

DILLARDS INC
Form 10-Q
December 04, 2015
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 31, 2015

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).

Edgar Filing: DILLARDS INC - Form 10-Q

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No

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

CLASS A COMMON STOCK as of November 28, 2015 32,704,459

CLASS B COMMON STOCK as of November 28, 2015 4,010,401

Table of Contents

Index

DILLARD’S, INC.

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited):</u>	
<u>Condensed Consolidated Balance Sheets as of October 31, 2015, January 31, 2015 and November 1, 2014</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income and Retained Earnings for the Three and Nine Months Ended October 31, 2015 and November 1, 2014</u>	<u>4</u>
Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended October 31, 2015 and November 1, 2014	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 31, 2015 and November 1, 2014</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>13</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>24</u>
<u>Item 4. Controls and Procedures</u>	<u>24</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>25</u>
<u>Item 1A. Risk Factors</u>	<u>25</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>25</u>
<u>Item 6. Exhibits</u>	<u>26</u>
<u>SIGNATURES</u>	<u>27</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DILLARD'S, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands)

	October 31, 2015	January 31, 2015	November 1, 2014
Assets			
Current assets:			
Cash and cash equivalents	\$ 100,110	\$ 403,752	\$ 91,901
Restricted cash	—	7,346	9,930
Accounts receivable	47,114	56,510	41,661
Merchandise inventories	1,933,472	1,374,481	1,832,297
Other current assets	70,175	46,353	64,920
Total current assets	2,150,871	1,888,442	2,040,709
Property and equipment (net of accumulated depreciation and amortization of \$2,493,815, \$2,341,948 and \$2,437,364)	1,976,614	2,029,171	2,064,303
Other assets	252,701	252,458	252,056
Total assets	\$ 4,380,186	\$ 4,170,071	\$ 4,357,068
Liabilities and stockholders' equity			
Current liabilities:			
Trade accounts payable and accrued expenses	\$ 1,094,718	\$ 730,422	\$ 1,025,968
Current portion of capital lease obligations	3,263	840	828
Other short-term borrowings	126,000	—	63,000
Federal and state income taxes including current deferred taxes	106,823	154,061	124,332
Total current liabilities	1,330,804	885,323	1,214,128
Long-term debt	614,785	614,785	614,785
Capital lease obligations	7,507	5,919	6,136
Other liabilities	252,359	250,455	233,213
Deferred income taxes	157,576	194,319	191,256
Subordinated debentures	200,000	200,000	200,000
Commitments and contingencies			
Stockholders' equity:			
Common stock	1,238	1,237	1,237
Additional paid-in capital	938,922	937,993	936,106
Accumulated other comprehensive loss	(29,314)	(31,029)	(22,842)
Retained earnings	3,912,626	3,734,891	3,606,871
Less treasury stock, at cost	(3,006,317)	(2,623,822)	(2,623,822)
Total stockholders' equity	1,817,155	2,019,270	1,897,550

Total liabilities and stockholders' equity	\$4,380,186	\$4,170,071	\$4,357,068
--	-------------	-------------	-------------

See notes to condensed consolidated financial statements.

3

Table of Contents

DILLARD'S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

(In Thousands, Except Per Share Data)

	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Net sales	\$1,434,654	\$1,459,781	\$4,521,925	\$4,485,579
Service charges and other income	38,200	39,363	115,191	114,994
	1,472,854	1,499,144	4,637,116	4,600,573
Cost of sales	912,920	924,443	2,893,670	2,839,936
Selling, general and administrative expenses	412,715	412,259	1,220,553	1,206,369
Depreciation and amortization	65,600	62,714	187,253	186,731
Rentals	5,804	5,780	17,280	17,455
Interest and debt expense, net	14,872	14,598	44,864	45,642
Gain on disposal of assets	(9,400	) (5,923	) (9,495	) (6,362
Income before income taxes and income on and equity in earnings of joint ventures	70,343	85,273	282,991	310,802
Income taxes	24,970	30,110	98,660	109,960
Income on and equity in earnings of joint ventures	371	68	934	521
Net income	45,744	55,231	185,265	201,363
Retained earnings at beginning of period	3,869,549	3,554,170	3,734,891	3,413,240
Cash dividends declared	(2,667	) (2,530	) (7,530	) (7,732
Retained earnings at end of period	\$3,912,626	\$3,606,871	\$3,912,626	\$3,606,871
Earnings per share:				
Basic and diluted	\$1.19	\$1.30	\$4.65	\$4.67
Cash dividends declared per common share	\$0.07	\$0.06	\$0.19	\$0.18

See notes to condensed consolidated financial statements.

Table of Contents

DILLARD'S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In Thousands)

	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Net income	\$45,744	\$55,231	\$185,265	\$201,363
Other comprehensive income:				
Amortization of retirement plan and other retiree benefit adjustments (net of tax of \$352, \$254, \$1,057 and \$763)	572	411	1,715	1,232
Comprehensive income	\$46,316	\$55,642	\$186,980	\$202,595

See notes to condensed consolidated financial statements.

Table of Contents

DILLARD'S, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)
 (In Thousands)

	Nine Months Ended	
	October 31, 2015	November 1, 2014
Operating activities:		
Net income	\$ 185,265	\$ 201,363
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and other deferred cost	188,847	187,907
Gain on disposal of assets	(9,495)	(6,362)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	9,396	(10,821)
Increase in merchandise inventories	(558,992)	(486,976)
Increase in other current assets	(22,893)	(17,161)
Decrease in other assets	1,172	3,248
Increase in trade accounts payable and accrued expenses and other liabilities	373,972	390,555
Decrease in income taxes payable	(83,981)	(51,851)
Net cash provided by operating activities	83,291	209,902
Investing activities:		
Purchases of property and equipment	(141,929)	(124,103)
Proceeds from disposal of assets	19,422	14,723
Decrease (increase) in restricted cash	7,346	(9,930)
Net cash used in investing activities	(115,161)	(119,310)
Financing activities:		
Principal payments on long-term debt and capital lease obligations	(5,081)	(579)
Issuance cost of line of credit	(2,863)	—
Increase in short-term borrowings	126,000	63,000
Cash dividends paid	(7,334)	(7,838)
Purchase of treasury stock	(382,494)	(290,408)
Net cash used in financing activities	(271,772)	(235,825)
Decrease in cash and cash equivalents	(303,642)	(145,233)
Cash and cash equivalents, beginning of period	403,752	237,134
Cash and cash equivalents, end of period	\$ 100,110	\$ 91,901
Non-cash transactions:		
Accrued capital expenditures	\$ 5,797	\$ 10,964
Stock awards	929	898
Capital lease transactions	9,093	—

See notes to condensed consolidated financial statements.

6

Table of Contents

DILLARD'S, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Dillard's, Inc. (the "Company") have been prepared in accordance with the rules of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended October 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending January 30, 2016 due to, among other things, 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 31, 2015 filed with the SEC on March 25, 2015.

Note 2. Business Segments

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

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

Table of Contents

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

(in thousands of dollars)	Retail Operations	Construction	Consolidated
Three Months Ended October 31, 2015:			
Net sales from external customers	\$1,381,821	\$52,833	\$1,434,654
Gross profit	520,033	1,701	521,734
Depreciation and amortization	65,437	163	65,600
Interest and debt expense (income), net	14,887	(15	) 14,872
Income before income taxes and income on and equity in earnings of joint ventures	69,734	609	70,343
Income on and equity in earnings of joint ventures	371	—	371
Total assets	4,319,946	60,240	4,380,186
Three Months Ended November 1, 2014:			
Net sales from external customers	\$1,422,359	\$37,422	\$1,459,781
Gross profit	533,679	1,659	535,338
Depreciation and amortization	62,639	75	62,714
Interest and debt expense (income), net	14,606	(8	) 14,598
Income before income taxes and income on and equity in earnings of joint ventures	84,332	941	85,273
Income on and equity in earnings of joint ventures	27	41	68
Total assets	4,314,799	42,269	4,357,068
Nine Months Ended October 31, 2015:			
Net sales from external customers	\$4,367,890	\$154,035	\$4,521,925
Gross profit	1,622,672	5,583	1,628,255
Depreciation and amortization	186,915	338	187,253
Interest and debt expense (income), net	44,908	(44	) 44,864
Income before income taxes and income on and equity in earnings of joint ventures	280,934	2,057	282,991
Income on and equity in earnings of joint ventures	934	—	934
Total assets	4,319,946	60,240	4,380,186
Nine Months Ended November 1, 2014:			
Net sales from external customers	\$4,422,686	\$62,893	\$4,485,579
Gross profit	1,642,370	3,273	1,645,643
Depreciation and amortization	186,507	224	186,731
Interest and debt expense (income), net	45,672	(30	) 45,642
Income (loss) before income taxes and income on and equity in earnings of joint ventures	311,320	(518	) 310,802
Income on and equity in earnings of joint ventures	480	41	521
Total assets	4,314,799	42,269	4,357,068

Intersegment construction revenues of \$22.9 million and \$65.4 million for the three and nine months ended October 31, 2015, respectively, and intersegment construction revenues of \$23.3 million and \$67.1 million for the three and nine months ended November 1, 2014, respectively, were eliminated during consolidation and have been excluded from net sales for the respective periods.

Table of Contents

Note 3. Earnings Per Share Data

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

	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Net income	\$45,744	\$55,231	\$185,265	\$201,363
Weighted average shares of common stock outstanding	38,341	42,369	39,876	43,079
Basic and diluted earnings per share	\$1.19	\$1.30	\$4.65	\$4.67

The Company maintains a capital structure in which common stock is the only security issued and outstanding, and no shares of preferred stock, stock options, other dilutive securities or potentially dilutive securities were issued or outstanding during the three or nine months ended October 31, 2015 and November 1, 2014.

Note 4. Commitments and Contingencies

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

At October 31, 2015, letters of credit totaling \$28.1 million were issued under the Company's revolving credit facility.

Note 5. Benefit Plans

The Company has an unfunded, nonqualified defined benefit plan ("Pension Plan") for its officers. The Pension Plan is noncontributory and provides benefits based on years of service and compensation during employment. The Company determines pension expense using an actuarial cost method to estimate the total benefits ultimately payable to officers and allocates this cost to service periods. The actuarial assumptions used to calculate pension costs are reviewed annually. The Company contributed \$1.4 million and \$2.9 million to the Pension Plan during the three and nine months ended October 31, 2015, respectively, and expects to make additional contributions to the Pension Plan of approximately \$1.1 million during the remainder of fiscal 2015.

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

	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Components of net periodic benefit costs:				
Service cost	\$983	\$1,099	\$2,949	\$3,297
Interest cost	1,684	1,911	5,052	5,733
Net actuarial loss	924	665	2,772	1,995
Net periodic benefit costs	\$3,591	\$3,675	\$10,773	\$11,025

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

Note 6. Revolving Credit Agreement

In May 2015, the Company entered into a new \$1.0 billion senior unsecured revolving credit facility ("credit agreement") replacing the Company's previous secured revolving credit facility. The new credit agreement matures on May 13, 2020 and is available to the Company for working capital needs and general corporate purposes. The Company pays a variable rate of interest on borrowings under the credit agreement and a commitment fee to the participating banks based on the Company's debt rating. The rate of interest on borrowings is LIBOR plus 1.375%, and the commitment fee for unused borrowings is 0.20% per annum. To be in compliance with the financial covenants of the credit agreement, the Company's total leverage ratio

Table of Contents

cannot exceed 4.0 to 1.0 and the coverage ratio cannot be less than 2.5 to 1.0. At October 31, 2015, the Company was in compliance with all financial covenants related to the credit agreement.

At October 31, 2015, \$126.0 million in borrowings were outstanding and letters of credit totaling \$28.1 million were issued under the credit agreement. The weighted average interest rate under the credit agreement at October 31, 2015 was 1.56%.

Note 7. Stock Repurchase Programs

The Company's Board of Directors has authorized the Company to repurchase the Company's Class A Common Stock under open-ended stock repurchase plans. These authorizations permit the Company to repurchase its Class A Common Stock in the open market, pursuant to preset trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 or through privately negotiated transactions. The authorizations have no expiration date. The following is a summary of share repurchase activity for the periods indicated (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Cost of shares repurchased	\$174,550	\$224,486	\$382,494	\$290,408
Number of shares repurchased	1,888	2,043	3,731	2,781
Average price per share	\$92.45	\$109.89	\$102.52	\$104.44

All repurchases of the Company's Class A Common Stock above were made at the market price at the trade date. Accordingly, all amounts paid to reacquire these shares were allocated to Treasury Stock. As of October 31, 2015, \$117.5 million of authorization remained under the Company's stock repurchase plans.

Note 8. Income Taxes

During the three and nine months ended October 31, 2015 and November 1, 2014, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes.

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

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

Details about AOCL Components	Amount Reclassified from AOCL				Affected Line Item in the Statement Where Net Income Is Presented
	Three Months Ended		Nine Months Ended		
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014	
Defined benefit pension plan items					
Amortization of actuarial losses	\$924	\$665	\$2,772	\$1,995	Total before tax (1)
	352	254	1,057	763	Income tax expense
	\$572	\$411	\$1,715	\$1,232	Total net of tax

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

Table of Contents

Note 10. Changes in Accumulated Other Comprehensive Loss

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

	Defined Benefit Pension Plan Items			
	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Beginning balance	\$29,886	\$23,253	\$31,029	\$24,074
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCL	(572)	(411)	(1,715)	(1,232)
Net other comprehensive income	(572)	(411)	(1,715)	(1,232)
Ending balance	\$29,314	\$22,842	\$29,314	\$22,842

Note 11. Gain on Disposal of Assets

During the three months ended October 31, 2015, the Company received proceeds of \$19.2 million primarily from the sale of three store locations, resulting in a gain of \$9.4 million that was recorded in gain on disposal of assets.

During the three months ended November 1, 2014, the Company received proceeds of \$9.9 million from the sale of a store location, resulting in a gain of \$5.9 million that was recorded in gain on disposal of assets.

Note 12. 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.

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

The fair value of the Company's cash and cash equivalents, accounts receivable and short-term borrowings approximates their carrying values at October 31, 2015 due to the short-term maturities of these instruments. The fair value of the Company's long-term debt at October 31, 2015 was approximately \$692 million. The carrying value of the Company's long-term debt at October 31, 2015 was \$615 million. The fair value of the Company's subordinated debentures at October 31, 2015 was approximately \$213 million. The carrying value of the Company's subordinated debentures at October 31, 2015 was \$200 million.

Note 13. Recently Issued Accounting Standards

Revenue from Contracts with Customers

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

obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This update was amended by ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date for the Company from the first quarter of fiscal 2017 to the first quarter of fiscal 2018 with early adoption permitted. The Company is currently assessing the impact of this update on its consolidated financial statements.

Table of Contents

Presentation of Financial Statements - Going Concern

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

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, to amend ASC Topic 835. The amendment adds the requirement for an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset and to report amortization of the debt issuance costs as interest expense. This update will be effective for the Company beginning in the first quarter of fiscal 2016. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

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

In August 2015, the FASB issued ASU No. 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, to provide authoritative guidance related to line-of-credit arrangements, which were not addressed in ASU No. 2015-03. An entity may defer and present debt issuance costs related to line-of-credit arrangements as an asset. Subsequently, the debt issuance costs may be amortized as interest expense ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This update will be effective for the Company beginning in the first quarter of fiscal 2016. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred taxes in the statement of financial position. Under this amendment, entities will no longer be required to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Rather, the amendment requires deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and early application is permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the impact of this update on its 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 31, 2015.

EXECUTIVE OVERVIEW

The Company's third quarter performance of fiscal 2015 was disappointing, as sales were weaker than expected. During the three months ended October 31, 2015, comparable store sales decreased 4% over last year's third quarter. Gross margin from retail operations improved 11 basis points of sales over last year's third quarter. Weaker retail sales contributed to an 86 basis points of sales increase in retail operations selling, general and administrative expenses. Net income decreased to \$45.7 million (\$1.19 per share) for the current year third quarter from \$55.2 million (\$1.30 per share) for the prior year third quarter.

Included in net income for the current year third quarter is a pre-tax gain of \$9.4 million (\$6.0 million after tax or \$0.16 per share) primarily related to the sale of three store locations. Included in net income for the prior year third quarter is a pre-tax gain of \$5.9 million (\$3.8 million after tax or \$0.09 per share) related to the sale of one store location.

During the three months ended October 31, 2015, the Company purchased \$174.6 million of Class A Common Stock under its \$500 million stock repurchase plan. As of October 31, 2015, authorization of \$117.5 million remained under the plan.

As of October 31, 2015, we had working capital of \$820.1 million, cash and cash equivalents of \$100.1 million and \$940.8 million of total debt outstanding, excluding capital lease obligations. Cash flows from operating activities were \$83.3 million for the nine months ended October 31, 2015. We operated 274 Dillard's locations, 23 clearance centers and one internet store as of October 31, 2015, a decrease of one store from November 1, 2014.

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			
	October 31, 2015	November 1, 2014		
Net sales (in millions)	\$1,434.7	\$1,459.8		
Retail stores sales trend	(3	)%	(1)%
Comparable retail stores sales trend	(4	)%	(1)%
Gross profit (in millions)	\$521.7	\$535.3		
Gross profit as a percentage of net sales	36.4	%	36.7	%
Retail gross profit as a percentage of net sales	37.6	%	37.5	%
Selling, general and administrative expenses as a percentage of net sales	28.8	%	28.2	%
Cash flow from operations (in millions)*	\$83.3		\$209.9	
Total retail store count at end of period	297		298	
Retail sales per square foot	\$28		\$28	
Comparable retail store inventory trend	6	%	—	%
Retail merchandise inventory turnover	2.1		2.3	

*Cash flow from operations data is for the nine months ended October 31, 2015 and November 1, 2014.

General

Net sales. Net sales includes merchandise sales of comparable and non-comparable stores and revenue recognized on contracts of CDI Contractors, LLC (“CDI”), the Company’s general contracting construction company. Comparable store sales includes sales for those stores which were in operation for a full period in both the current quarter and the corresponding quarter for the prior year. Comparable store sales excludes changes in the allowance for sales returns. Non-comparable store sales includes: sales in the current fiscal year from stores opened during the previous fiscal year before they are considered

Table of Contents

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

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

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

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

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

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

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

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

Income on and equity in earnings of joint ventures. Income on and equity in earnings of joint ventures includes the Company's portion of the income or loss of the Company's unconsolidated joint ventures as well as the distribution of excess cash from a mall joint venture.

Seasonality

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

Table of Contents

RESULTS OF OPERATIONS

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

	Three Months Ended		Nine Months Ended		
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014	
Net sales	100.0	% 100.0	% 100.0	% 100.0	%
Service charges and other income	2.7	2.7	2.5	2.6	
	102.7	102.7	102.5	102.6	
Cost of sales	63.6	63.3	64.0	63.3	
Selling, general and administrative expenses	28.8	28.2	27.0	26.9	
Depreciation and amortization	4.6	4.3	4.1	4.2	
Rentals	0.4	0.4	0.4	0.4	
Interest and debt expense, net	1.0	1.0	1.0	1.0	
Gain on disposal of assets	(0.7	) (0.4	) (0.2	) (0.1)
Income before income taxes and income on and equity in earnings of joint ventures	4.9	5.8	6.3	6.9	
Income taxes	1.7	2.1	2.2	2.5	
Income on and equity in earnings of joint ventures	—	—	—	—	
Net income	3.2	% 3.8	% 4.1	% 4.5	%

Table of Contents

Net Sales

(in thousands of dollars)	Three Months Ended		\$ Change
	October 31, 2015	November 1, 2014	
Net sales:			
Retail operations segment	\$1,381,821	\$1,422,359	\$(40,538)
Construction segment	52,833	37,422	15,411
Total net sales	\$1,434,654	\$1,459,781	\$(25,127)

The percent change in the Company's sales by segment and product category for the three months ended October 31, 2015 compared to the three months ended November 1, 2014 as well as the sales percentage by segment and product category to total net sales for the three months ended October 31, 2015 are as follows:

	% Change 2015-2014	% of Net Sales	
Retail operations segment			
Cosmetics	(2.1	)% 15	%
Ladies' apparel	(2.1	) 23	
Ladies' accessories and lingerie	(6.0	) 13	
Juniors' and children's apparel	(0.4	) 9	
Men's apparel and accessories	(3.6	) 17	
Shoes	0.5	16	
Home and furniture	(15.7	) 3	
		96	
Construction segment	41.2	4	
Total		100	%

Net sales from the retail operations segment decreased \$40.5 million during the three months ended October 31, 2015 compared to the three months ended November 1, 2014. Net sales from the retail operations segment decreased 3%, and sales in comparable stores for the period decreased 4% for the three month period ended October 31, 2015. Sales of shoes increased slightly, while sales of juniors' and children's apparel remained essentially flat over the prior year period. Sales of ladies' apparel, men's apparel and accessories and cosmetics decreased moderately over the prior year period. Sales of ladies' accessories and lingerie and home and furniture decreased significantly over the prior year period.

The number of sales transactions decreased 7% for the three months ended October 31, 2015 compared to the three months ended November 1, 2014 while the average dollars per sales transaction increased 5%. We recorded an allowance for sales returns of \$5.8 million as of October 31, 2015 and November 1, 2014.

During the three months ended October 31, 2015, net sales from the construction segment increased \$15.4 million, or 41.2%, compared to the three months ended November 1, 2014 due to an increase in construction activity. The backlog of awarded construction contracts at October 31, 2015 totaled \$219.2 million, decreasing approximately 28% from January 31, 2015 and decreasing approximately 31% from November 1, 2014.

Table of Contents

(in thousands of dollars)	Nine Months Ended		\$ Change
	October 31, 2015	November 1, 2014	
Net sales:			
Retail operations segment	\$4,367,890	\$4,422,686	\$(54,796)
Construction segment	154,035	62,893	91,142
Total net sales	\$4,521,925	\$4,485,579	\$36,346

The percent change in the Company's sales by segment and product category for the nine months ended October 31, 2015 compared to the nine months ended November 1, 2014 as well as the sales percentage by segment and product category to total net sales for the nine months ended October 31, 2015 are as follows:

	% Change 2015-2014	% of Net Sales	
Retail operations segment			
Cosmetics	(1.3	)% 15	%
Ladies' apparel	(0.2	) 23	
Ladies' accessories and lingerie	(2.6	) 15	
Juniors' and children's apparel	1.0	9	
Men's apparel and accessories	(2.4	) 16	
Shoes	2.1	16	
Home and furniture	(14.8	) 3	
		97	
Construction segment	144.9	3	
Total		100	%

Net sales from the retail operations segment decreased \$54.8 million during the nine months ended October 31, 2015 compared to the nine months ended November 1, 2014, decreasing 1% on a percentage basis in both total and comparable stores. Sales of shoes increased moderately while sales of juniors' and children's apparel increased slightly over the prior year period. Sales of ladies' apparel remained essentially unchanged over the prior year period. Sales of cosmetics decreased slightly over the prior year period while ladies' accessories and lingerie and men's apparel and accessories decreased moderately. Sales of home and furniture decreased significantly over the prior year period.

The number of sales transactions decreased 5% for the nine months ended October 31, 2015 compared to the nine months ended November 1, 2014 while the average dollars per sales transaction increased 4%.

During the nine months ended October 31, 2015, net sales from the construction segment increased \$91.1 million or 144.9% compared to the nine months ended November 1, 2014 due to an increase in construction activity.

Table of Contents

Service Charges and Other Income

(in thousands of dollars)	Three Months Ended		Nine Months Ended		Three	Nine
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014	Months \$ Change 2015-2014	Months \$ Change 2015-2014
Service charges and other income:						
Retail operations segment						
Income from Wells Fargo Alliance and former Synchrony Alliance	\$27,448	\$29,431	\$78,176	\$ 85,178	\$(1,983)	\$(7,002)
Shipping and handling income	5,420	4,874	17,219	14,931	546	2,288
Leased department income	1,570	2,018	4,983	6,068	(448)	(1,085)
Other	3,344	2,690	14,076	8,443	654	5,633
	37,782	39,013	114,454	114,620	(1,231)	(166)
Construction segment	418	350	737	374	68	363
Total service charges and other income	\$38,200	\$39,363	\$ 115,191	\$ 114,994	\$(1,163)	\$197

Service charges and other income is composed primarily of income from the Wells Fargo Alliance and former Synchrony Alliance. Income from the alliances decreased during the three months ended October 31, 2015 compared to the three months ended November 1, 2014 primarily due to increased credit losses. Income from the alliances decreased during the nine months ended October 31, 2015 compared to the nine months ended November 1, 2014 primarily due to increased credit losses partially resulting from the portfolio transition.

Gross Profit

(in thousands of dollars)	October 31, 2015	November 1, 2014	\$ Change	% Change
Gross profit:				
Three months ended				
Retail operations segment	\$520,033	\$533,679	\$(13,646)	(2.6)%
Construction segment	1,701	1,659	42	2.5
Total gross profit	\$521,734	\$535,338	\$(13,604)	(2.5)%
Nine months ended				
Retail operations segment	\$1,622,672	\$1,642,370	\$(19,698)	(1.2)%
Construction segment	5,583	3,273	2,310	70.6
Total gross profit	\$1,628,255	\$1,645,643	\$(17,388)	(1.1)%
	Three Months Ended		Nine Months Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Gross profit as a percentage of segment net sales:				
Retail operations segment	37.6	% 37.5	% 37.2	% 37.1
Construction segment	3.2	4.4	3.6	5.2
Total gross profit as a percentage of net sales	36.4	36.7	36.0	36.7

Gross profit as a percentage of net sales declined 30 basis points and 68 basis points of sales during the three and nine months ended October 31, 2015 compared to the three and nine months ended November 1, 2014.

Gross profit from retail operations improved 11 basis points of sales during the three month comparable period. Gross margin improved moderately in men's apparel and accessories. Gross margin was essentially flat in cosmetics, home and furniture, shoes and ladies' apparel. Gross margin declined slightly in juniors' and children's apparel and declined moderately in ladies' accessories and lingerie.

Table of Contents

Gross profit from retail operations remained essentially flat as a percentage of sales during the nine month comparable periods. Gross margin improved slightly in men's apparel and accessories and home and furniture. Gross margin was essentially flat in cosmetics, juniors' and children's apparel, shoes and ladies' apparel. Gross margin in ladies' accessories and lingerie declined moderately.

Gross profit from the construction segment improved \$2.3 million during the nine months ended October 31, 2015, respectively, due to increased sales over the comparable prior nine month period.

Inventory increased 6% in both total and comparable stores as of October 31, 2015 compared to November 1, 2014. A 1% change in the dollar amount of markdowns would have impacted net income by approximately \$2 million and \$7 million for the three and nine months ended October 31, 2015.

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

(in thousands of dollars)	October 31, 2015	November 1, 2014	\$ Change	% Change	
SG&A:					
Three months ended					
Retail operations segment	\$411,362	\$411,272	\$90	—	%
Construction segment	1,353	987	366	37.1	
Total SG&A	\$412,715	\$412,259	\$456	0.1	%
Nine months ended					
Retail operations segment	\$1,216,621	\$1,202,448	\$14,173	1.2	%
Construction segment	3,932	3,921	11	0.3	
Total SG&A	\$1,220,553	\$1,206,369	\$14,184	1.2	%
	Three Months Ended		Nine Months Ended		
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014	
SG&A as a percentage of segment net sales:					
Retail operations segment	29.8	% 28.9	% 27.9	% 27.2	%
Construction segment	2.6	2.6	2.6	6.2	
Total SG&A as a percentage of net sales	28.8	28.2	27.0	26.9	

SG&A increased \$0.5 million or 53 basis points of sales during the three months ended October 31, 2015 compared to the three months ended November 1, 2014. SG&A from retail operations increased \$0.1 million or 86 basis points of sales during the three months ended October 31, 2015 compared to the three months ended November 1, 2014. This dollar increase was primarily due to an increase in selling payroll (\$1.9 million) and insurance expense (\$1.6 million) partially offset by a decrease in advertising expense (\$1.7 million).

SG&A increased \$14.2 million or 10 basis points of sales during the nine months ended October 31, 2015 compared to the nine months ended November 1, 2014. SG&A from retail operations increased \$14.2 million or 66 basis points of sales during the nine months ended October 31, 2015 compared to the nine months ended November 1, 2014. This increase was primarily due to an increase in selling payroll (\$14.5 million) and services purchased expense (\$5.2 million) partially offset by decreased advertising expense (\$4.4 million) and communications expense (\$1.9 million).

Table of Contents

Depreciation and Amortization

(in thousands of dollars)	October 31, 2015	November 1, 2014	\$ Change	% Change	
Depreciation and amortization:					
Three months ended					
Retail operations segment	\$65,437	\$62,639	\$2,798	4.5	%
Construction segment	163	75	88	117.3	
Total depreciation and amortization	\$65,600	\$62,714	\$2,886	4.6	%
Nine months ended					
Retail operations segment	\$186,915	\$186,507	\$408	0.2	%
Construction segment	338	224	114	50.9	
Total depreciation and amortization	\$187,253	\$186,731	\$522	0.3	%

The increase in depreciation and amortization expense for the three and nine months ended October 31, 2015 compared to the three and nine months ended November 1, 2014 was primarily due to the timing and composition of capital expenditures.

Interest and Debt Expense, Net

(in thousands of dollars)	October 31, 2015	November 1, 2014	\$ Change	% Change	
Interest and debt expense (income), net:					
Three months ended					
Retail operations segment	\$14,887	\$14,606	\$281	1.9	%
Construction segment	(15	) (8	) (7	) (87.5)
Total interest and debt expense, net	\$14,872	\$14,598	\$274	1.9	%
Nine months ended					
Retail operations segment	\$44,908	\$45,672	\$(764	) (1.7)%
Construction segment	(44	) (30	) (14	) (46.7)
Total interest and debt expense, net	\$44,864	\$45,642	\$(778	) (1.7)%

The increase in net interest and debt expense for the three months ended October 31, 2015 compared to the three months ended November 1, 2014 was primarily attributable to a decrease in capitalized interest. The decrease in net interest and debt expense for the nine months ended October 31, 2015 compared to the nine months ended November 1, 2014 was primarily attributable to an increase in capitalized interest. Total weighted average debt increased approximately \$11.5 million and \$6.0 million for the three and nine months ended October 31, 2015 compared to the three and nine months ended November 1, 2014, respectively.

Table of Contents

Gain on Disposal of Assets

(in thousands of dollars)	October 31, 2015	November 1, 2014	\$ Change
(Gain) loss on disposal of assets:			
Three months ended			
Retail operations segment	\$ (9,395)	\$ (5,923)	\$ (3,472)
Construction segment	(5)	—	(5)
Total gain on disposal of assets	\$ (9,400)	\$ (5,923)	\$ (3,477)
Nine months ended			
Retail operations segment	\$ (9,489)	\$ (6,362)	\$ (3,127)
Construction segment	(6)	—	(6)
Total gain on disposal of assets	\$ (9,495)	\$ (6,362)	\$ (3,133)

During the three months ended October 31, 2015 the Company received proceeds of \$19.2 million primarily from the sale of three store locations, resulting in a gain of \$9.4 million that was recorded in gain on disposal of assets.

During the three months ended November 1, 2014, the Company received proceeds of \$9.9 million from the sale of a store location, resulting in a gain of \$5.9 million that was recorded in gain on disposal of assets.

Income Taxes

The Company's estimated federal and state effective income tax rate, inclusive of income on and equity in earnings of joint ventures, was approximately 35.3% for the three months ended October 31, 2015 and November 1, 2014.

During the three months ended October 31, 2015 and November 1, 2014, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes.

The Company's estimated federal and state effective income tax rate, inclusive of income on and equity in earnings of joint ventures, was approximately 34.7% and 35.3% for the nine months ended October 31, 2015 and November 1, 2014, respectively. During the nine months ended October 31, 2015 and November 1, 2014, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes.

The Company expects the fiscal 2015 federal and state effective income tax rate to approximate 35%. This rate may change if results of operations for fiscal 2015 differ from management's current expectations. Changes in the Company's assumptions and judgments can materially affect amounts recognized in the condensed consolidated balance sheets and statements of income.

Table of Contents

FINANCIAL CONDITION

A summary of net cash flows for the nine months ended October 31, 2015 and November 1, 2014 follows:

(in thousands of dollars)	Nine Months Ended		
	October 31, 2015	November 1, 2014	\$ Change
Operating Activities	\$83,291	\$209,902	\$(126,611)
Investing Activities	(115,161)	(119,310)	4,149
Financing Activities	(271,772)	(235,825)	(35,947)
Total Cash Provided	\$(303,642)	\$(145,233)	\$(158,409)

Net cash flows from operations decreased \$126.6 million during the nine months ended October 31, 2015 compared to the nine months ended November 1, 2014. This decline was primarily attributable to a decrease of \$108.3 million related to changes in working capital items, primarily due to increases in inventories and decreases in income taxes payable.

Synchrony Financial ("Synchrony") owned and managed Dillard's private label credit cards under the Synchrony Alliance that expired in November 2014. Following that scheduled expiration, Wells Fargo Bank, N.A. ("Wells Fargo") purchased the Dillard's private label card portfolio from Synchrony and began managing Dillard's private label cards under a new 10-year agreement ("Wells Fargo Alliance"). Under the Wells Fargo Alliance, Wells Fargo establishes and owns private label card accounts for our customers, retains the benefits and risks associated with the ownership of the accounts, provides key customer service functions, including new account openings, transaction authorization, billing adjustments and customer inquiries, receives the finance charge income and incurs the bad debts associated with those accounts.

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

The Company received income of approximately \$78.2 million and \$85.2 million from the Wells Fargo Alliance and former Synchrony Alliance during the nine months ended October 31, 2015 and November 1, 2014, respectively.

During the nine months ended November 1, 2014, the Company received proceeds of \$9.9 million from the sale of a store location, resulting in a gain of \$5.9 million that was recorded in gain on disposal of assets. The cash proceeds from this sale were originally held in escrow for the acquisition of replacement property under like-kind exchange agreements. The escrow accounts were administered by an intermediary. Pursuant to the like-kind exchange agreements, the cash was restricted for a maximum of 180 days from the date of the property sale pending the acquisition of replacement property. Changes in restricted cash balances are reflected as an investment activity in the accompanying Condensed Consolidated Statements of Cash Flows. During the nine months ended October 31, 2015, payments of \$7.3 million were made from restricted cash for like-kind property.

During the nine months ended October 31, 2015 the Company received proceeds of \$19.4 million primarily from the sale of three store locations, resulting in a gain of \$9.5 million that was recorded in gain on disposal of assets.

Capital expenditures were \$141.9 million and \$124.1 million for the nine months ended October 31, 2015 and November 1, 2014, respectively. The current year expenditures were primarily for the construction of new stores and the remodeling of existing stores. Capital expenditures for fiscal 2015 are expected to be approximately \$150 million compared to actual expenditures of \$152 million during fiscal 2014.

In August, the Company opened its new 200,000 square foot location at Fashion Place in Murray, Utah. The store replaced a 190,000 square foot location at the same center. In October, the Company opened its 155,000 square foot store location at Liberty Center in Cincinnati, Ohio as well as its 126,000 square foot location at Fremaux Town Center in Slidell, Louisiana.

Table of Contents

Two clearance stores comprising 245,000 square feet were closed during the nine months ended October 31, 2015. 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 \$100.1 million as of October 31, 2015. In May 2015, as part of our overall liquidity management strategy and for peak working capital requirements, the Company entered into a new \$1.0 billion senior unsecured revolving credit facility, replacing the secured credit facility. The new credit agreement matures on May 13, 2020 and is available to the Company for working capital needs and general corporate purposes. Currently, the the rate of interest on borrowings is LIBOR plus 1.375%, and the commitment fee for unused borrowings is 0.20% per annum. To be in compliance with the financial covenants of the credit agreement, the Company's total leverage ratio cannot exceed 4.0 to 1.0 and the coverage ratio cannot be less than 2.5 to 1.0.

At October 31, 2015, \$126.0 million in borrowings were outstanding and letters of credit totaling \$28.1 million were issued under the credit agreement. The weighted average interest rate under the credit agreement at October 31, 2015 was 1.56%.

During the nine months ended October 31, 2015, the Company repurchased 3.7 million shares of Class A Common Stock at an average price of \$102.52 per share for \$382.5 million. During the nine months ended November 1, 2014, the Company repurchased 2.8 million shares of stock for \$290.4 million at an average price of \$104.44 per share under the Company's stock repurchase plans. At October 31, 2015, \$117.5 million of authorization remained under the Company's stock repurchase plans. The ultimate disposition of the repurchased stock has not been determined.

During fiscal 2015, the Company expects to finance its capital expenditures and its working capital requirements, including stock repurchases, from cash on hand, cash flows generated from operations and utilization of the credit facility. Depending on conditions in the capital markets and other factors, the Company may from time to time consider other possible financing transactions, the proceeds of which could be used to refinance current indebtedness or for other corporate purposes.

There have been no material changes in the information set forth under caption "Contractual Obligations and Commercial Commitments" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

OFF-BALANCE-SHEET ARRANGEMENTS

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

NEW ACCOUNTING STANDARDS

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 13 to the accompanying financial statements.

FORWARD-LOOKING INFORMATION

This report contains certain forward-looking statements. The following are or may constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995: (a) statements including

words such as “may,” “will,” “could,” “should,” “believe,” “expect,” “future,” “potential,” “anticipate,” “intend,” “plan,” “estimate,” or the negative or other variations thereof; (b) statements regarding matters that are not historical facts; and (c) statements about the Company’s future occurrences, plans and objectives, including statements regarding management’s expectations and forecasts for the remainder of fiscal 2015 and beyond, statements concerning the opening of new stores or the closing of existing stores, statements concerning capital expenditures and sources of liquidity, statements concerning pension contributions and statements concerning estimated taxes. The Company cautions that forward-looking statements contained in this report are based on estimates, projections, beliefs and assumptions of management and information available to management at the time of such statements and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. Forward-looking statements of the Company involve risks and uncertainties and are subject to change based on various important factors. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management as a result of a number of risks,

Table of Contents

uncertainties and assumptions. Representative examples of those factors include (without limitation) general retail industry conditions and macro-economic conditions; economic and weather conditions for regions in which the Company's stores are located and the effect of these factors on the buying patterns of the Company's customers, including the effect of changes in prices and availability of oil and natural gas; the availability of consumer credit; the impact of competitive pressures in the department store industry and other retail channels including specialty, off-price, discount and Internet retailers; changes in consumer spending patterns, debt levels and their ability to meet credit obligations; changes in legislation, affecting such matters as the cost of employee benefits or credit card income; adequate and stable availability of materials, production facilities and labor from which the Company sources its merchandise at acceptable pricing; changes in operating expenses, including employee wages, commission structures and related benefits; system failures or data security breaches; possible future acquisitions of store properties from other department store operators; the continued availability of financing in amounts and at the terms necessary to support the Company's future business; fluctuations in LIBOR and other base borrowing rates; potential disruption from terrorist activity and the effect on ongoing consumer confidence; epidemic, pandemic or other public health issues; potential disruption of international trade and supply chain efficiencies; world conflict and the possible impact on consumer spending patterns and other economic and demographic changes of similar or dissimilar nature. The Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended January 31, 2015, 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 31, 2015.

Item 4. Controls and Procedures

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

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended October 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is involved in litigation relating to claims arising out of the Company's operations in the normal course of business. This may include litigation with customers, employment related lawsuits, class action lawsuits, purported class action lawsuits and actions brought by governmental authorities. As of December 3, 2015, the Company is not a party to any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

Item 1A. Risk Factors

There have been no material changes in the information set forth under caption "Item 1A-Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

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

(b) Purchases of Equity Securities

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
August 2, 2015 through August 29, 2015	585,199	96.31	585,199	235,694,342
August 30, 2015 through October 3, 2015	908,587	90.66	908,587	153,325,203
October 4, 2015 through October 31, 2015	394,250	90.86	394,250	117,505,419
Total	1,888,036	\$92.45	1,888,036	\$117,505,419

In November 2014, the Company's Board of Directors authorized the repurchase of up to \$500 million of the Company's Class A Common Stock under an open-ended stock 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. The authorization has no expiration date.

During the three months ended October 31, 2015, the Company repurchased 1.9 million shares totaling \$174.6 million. Reference is made to the discussion in Note 7, Stock Repurchase Programs, in the "Notes to Condensed Consolidated Financial Statements" in Part I of this Quarterly Report on Form 10-Q, which information is incorporated by reference herein.

Table of Contents

Item 6. Exhibits

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

Table of Contents

SIGNATURES

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

DILLARD'S, INC.
(Registrant)

Date: December 3, 2015

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

/s/ Phillip R. Watts
Phillip R. Watts
Senior Vice President, Co-Principal Financial Officer
and Principal Accounting Officer