DILLARDS INC
Form 10-Q
June 05, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 4, 2013

or

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

For the transition period from to .

Commission File Number: 1-6140

DILLARD S, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**71-0388071**
(State or other jurisdiction of incorporation or organization)	(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. x Yes o 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). x Yes o 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 x	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). o Yes x 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 June 1, 2013	42,309,258
CLASS B COMMON STOCK as of June 1, 2013	4,010,929

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DILLARD S, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands)

	May 4, 2013	February 2, 2013	April 28, 2012
Assets			
Current assets:			
Cash and cash equivalents	$ 155,958	$ 124,060	$ 250,685
Accounts receivable	27,806	31,519	30,802
Merchandise inventories	1,544,118	1,294,581	1,499,604
Other current assets	47,431	41,820	45,825
Total current assets	**1,775,313**	**1,491,980**	**1,826,916**
Property and equipment (net of accumulated depreciation and amortization of $2,225,365, $2,167,477 and $2,288,698)	2,228,095	2,287,015	2,411,400
Other assets	257,752	269,749	277,718
Total assets	**$ 4,261,160**	**$ 4,048,744**	**$ 4,516,034**
Liabilities and stockholders equity			
Current liabilities:			
Trade accounts payable and accrued expenses	$ 847,625	$ 653,769	$ 813,948
Current portion of long-term debt			76,326
Current portion of capital lease obligations	1,316	1,710	2,345
Federal and state income taxes including current deferred taxes	140,772	111,637	128,988
Total current liabilities	**989,713**	**767,116**	**1,021,607**
Long-term debt	614,785	614,785	614,785
Capital lease obligations	7,340	7,524	8,574
Other liabilities	226,228	233,492	245,584
Deferred income taxes	247,679	255,652	301,724
Subordinated debentures	200,000	200,000	200,000
Commitments and contingencies			
Stockholders equity:			
Common stock	1,237	1,237	1,227
Additional paid-in capital	932,495	932,495	834,625
Accumulated other comprehensive loss	(26,265)	(31,275)	(38,116)
Retained earnings	3,214,446	3,099,566	3,199,848

Less treasury stock, at cost		(2,146,498)		(2,031,848)		(1,873,824)
Total stockholders equity		**1,975,415**		**1,970,175**		**2,123,760**
Total liabilities and stockholders equity	**$**	**4,261,160**	**$**	**4,048,744**	**$**	**4,516,034**

See notes to condensed consolidated financial statements.

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DILLARD S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Unaudited)

(In Thousands, Except Per Share Data)

	Three Months Ended	
	May 4, 2013	**April 28, 2012**
Net sales	$ 1,549,136	$ 1,549,319
Service charges and other income	40,245	36,693
	1,589,381	1,586,012
Cost of sales	937,785	956,913
Selling, general and administrative expenses	390,196	393,238
Depreciation and amortization	65,116	64,020
Rentals	5,571	8,265
Interest and debt expense, net	16,310	17,455
Gain on disposal of assets	(12,345)	(997)
Asset impairment and store closing charges	6,527	
Income before income taxes and income on and equity in losses of joint ventures	180,221	147,118
Income taxes	63,420	52,970
Income on and equity in losses of joint ventures	409	835
Net income	**117,210**	**94,983**
Retained earnings at beginning of period	3,099,566	3,107,344
Cash dividends declared	(2,330)	(2,479)
Retained earnings at end of period	**$ 3,214,446**	**$ 3,199,848**
Earnings per share:		
Basic	$ 2.50	$ 1.92
Diluted	$ 2.50	$ 1.89
Cash dividends declared per common share	$ 0.05	$ 0.05

See notes to condensed consolidated financial statements.

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DILLARD S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In Thousands)

	Three Months Ended May 4, 2013	Three Months Ended April 28, 2012
Net income	$ 117,210	$ 94,983
Other comprehensive income:		
Amortization of retirement plan and other retiree benefit adjustments (net of tax of $3,098 and $522)	5,010	918
Comprehensive income	**$ 122,220**	**$ 95,901**

See notes to condensed consolidated financial statements.

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DILLARD S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)

	Three Months Ended May 4, 2013	April 28, 2012
Operating activities:		
Net income	$ 117,210	$ 94,983
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and deferred financing	65,608	64,488
Gain on disposal of assets	(12,345)	(997)
Asset impairment and store closing charges	6,527	
Excess tax benefits from share-based compensation		(1,316)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	3,713	(2,094)
Increase in merchandise inventories	(249,537)	(195,480)
Increase in other current assets	(5,611)	(11,200)
Decrease in other assets	2,179	1,239
Increase in trade accounts payable and accrued expenses and other liabilities	187,972	167,019
Increase (decrease) in income taxes payable	21,162	(18,180)
Net cash provided by operating activities	**136,878**	**98,462**
Investing activities:		
Purchases of property and equipment	(7,263)	(47,499)
Proceeds from disposal of assets	17,511	7,833
Net cash provided by (used in) investing activities	**10,248**	**(39,666)**
Financing activities:		
Principal payments on long-term debt and capital lease obligations	(578)	(1,009)
Purchase of treasury stock	(114,650)	(27,512)
Issuance cost of line of credit		(5,256)
Cash dividends paid		(2,496)
Proceeds from stock issuance		2,574
Excess tax benefits from share-based compensation		1,316
Net cash used in financing activities	**(115,228)**	**(32,383)**
Increase in cash and cash equivalents	31,898	26,413
Cash and cash equivalents, beginning of period	124,060	224,272
Cash and cash equivalents, end of period	**$ 155,958**	**$ 250,685**
Non-cash transactions:		
Accrued capital expenditures	$ 1,300	$ 1,700
Stock awards		1,941

See notes to condensed consolidated financial statements.

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DILLARD S, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Dillard s, Inc. (the Company) have been prepared in accordance with the rules of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included. Operating results for the three months ended May 4, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending February 1, 2014 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 February 2, 2013 filed with the SEC on March 28, 2013.

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

Note 2. Business Segments

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

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

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

	Three Months Ended May 4, 2013		
(in thousands of dollars)	Retail Operations	Construction	Consolidated
Net sales from external customers	$ 1,530,000	$ 19,136	$ 1,549,136
Gross profit	609,889	1,462	611,351
Depreciation and amortization	65,057	59	65,116
Interest and debt expense (income), net	16,330	(20)	16,310
Income before income taxes and income on and equity in losses of joint ventures	179,899	322	180,221
Income on and equity in losses of joint ventures	409		409
Total assets	4,230,148	31,012	4,261,160

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(in thousands of dollars)	Three Months Ended April 28, 2012 Retail Operations	Construction	Consolidated
Net sales from external customers	$ 1,521,975	$ 27,344	$ 1,549,319
Gross profit	591,063	1,343	592,406
Depreciation and amortization	63,975	45	64,020
Interest and debt expense (income), net	17,490	(35)	17,455
Income before income taxes and income on and equity in losses of joint ventures	146,968	150	147,118
Income on and equity in losses of joint ventures	835		835
Total assets	4,474,037	41,997	4,516,034

Intersegment construction revenues of $1.7 million and $7.9 million were eliminated during consolidation and have been excluded from net sales for the quarters ended May 4, 2013 and April 28, 2012, respectively.

Note 3. Stock-Based Compensation

The Company has various stock option plans that provide for the granting of options to purchase shares of Class A Common Stock to certain key employees of the Company. Exercise and vesting terms for options granted under the plans are determined at each grant date. No stock options were granted during the quarters ended May 4, 2013 and April 28, 2012, and no stock options were outstanding at May 4, 2013. The intrinsic value of stock options exercised during the quarter ended April 28, 2012 was $3.7 million.

Note 4. Asset Impairment and Store Closing Charges

During the quarter ended May 4, 2013, the Company recorded a pretax charge of $6.5 million for asset impairment and store closing costs. The charge was for the write-down of an operating property and certain cost method investments.

There were no asset impairment and store closing charges recorded during the quarter ended April 28, 2012.

Following is a summary of the activity in the reserve established for store closing charges for the quarter ended May 4, 2013:

(in thousands)	Balance, Beginning of Period	Adjustments and Charges*	Cash Payments	Balance, End of Period
Rentals, property taxes and utilities	$ 251	$ 54	$ 115	$ 190

* included in rentals

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

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Note 5. Earnings Per Share Data

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

	Three Months Ended	
	May 4, 2013	April 28, 2012
Basic:		
Net income	$ 117,210	$ 94,983
Weighted average shares of common stock outstanding	46,936	49,380
Basic earnings per share	$ 2.50	$ 1.92

	Three Months Ended	
	May 4, 2013	April 28, 2012
Diluted:		
Net income	$ 117,210	$ 94,983
Weighted average shares of common stock outstanding	46,936	49,380
Dilutive effect of stock-based compensation		930
Total weighted average equivalent shares	46,936	50,310
Diluted earnings per share	$ 2.50	$ 1.89

No stock options were outstanding at May 4, 2013, and total stock options outstanding were 2,145,000 at April 28, 2012.

Note 6. Commitments and Contingencies

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

At May 4, 2013, letters of credit totaling $47.3 million were issued under the Company s $1.0 billion revolving credit facility.

Note 7. Benefit Plans

The Company has an unfunded, nonqualified defined benefit plan (Pension Plan) for its officers. The Pension Plan is noncontributory and provides benefits based on years of service and compensation during employment. Pension expense is determined using various actuarial cost methods to estimate the total benefits ultimately payable to officers and allocates this cost to service periods. The actuarial assumptions used to calculate pension costs are reviewed annually. The Company made contributions to the Pension Plan of $0.7 million during the quarter ended May 4, 2013. The Company expects to make contributions to the Pension Plan of approximately $2.0 million for the remainder of fiscal 2013.

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

	Three Months Ended	
	May 4, 2013	April 28, 2012
Components of net periodic benefit costs:		
Service cost	$ 1,059	$ 817
Interest cost	1,696	1,823
Net actuarial loss	753	1,283
Amortization of prior service cost	24	157
Plan curtailment gain	(1,480)	
Net periodic benefit costs	$ 2,052	$ 4,080

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

Note 8. Revolving Credit Agreement

At May 4, 2013, the Company maintained a $1.0 billion revolving credit facility (credit agreement) with J. P. Morgan Securities LLC (JPMorgan) and Wells Fargo Capital Finance, LLC as the lead agents for various banks, secured by the inventory of Dillard s, Inc. operating subsidiaries. The credit agreement expires April 11, 2017.

Borrowings under the credit agreement accrue interest starting at either JPMorgan s Base Rate or LIBOR plus 1.5% (1.70% at May 4, 2013) subject to certain availability thresholds as defined in the credit agreement.

Limited to 90% of the inventory of certain Company subsidiaries, availability for borrowings and letter of credit obligations under the credit agreement was $1.0 billion at May 4, 2013. No borrowings were outstanding at May 4, 2013. Letters of credit totaling $47.3 million were issued under this credit agreement leaving unutilized availability under the facility of approximately $953 million at May 4, 2013. 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 0.375% of the committed amount less outstanding borrowings and letters of credit.

Note 9. Stock Repurchase Programs

All repurchases of the Company s Class A Common Stock were made at the market price at the trade date. Accordingly, all amounts paid to reacquire these shares were allocated to Treasury Stock.

2013 Stock Plan

In March 2013, the Company s Board of Directors authorized the repurchase of up to $250 million of the Company s Class A Common Stock under an open-ended stock plan (2013 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 (Exchange Act) or through privately negotiated transactions. During the quarter ended May 4, 2013, the Company repurchased 0.3 million shares for $22.7 million at an average price of $79.04 per share. At May 4, 2013, $227.3 million of authorization remained under the 2013 Stock Plan.

2012 Stock Plan

In February 2012, the Company s Board of Directors authorized the repurchase of up to $250 million of the Company s Class A Common Stock under an open-ended stock plan (2012 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 Exchange Act or through privately negotiated transactions. No repurchases were made during the quarter ended April 28, 2012. During the quarter ended May 4, 2013, the Company repurchased 1.2 million shares for $92.0 million at an average price of $79.14 per share, which completed the authorization under the 2012 Stock Plan.

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May 2011 Stock Plan

In May 2011, the Company s Board of Directors authorized the Company to repurchase up to $250 million of the Company s Class A Common Stock under an open-ended stock plan (May 2011 Stock Plan). This authorization permitted 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 Exchange Act or through privately negotiated transactions. During the quarter ended April 28, 2012, the Company repurchased 439 thousand shares for $27.5 million at an average price of $62.71 per share, which completed the authorization under the May 2011 Stock Plan.

Note 10. Income Taxes

During the quarter ended May 4, 2013, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes partially offset by tax benefits recognized for federal tax credits. During the quarter ended April 28, 2012, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes, which included net decreases in unrecognized tax benefits primarily related to statute lapses.

Note 11. Reclassifications from Accumulated Other Comprehensive Loss (AOCL)

Reclassifications from AOCL for the three months ended May 4, 2013 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
Defined benefit pension plan items			
Amortization of prior service costs	$	24	(1)
Amortization of actuarial losses		753	(1)
Plan curtailment gain		7,331	(2)
		8,108	Total before tax
		3,098	Income tax expense
	$	5,010	Total net of tax

(1) These items are included in the computation of net periodic pension cost. See Note 7, *Benefit Plans*, for additional information.

(2) The excess of the pension liability for the curtailed plan over the amount shown here is included in the computation of net periodic pension cost. See Note 7, *Benefit Plans*, for additional information.

Note 12. Changes in Accumulated Other Comprehensive Loss

Changes in AOCL by component (net of tax) for the three months ended May 4, 2013 are summarized as follows (in thousands):

		Defined Benefit Pension Plan Items
Beginning balance	$	31,275
Other comprehensive income before reclassifications		
Amounts reclassified from AOCL		(5,010)
Net other comprehensive income		(5,010)
Ending balance	$	26,265

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Note 13. Gain on Disposal of Assets

During the quarter ended May 4, 2013, the Company received proceeds of $15.7 million from the sale of its investment in Acumen Brands, an eCommerce company based in Fayetteville, Arkansas. The sale resulted in a gain of $11.7 million that was recorded in gain on disposal of assets.

During the quarter ended May 4, 2013, the Company also received proceeds of $1.7 million from the sale of two former retail stores located in Oklahoma City, Oklahoma and Pasadena, Texas that were held for sale, resulting in a gain of $0.6 million that was recorded in gain on disposal of assets.

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.

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

The fair value of the Company s cash and cash equivalents and trade accounts receivable approximates their carrying values at May 4, 2013 due to the short-term maturities of these instruments. The fair value of the Company s long-term debt at May 4, 2013 was approximately $686 million. The carrying value of the Company s long-term debt at May 4, 2013 was approximately $615 million. The fair value of the subordinated debentures at May 4, 2013 was approximately $207 million. The carrying value of the subordinated debentures at May 4, 2013 was $200 million.

During the quarter ended May 4, 2013, the Company recognized an impairment charge of $5.4 million on certain cost method investments. The Company evaluated all factors and determined that an other-than-temporary impairment charge was necessary. These investments are recorded in other assets on the balance sheet.

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

- 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

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		Basis of Fair Value Measurements		
(in thousands)	Fair Value of Assets	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 use				
As of May 4, 2013	$ 3,000	$	$ 3,000	$

Long-lived assets held for use

During the quarter ended May 4, 2013, an additional long-lived asset group held for use was written down to its fair value of $3.0 million, resulting in an impairment charge of $1.2 million, which was included in earnings for the period. The inputs used to calculate the fair value of these long-lived assets held for use was based upon an offer to purchase the property.

Note 15. Recently Issued Accounting Standards

Presentation of Comprehensive Income

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires the Company to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income on the Company s consolidated statement of comprehensive income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. This update does not change the current requirements for reporting net income or other comprehensive income in the consolidated financial statements of the Company, but does require the Company to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The provisions in this update were effective prospectively beginning with the Company s first quarter of 2013. The adoption of this update affected the format and presentation of the Company s consolidated financial statements and the footnotes thereto but did not have any other impact on the Company s financial statements.

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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 February 2, 2013.

EXECUTIVE OVERVIEW

Our first quarter of fiscal 2013 produced record operating results over our previous record first quarter performance set last year. Comparable store sales were up for the eleventh consecutive quarter, while gross profit from retail operations improved 110 basis points of sales and operating spending was down. Net income increased to $117.2 million, or $2.50 per share our highest historical first fiscal quarter earnings and earnings per share performances compared to $95.0 million, or $1.89 per share, for the first quarter of last year. These results combined with improved operating cash flow enabled us to repurchase $114.7 million of our Class A Common Stock during the quarter under our existing share repurchase plans.

Included in net income for the quarter ended May 4, 2013 were:

- an $11.7 million pretax gain ($7.6 million after tax or $0.16 per share) related to the sale of an investment,
- a $1.5 million pretax gain ($1.0 million after tax or $0.02 per share) related to a pension adjustment and
- a $6.5 million pretax charge ($4.2 million after tax or $0.09 per share) for asset impairment and store closing charges related to the write-down of an operating property and certain cost method investments.

Highlights of the quarter ended May 4, 2013 as compared to the quarter ended April 28, 2012 included:

- net income of $117.2 million ($2.50 per share) compared to $95.0 million ($1.89 per share), respectively,
- a comparable store sales increase of 1%,
- retail gross profit improvement of 110 basis points of sales,
- a decrease in operating expenses of $3.0 million (20 basis points of sales),
- a 39% increase in cash flow from operations to $136.9 million from $98.5 million and

- the repurchase of $114.7 million (1.4 million shares) of Class A Common Stock.

As of May 4, 2013, we had working capital of $785.6 million, cash and cash equivalents of $156.0 million and $814.8 million of total debt outstanding, excluding capital lease obligations. We operated 301 Dillard s locations, including 18 clearance centers, and an internet store as of May 4, 2013, a decrease of 3 stores from the same period last year.

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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	
	May 4, 2013	April 28, 2012
Net sales (in millions)	$ 1,549.1	$ 1,549.3
Retail stores sales trend	1%	5%
Comparable retail stores sales trend	1%	5%
Gross profit (in millions)	$ 611.4	$ 592.4
Gross profit as a percentage of net sales	39.5%	38.2%
Retail gross profit as a percentage of net sales	39.9%	38.8%
Selling, general and administrative expenses as a percentage of net sales	25.2%	25.4%
Cash flow from operations (in millions)	$ 136.9	$ 98.5
Total retail store count at end of period	301	304
Retail sales per square foot	$ 31	$ 30
Comparable retail store inventory trend	4%	1%
Retail merchandise inventory turnover	2.7	2.7

General

Net sales. Net sales include 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 include sales for those stores which were in operation for a full period in both the current month and the corresponding month for the prior year. Comparable store sales exclude the change in the allowance for sales returns. Non-comparable store sales include: sales in the current fiscal year from stores opened during the previous fiscal year before they are considered comparable stores; sales from new stores opened during the current fiscal year; sales in the previous fiscal year for stores closed during the current or previous fiscal year that are no longer considered comparable stores; sales in clearance centers; and changes in the allowance for sales returns.

Service charges and other income. Service charges and other income include 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 cards. 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.

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Interest and debt expense, net. Interest and debt expense includes interest, net of interest income, relating to the Company s unsecured notes, mortgage note, term note, 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 and the gain on the sale of an investment.

Asset impairment and store closing charges. Asset impairment and store closing charges consist of (a) write-downs to fair value of under-performing or held for sale properties and of cost method investments and (b) exit costs associated with the closure of certain stores. Exit costs include future rent, taxes and common area maintenance expenses from the time the stores are closed.

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

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, our business could be affected by such in the future.

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	
	May 4, 2013	**April 28, 2012**
Net sales	100.0%	100.0%
Service charges and other income	2.6	2.4
	102.6	102.4

Cost of sales	60.5	61.8