiscal 2009.

Gross Profit

(in thousands of dollars)	October 30,	October 31,	\$ Change	% Change
	2010	2009		
Gross profit:				
Three months ended				
Retail operations segment	\$ 485,629	\$ 464,768	\$ 20,861	4.5%
Construction segment	1,015	1,555	(540)	(34.7)
Total gross profit	\$ 486,644	\$ 466,323	\$ 20,321	4.4%
Nine months ended				
Retail operations segment	\$ 1,483,197	\$ 1,380,430	\$ 102,767	7.4%
Construction segment	1,256	6,944	(5,688)	(81.9)
Total gross profit	\$ 1,484,453	\$ 1,387,374	\$ 97,079	7.0%

	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended
	October 30,	October 31,	October 30,	October 31,
	2010	2009	2010	2009
Gross profit as a percentage of segment net sales:				
Retail operations segment	36.8%	35.3%	36.1%	33.7%

Edgar Filing: DILLARDS INC - Form 10-Q

Construction segment	4.3	3.5	1.6	4.2
Total gross profit as a percentage of net sales	36.2	34.3	35.5	32.6

Gross profit improved 190 basis points of sales and 290 basis points of sales during the three and nine months ended October 30, 2010 compared to the three and nine months ended October 31, 2009, respectively.

Gross profit from retail operations improved 150 basis points of sales and 240 basis points of sales during the three and nine months ended October 30, 2010 compared to the three and nine months ended October 31, 2009, respectively, as a result of continuing inventory management measures leading to reduced markdown activity. These inventory management measures include considerable adjustments to receipt cadence to shorten the period of time

Edgar Filing: DILLARDS INC - Form 10-Q

Table of Contents

from receipt to sale, to reduce markdown risk and to keep customers engaged with a more continuous flow of fresh merchandise selections throughout the season. Inventory declined 2% in both total and comparable stores as of October 30, 2010 compared to October 31, 2009. A 1% change in the dollar amount of markdowns would have impacted net income by approximately \$2 million and \$6 million for the three and nine months ended October 30, 2010, respectively.

During the three months ended October 30, 2010 as compared to the three months ended October 31, 2009, gross margin improved moderately in juniors' and children's apparel, men's apparel and accessories and shoes while gross margin was relatively flat in cosmetics, ladies' apparel and accessories and home and furniture.

During the nine months ended October 30, 2010 as compared to the nine months ended October 31, 2009, all merchandise categories experienced moderate gross margin improvements with the exception of cosmetics, which improved slightly.

Gross profit from the construction segment improved 80 basis points of sales during the three months ended October 30, 2010 compared to the three months ended October 31, 2009. Gross profit from the construction segment declined 260 basis points of sales during the nine months ended October 30, 2010 compared to the nine months ended October 31, 2009. This decrease was the result of the decline in demand for construction services that has created pricing pressures in an already competitive marketplace. This decrease was also due to job delays from bad weather and job underperformance resulting in the recognition of a \$2.2 million loss during the first quarter of fiscal 2010 on certain electrical contracts.

Advertising, Selling, Administrative and General Expenses (SG&A)

(in thousands of dollars)	October 30, 2010	October 31, 2009	\$ Change	% Change
SG&A:				
Three months ended				
Retail operations segment	\$ 397,355	\$ 400,887	\$ (3,532)	(0.9)%
Construction segment	1,139	1,233	(94)	(7.6)
Total SG&A	\$ 398,494	\$ 402,120	\$ (3,626)	(0.9)%
Nine months ended				
Retail operations segment	\$ 1,180,737	\$ 1,209,255	\$ (28,518)	(2.4)%
Construction segment	3,453	3,870	(417)	(10.8)
Total SG&A	\$ 1,184,190	\$ 1,213,125	\$ (28,935)	(2.4)%

	Three Months Ended October 30, 2010	October 31, 2009	Nine Months Ended October 30, 2010	October 31, 2009
SG&A as a percentage of segment net sales:				
Retail operations segment	30.1%	30.5%	28.7%	29.5%
Construction segment	4.8	2.8	4.4	2.3
Total SG&A as a percentage of net sales	29.6	29.6	28.3	28.5

Edgar Filing: DILLARDS INC - Form 10-Q

The decline in SG&A during the periods presented primarily resulted from the Company's expense savings measures combined with store closures.

The three-month decline in SG&A was most noted in advertising (\$7.9 million) and payroll and payroll related taxes (\$0.8 million) partially offset by an increase in services purchased (\$4.3 million) and supplies (\$1.1 million).

The nine-month decline in SG&A was most noted in advertising (\$22.5 million), payroll and payroll related taxes (\$20.3 million) and utilities (\$2.5 million) partially offset by an increase in services purchased (\$8.4 million) and supplies (\$5.4 million).

The decline in payroll and payroll related taxes for the three and nine-month periods presented was a direct result of the Company's continued efforts to match the appropriate levels of staff to its current needs. The decline in

Table of Contents

advertising expense for the three and nine-month periods was primarily a result of the Company's migration from newspaper media to less expensive internet marketing sources.

Depreciation and Amortization Expense

(in thousands of dollars)	October 30, 2010	October 31, 2009	\$ Change	% Change
Depreciation and amortization expense:				
Three months ended				
Retail operations segment	\$ 64,906	\$ 66,097	\$ (1,191)	(1.8)%
Construction segment	47	38	9	23.7
Total depreciation and amortization expense	\$ 64,953	\$ 66,135	\$ (1,182)	(1.8)%
Nine months ended				
Retail operations segment	\$ 192,987	\$ 197,927	\$ (4,940)	(2.5)%
Construction segment	137	123	14	11.4
Total depreciation and amortization expense	\$ 193,124	\$ 198,050	\$ (4,926)	(2.5)%

The decrease of depreciation and amortization expense for the three and nine months ended October 30, 2010 compared to the three and nine months ended October 31, 2009 is primarily a result of store closures and the Company's continuing efforts to reduce capital expenditures.

Rentals

(in thousands of dollars)	October 30, 2010	October 31, 2009	\$ Change	% Change
Rentals:				
Three months ended				
Retail operations segment	\$ 11,626	\$ 13,942	\$ (2,316)	(16.6)%
Construction segment	15	23	(8)	(34.8)
Total rentals	\$ 11,641	\$ 13,965	\$ (2,324)	(16.6)%
Nine months ended				
Retail operations segment	\$ 36,537	\$ 42,334	\$ (5,797)	(13.7)%
Construction segment	61	67	(6)	(9.0)
Total rentals	\$ 36,598	\$ 42,401	\$ (5,803)	(13.7)%

The decrease in rental expense for the three and nine months ended October 30, 2010 compared to the three and nine months ended October 31, 2009 is primarily due to a decrease in the amount of equipment leased by the Company.

Table of Contents**Interest and Debt Expense, Net**

(in thousands of dollars)	October 30, 2010	October 31, 2009	\$ Change	% Change
Interest and debt expense (income), net:				
Three months ended				
Retail operations segment	\$ 18,118	\$ 18,409	\$ (291)	(1.6)%
Construction segment	(75)	(52)	(23)	44.2
Total interest and debt expense, net	\$ 18,043	\$ 18,357	\$ (314)	(1.7)%
Nine months ended				
Retail operations segment	\$ 55,520	\$ 55,943	\$ (423)	(0.8)%
Construction segment	(159)	(167)	8	(4.8)
Total interest and debt expense, net	\$ 55,361	\$ 55,776	\$ (415)	(0.7)%

The decrease of net interest and debt expense for the three-month period is primarily attributed to lower average debt and earned interest on invested cash partially offset by the reduction of capitalized interest. The decrease of net interest and debt expense for the nine-month period is primarily attributed to lower average debt and earned interest on invested cash partially offset by the reduction of capitalized interest and a prior year gain on the repurchase of debt. Total weighted average debt decreased approximately \$12.5 million and \$88.9 million during the three and nine months ending October 30, 2010 compared to the three and nine months ending October 31, 2009, respectively.

Loss (Gain) on Disposal of Assets

(in thousands of dollars)	October 30, 2010	October 31, 2009	\$ Change
Loss (gain) on disposal of assets:			
Three months ended			
Retail operations segment	\$ 934	\$ (116)	\$ 1,050
Construction segment			
Total loss (gain) on disposal of assets	\$ 934	\$ (116)	\$ 1,050
Nine months ended			
Retail operations segment	\$ (3,280)	\$ (769)	\$ (2,511)
Construction segment	(12)	(4)	(8)
Total loss (gain) on disposal of assets	\$ (3,292)	\$ (773)	\$ (2,519)

During the three and nine months ended October 30, 2010, the Company received proceeds of \$1.9 million from the sale of a former retail store location, resulting in a loss of \$1.1 million that was recorded in loss (gain) on disposal of assets.

Additionally, during the nine months ended October 30, 2010, the Company received proceeds of \$4.0 million from the sale of a former retail store location, resulting in a gain of \$4.0 million that was recorded in loss (gain) on disposal of assets.

Asset Impairment and Store Closing Charges

There were no asset impairment and store closing costs recorded during the three months ended October 30, 2010 or three and nine months ended October 31, 2009.

During the nine months ended October 30, 2010, the Company's retail operations segment 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.

Table of Contents

Income Taxes

The total amount of unrecognized tax benefits as of October 30, 2010 and October 31, 2009 was \$14.0 million and \$20.7 million, respectively, of which \$10.3 million and \$15.3 million, respectively, would, if recognized, affect the effective tax rate. The Company classifies accrued interest expense and penalties relating to income tax in the condensed consolidated financial statements as income tax expense. The total interest and penalties recognized in the condensed consolidated statements of income and retained earnings during the three months ended October 30, 2010 and October 31, 2009 was \$0.0 million and \$(1.2) million, respectively, and during the nine months ended October 30, 2010 and October 31, 2009 was \$(1.4) million and \$(0.9) million, respectively. The total accrued interest and penalties in the condensed consolidated balance sheets as of October 30, 2010 and October 31, 2009 was \$4.6 million and \$8.5 million, respectively. The estimated range of the reasonably possible uncertain tax benefit decrease in the next twelve months is between \$3 million and \$5 million. No significant changes occurred in the tax years subject to examination by major tax jurisdictions during the three and nine months ended October 30, 2010. Changes in the Company's assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of operations.

The Company's estimated federal and state income tax rate, inclusive of equity in losses of joint ventures, was approximately 29.6% and 276.1% for the three months ended October 30, 2010 and October 31, 2009, respectively. During the three months ended October 30, 2010, income taxes included the recognition of tax benefits primarily due to a decrease in a capital loss valuation allowance. During the three months ended October 31, 2009, income taxes included the recognition of tax benefits primarily due to a state administrative settlement, decrease in a capital loss valuation allowance, and federal tax credits.

The Company's estimated federal and state income tax rate, inclusive of equity in losses of joint ventures, was approximately 32.1% and 67.6% for the nine months ended October 30, 2010 and October 31, 2009, respectively. During the nine months ended October 30, 2010, income taxes included the recognition of tax benefits primarily due to a state administrative settlement, a decrease in a capital loss valuation allowance, and federal tax credit refund claims. During the nine months ended October 31, 2009, income taxes included the recognition of tax benefits primarily due to a state administrative settlement, decrease in a capital loss valuation allowance, and federal tax credits.

Our income tax rate for the remainder of fiscal 2010 is dependent upon results of operations and may change if the results for fiscal 2010 are different from current expectations. We currently estimate that our effective rate for the remainder of fiscal 2010 will approximate 36%.

Table of Contents**FINANCIAL CONDITION****Financial Position Summary**

(in thousands of dollars)	October 30, 2010	January 30, 2010	\$ Change	% Change
Cash and cash equivalents	\$ 167,119	\$ 341,693	\$ (174,574)	(51.1)%
Long-term debt, including current portion	746,849	749,306	(2,457)	(0.3)
Subordinated debentures	200,000	200,000		
Stockholders' equity	2,116,565	2,304,103	(187,538)	(8.1)
Current ratio	1.76	2.28		
Debt to capitalization	30.9%	29.2%		

(in thousands of dollars)	October 30, 2010	October 31, 2009	\$ Change	% Change
Cash and cash equivalents	\$ 167,119	\$ 74,077	\$ 93,042	125.6%
Long-term debt, including current portion	746,849	749,724	(2,875)	(0.4)
Subordinated debentures	200,000	200,000		
Stockholders' equity	2,116,565	2,233,966	(117,401)	(5.3)
Current ratio	1.76	1.80		
Debt to capitalization	30.9%	29.8%		

Net cash flows from operations decreased to \$158.9 million during the nine months ended October 30, 2010 compared to \$261.4 million for the nine months ended October 31, 2009. This decrease of \$102.5 million was largely a result of a decrease of \$179.5 million related to changes in working capital items, primarily of changes in income tax accruals, the collection of an income tax receivable and of changes in inventory. This decrease was partially offset by higher net income, as adjusted for non-cash items, of \$77.0 million for the nine months ended October 30, 2010 as compared to the nine months ended October 31, 2009.

GE owns and manages Dillard's branded proprietary credit card business under the Alliance that expires in fiscal 2014. The Alliance provides for certain payments to be made by GE to the Company, including a revenue sharing and marketing reimbursement. The Company received income of approximately \$64.1 million and \$65.8 million from GE during the nine months ended October 30, 2010 and October 31, 2009, respectively. While future cash flows under this Alliance are difficult to predict, the Company expects fiscal 2010 amounts to be reduced from prior year's levels due to the challenging economy and new credit regulations. The amount the Company receives is dependent on the level of sales on GE accounts, the level of balances carried on the GE accounts by GE customers, payment rates on GE accounts, finance charge rates and other fees on GE accounts, the level of credit losses for the GE accounts as well as GE's funding costs.

During the nine months ended October 30, 2010, the Company received proceeds of \$1.9 million from the sale of a former retail store location, resulting in a loss of \$1.1 million that was recorded in loss (gain) on disposal of assets. Additionally, during the nine months ended October 30, 2010, the Company received proceeds of \$4.0 million from the sale of a retail store location, resulting in a gain of \$4.0 million that was recorded

in loss (gain) on disposal of assets.

Capital expenditures were \$73.8 million and \$51.1 million for the nine months ended October 30, 2010 and October 31, 2009, respectively. These expenditures consisted primarily of the construction of new stores, remodeling of existing stores and investments in technology equipment and software. During the nine months ended October 30, 2010, the Company purchased two corporate aircraft for approximately \$34 million that were previously leased under operating leases, and we opened our new store locations at The Domain in Austin, Texas (200,000 square feet) and The Village at Fairview in Fairview, Texas (155,000 square feet). There are no other planned store openings for fiscal 2010. Capital expenditures for fiscal 2010 are expected to be approximately \$105 million compared to actual expenditures of \$75.1 million during fiscal 2009.

Edgar Filing: DILLARDS INC - Form 10-Q

Table of Contents

During the nine months ended October 30, 2010, we closed our store location in Helena, Montana (65,000 square feet) and recorded a negligible amount for store closing costs. We have also announced the upcoming closures of our stores located at Coral Square Mall in Coral Springs, Florida (98,000 square feet) and Miami International Mall in Miami, Florida (98,000 square feet). These locations are expected to close during the fourth quarter of fiscal 2010 with minimal closing costs. We remain committed to closing under-performing stores where appropriate and may incur future closing costs related to these stores when they close.

The Company had cash on hand of \$167.1 million as of October 30, 2010. As part of our overall liquidity management strategy and for peak working capital requirements, the Company has a \$1.0 billion credit facility. Limited to 85% of the inventory of certain Company subsidiaries, availability for borrowings and letter of credit obligations under the credit agreement was \$1.0 billion at October 30, 2010. No borrowings were outstanding at October 30, 2010. Letters of credit totaling \$89.0 million were issued under this credit agreement leaving unutilized availability under the facility of approximately \$911 million at October 30, 2010.

Under the credit agreement, the Company unilaterally reduced the previous \$1.2 billion credit facility by \$200 million to \$1.0 billion, effective September 1, 2010, in order to reduce the amount of commitment fees. Planned inventory levels would not allow for utilization of the full \$1.2 billion. All other aspects of the credit agreement remain unchanged. Expected savings from the time of the permanent reduction through the remaining term of the credit facility are approximately \$1.1 million.

Cash used in financing activities for the nine months ended October 30, 2010 totaled \$265.8 million compared to cash used in financing activities of \$241.9 million for the nine months ended October 31, 2009. This decrease of cash flow was primarily due to the repurchase of the Company's Class A Common Stock and the payment of debt and capital lease obligations during the nine months ended October 30, 2010 partially offset by short-term borrowing and debt payments during the nine months ended October 31, 2009.

During the nine months ended October 30, 2010, the Company repurchased 10.1 million shares of stock for approximately \$253.9 million (including the accrual of \$12.3 million of share repurchase that had not settled as of October 30, 2010) at an average price of \$25.24 per share. At October 30, 2010, \$178.7 million remained available for repurchase pursuant to authorization granted by the Company's board of directors.

During the nine months ended October 30, 2010, the Company made principal payments on long-term debt and capital lease obligations of \$16.5 million, including the payoff of approximately \$13 million in capital lease obligations for two corporate aircraft. During the nine months ended October 31, 2009, the Company made principal payments on long-term debt and capital lease obligations of \$33.1 million, including the repurchase of \$8.4 million face amount of 9.125% notes maturing on August 1, 2011. This repurchase resulted in a pretax gain of approximately \$1.7 million and was recorded in net interest and debt expense.

During the nine months ended October 31, 2009, the Company also paid \$200.0 million of short-term borrowings under the Company's credit facility. No short-term borrowings were outstanding under the credit facility during the nine months ended October 30, 2010.

During fiscal 2010, the Company expects to finance its capital expenditures and its working capital requirements including required debt repayments and stock repurchases, if any, from cash on hand, cash flows generated from operations and utilization of the credit facility. The Company expects peak borrowings under the credit facility during fiscal 2010, net of invested cash, to be minimal. Depending on conditions in the capital markets and other factors, the Company will from time to time consider other possible financing transactions, the proceeds of which

Edgar Filing: DILLARDS INC - Form 10-Q

could be used to refinance current indebtedness or for other corporate purposes.

There have been no material changes in the information set forth under the 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, 2010.

Table of Contents

OFF-BALANCE-SHEET ARRANGEMENTS

The Company does not have any arrangements or relationships with entities that are not consolidated into the financial statements that are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operation, liquidity, capital expenditures or capital resources that is material to investors.

NEW ACCOUNTING STANDARDS

Consolidation of Variable Interest Entities

On January 31, 2010, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) to accounting for variable interest entities. These changes require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity; to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; to eliminate the solely quantitative approach previously required for determining the primary beneficiary of a variable interest entity; to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance; and to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. The adoption of these changes had no material impact on the Company's condensed consolidated financial statements.

Fair Value Measurements and Disclosures

In January 2010, the FASB issued ASU 2010-06, an update to Topic 820, *Fair Value Measurements and Disclosures*. ASU 2010-06 provides an update specifically to Subtopic 820-10 that requires new disclosures including details of significant transfers in and out of Level 1 and Level 2 measurements and the reasons for the transfers and a gross presentation of activity within the Level 3 roll forward, presenting separately information about purchases, sales, issuances, and settlements. ASU 2010-06 is effective for the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 roll forward, which is required for interim and annual reporting periods beginning after December 15, 2010. The adoption of ASU 2010-06 did not have a material impact on the Company's condensed consolidated 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: statements including (a) words such as may, will, could, believe, expect, future, anticipate, intend, plan, estimate, continue, 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 2010 and fiscal 2011. 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

Edgar Filing: DILLARDS INC - Form 10-Q

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

Table of Contents

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, 2010, 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, 2010.

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 CEO and CFO, 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 CEO and CFO 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 October 30, 2010 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

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. On September 30, 2010 the court dismissed the lawsuit in its entirety. It is not known whether plaintiff intends to file an appeal. If so, the named officers and directors intend to contest these allegations vigorously.

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.

From time to time, we are involved in other litigation relating to claims arising out of our operations in the normal course of business. Such issues may relate to litigation with customers, employment related lawsuits, class action lawsuits, purported class action lawsuits and actions brought by governmental authorities. As of December 3, 2010, we are not a party to any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our business, results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our 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, 2010.

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

Issuer Purchases of Equity Securities

Period

Edgar Filing: DILLARDS INC - Form 10-Q

	(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
August 1, 2010 through August 28, 2010	691,542	\$ 21.29	691,542	\$ 235,277,134
August 29, 2010 through October 2, 2010	457,036	23.76	457,036	224,416,201
October 3, 2010 through October 30, 2010	1,720,661	26.59	1,720,661	178,670,666
Total	2,869,239	\$ 24.86	2,869,239	\$ 178,670,666

In August 2010, the Company's board of directors authorized the Company to repurchase up to \$250 million of the Company's Class A Common Stock under a new open-ended plan. This authorization 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.

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 Chief 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 Chief 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

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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: December 3, 2010

/s/ James I. Freeman
James I. Freeman
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)