

DILLARDS INC
Form 10-Q
August 29, 2012
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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 July 28, 2012

or

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

For the transition period from _____ to _____.

Commission File Number: 1-6140

DILLARD S, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

71-0388071
(I.R.S. Employer
Identification No.)

1600 CANTRELL ROAD, LITTLE ROCK, ARKANSAS 72201

(Address of principal executive offices)

(Zip Code)

(501) 376-5200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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| | |
|--|------------|
| CLASS A COMMON STOCK as of August 25, 2012 | 43,118,972 |
| CLASS B COMMON STOCK as of August 25, 2012 | 4,010,929 |

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

| | July 28, 2012 | January 28, 2012 | July 30, 2011 |
|--|---------------------|---------------------|---------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 162,533 | \$ 224,272 | \$ 179,525 |
| Accounts receivable | 33,414 | 28,708 | 19,571 |
| Merchandise inventories | 1,362,077 | 1,304,124 | 1,357,845 |
| Other current assets | 44,525 | 34,625 | 44,213 |
| Total current assets | 1,602,549 | 1,591,729 | 1,601,154 |
| Property and equipment (net of accumulated depreciation and amortization of \$2,352,658, \$2,235,610 and \$2,336,881) | | | |
| Other assets | 2,388,107 | 2,440,266 | 2,514,543 |
| Total assets | \$ 4,261,462 | \$ 4,306,137 | \$ 4,177,338 |
| Liabilities and stockholders equity | | | |
| Current liabilities: | | | |
| Trade accounts payable and accrued expenses | \$ 699,026 | \$ 655,653 | \$ 706,869 |
| Current portion of long-term debt | 75,857 | 76,789 | 49,209 |
| Current portion of capital lease obligations | 2,369 | 2,312 | 2,247 |
| Other short-term borrowings | 24,000 | | |
| Federal and state income taxes including current deferred taxes | 74,342 | 135,610 | 64,057 |
| Total current liabilities | 875,594 | 870,364 | 822,382 |
| Long-term debt | 614,785 | 614,785 | 696,314 |
| Capital lease obligations | 7,997 | 9,153 | 10,285 |
| Other liabilities | 246,620 | 245,218 | 206,127 |
| Deferred income taxes | 294,989 | 314,598 | 311,274 |
| Subordinated debentures | 200,000 | 200,000 | 200,000 |
| Commitments and contingencies | | | |

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| | | | | | |
|---|-----------|------------------|-----------|------------------|---------------------|
| Stockholders' equity: | | | | | |
| Common stock | | 1,227 | | 1,225 | 1,225 |
| Additional paid-in capital | | 837,401 | | 828,796 | 827,939 |
| Accumulated other comprehensive loss | | (37,198) | | (39,034) | (17,008) |
| Retained earnings | | 3,228,474 | | 3,107,344 | 2,742,624 |
| Less treasury stock, at cost | | (2,008,427) | | (1,846,312) | (1,623,824) |
| Total stockholders' equity | | 2,021,477 | | 2,052,019 | 1,930,956 |
| Total liabilities and stockholders' equity | \$ | 4,261,462 | \$ | 4,306,137 | \$ 4,177,338 |

See notes to condensed consolidated financial statements.

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

| | Three Months Ended | | Six Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Net sales | \$ 1,487,925 | \$ 1,441,747 | \$ 3,037,244 | \$ 2,910,945 |
| Service charges and other income | 37,257 | 34,430 | 73,950 | 65,127 |
| | 1,525,182 | 1,476,177 | 3,111,194 | 2,976,072 |
| Cost of sales | 987,802 | 963,523 | 1,944,715 | 1,863,548 |
| Advertising, selling, administrative and general expenses | 398,788 | 396,037 | 792,026 | 785,304 |
| Depreciation and amortization | 64,215 | 64,097 | 128,235 | 128,128 |
| Rentals | 8,641 | 12,139 | 16,906 | 23,569 |
| Interest and debt expense, net | 17,673 | 18,422 | 35,128 | 36,697 |
| Gain on disposal of assets | (142) | (2,363) | (1,139) | (2,391) |
| Asset impairment and store closing charges | | | | 1,200 |
| Income before income taxes and income on and equity in losses of joint ventures | 48,205 | 24,322 | 195,323 | 140,017 |
| Income taxes | 17,330 | 7,010 | 70,300 | 49,720 |
| Income on and equity in losses of joint ventures | 147 | 253 | 982 | 3,945 |
| Net income | 31,022 | 17,565 | 126,005 | 94,242 |
| Retained earnings at beginning of period | 3,199,848 | 2,727,879 | 3,107,344 | 2,653,437 |
| Cash dividends declared | (2,396) | (2,820) | (4,875) | (5,055) |
| Retained earnings at end of period | \$ 3,228,474 | \$ 2,742,624 | \$ 3,228,474 | \$ 2,742,624 |
| Earnings per share: | | | | |
| Basic | \$ 0.64 | \$ 0.32 | \$ 2.58 | \$ 1.69 |
| Diluted | \$ 0.63 | \$ 0.32 | \$ 2.53 | \$ 1.66 |
| Cash dividends declared per common share | \$ 0.05 | \$ 0.05 | \$ 0.10 | \$ 0.09 |

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 | | Six Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Net income | \$ 31,022 | \$ 17,565 | \$ 126,005 | \$ 94,242 |
| Other comprehensive income: | | | | |
| Amortization of retirement plan and other retiree benefit adjustments (net of tax of \$522, \$237, \$1,044 and \$475) | 918 | 411 | 1,836 | 822 |
| Comprehensive income | \$ 31,940 | \$ 17,976 | \$ 127,841 | \$ 95,064 |

See notes to condensed consolidated financial statements.

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DILLARD S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)

| | Six Months Ended | |
|---|-------------------|-------------------|
| | July 28, 2012 | July 30, 2011 |
| Operating activities: | | |
| Net income | \$ 126,005 | \$ 94,242 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of property and deferred financing costs | 129,197 | 129,054 |
| Gain on disposal of assets | (1,139) | (2,391) |
| Excess tax benefits from share-based compensation | (2,028) | (9,958) |
| Asset impairment and store closing charges | | 1,200 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (4,706) | 6,379 |
| Increase in merchandise inventories | (57,953) | (67,698) |
| Increase in other current assets | (9,900) | (1,675) |
| Decrease in other assets | 7,777 | 2,928 |
| Increase in trade accounts payable and accrued expenses and other liabilities | 44,417 | 19,930 |
| Decrease in income taxes payable | (78,849) | (46,981) |
| Net cash provided by operating activities | 152,821 | 125,030 |
| Investing activities: | | |
| Purchases of property and equipment | (86,740) | (48,700) |
| Proceeds from disposal of assets | 7,883 | 12,595 |
| Distribution from joint venture | | 2,481 |
| Net cash used in investing activities | (78,857) | (33,624) |
| Financing activities: | | |
| Principal payments on long-term debt and capital lease obligations | (2,031) | (1,924) |
| Issuance cost of line of credit | (5,350) | |
| Increase in short-term borrowings | 24,000 | |
| Cash dividends paid | (4,983) | (4,713) |
| Purchase of treasury stock | (153,099) | (268,669) |
| Proceeds from stock issuance | 3,732 | 10,176 |
| Excess tax benefits from share-based compensation | 2,028 | 9,958 |
| Net cash used in financing activities | (135,703) | (255,172) |
| Decrease in cash and cash equivalents | (61,739) | (163,766) |
| Cash and cash equivalents, beginning of period | 224,272 | 343,291 |
| Cash and cash equivalents, end of period | \$ 162,533 | \$ 179,525 |
| Non-cash transactions: | | |

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| | | | | |
|---------------------------------|----|-------|----|-------|
| Accrued capital expenditures | \$ | 3,408 | \$ | 2,800 |
| Stock awards | | 2,847 | | 2,762 |
| Accrued treasury stock purchase | | 9,016 | | |

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 and six months ended July 28, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending February 2, 2013 due to the seasonal nature of the business.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended January 28, 2012 filed with the SEC on March 22, 2012.

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

Note 2. Business Segments

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

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

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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 July 28, 2012: | | | |
| Net sales from external customers | \$ 1,456,025 | \$ 31,900 | \$ 1,487,925 |
| Gross profit | 498,717 | 1,406 | 500,123 |
| Depreciation and amortization | 64,164 | 51 | 64,215 |
| Interest and debt expense (income), net | 17,708 | (35) | 17,673 |
| Income before income taxes and income on and equity in losses of joint ventures | 48,028 | 177 | 48,205 |
| Income on and equity in losses of joint ventures | 147 | | 147 |
| Total assets | 4,215,718 | 45,744 | 4,261,462 |
| Three Months Ended July 30, 2011: | | | |
| Net sales from external customers | \$ 1,425,590 | \$ 16,157 | \$ 1,441,747 |
| Gross profit (loss) | 478,988 | (764) | 478,224 |
| Depreciation and amortization | 64,052 | 45 | 64,097 |
| Interest and debt expense (income), net | 18,460 | (38) | 18,422 |
| Income (loss) before income taxes and income on and equity in losses of joint ventures | 26,351 | (2,029) | 24,322 |
| Income on and equity in losses of joint ventures | 253 | | 253 |
| Total assets | 4,145,208 | 32,130 | 4,177,338 |
| Six Months Ended July 28, 2012: | | | |
| Net sales from external customers | \$ 2,978,000 | \$ 59,244 | \$ 3,037,244 |
| Gross profit | 1,089,780 | 2,749 | 1,092,529 |
| Depreciation and amortization | 128,139 | 96 | 128,235 |
| Interest and debt expense (income), net | 35,199 | (71) | 35,128 |
| Income before income taxes and income on and equity in losses of joint ventures | 194,996 | 327 | 195,323 |
| Income on and equity in losses of joint ventures | 982 | | 982 |
| Total assets | 4,215,718 | 45,744 | 4,261,462 |
| Six Months Ended July 30, 2011: | | | |
| Net sales from external customers | \$ 2,881,100 | \$ 29,845 | \$ 2,910,945 |
| Gross profit (loss) | 1,047,533 | (136) | 1,047,397 |
| Depreciation and amortization | 128,037 | 91 | 128,128 |
| Interest and debt expense (income), net | 36,776 | (79) | 36,697 |
| Income (loss) before income taxes and income on and equity in losses of joint ventures | 142,692 | (2,675) | 140,017 |
| Income on and equity in losses of joint ventures | 3,945 | | 3,945 |
| Total assets | 4,145,208 | 32,130 | 4,177,338 |

Intersegment construction revenues of \$9.9 million and \$17.8 million for the three and six months ended July 28, 2012, respectively, and intersegment construction revenues of \$9.5 million and \$15.0 million for the three and six months ended July 30, 2011, respectively, were eliminated during consolidation and have been excluded from net sales for the respective periods.

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

The Company has various stock option plans that provide for the granting of options to purchase shares of Class A Common Stock to certain key employees of the Company. Exercise and vesting terms for options granted under the plans are determined at each grant date. There were no stock options granted during the three and six months ended July 28, 2012 and July 30, 2011.

Stock option transactions for the three months ended July 28, 2012 are summarized as follows:

| Stock Options | Shares | Weighted Average Exercise Price |
|-----------------------------------|---------------|--|
| Outstanding, beginning of period | 2,145,000 | \$ 25.74 |
| Granted | | |
| Exercised | 45,000 | 25.74 |
| Expired | | |
| Outstanding, end of period | 2,100,000 | \$ 25.74 |
| Options exercisable at period end | 2,100,000 | \$ 25.74 |

During the three months ended July 28, 2012 and July 30, 2011, the intrinsic value of stock options exercised was \$2.0 million and \$20.9 million, respectively. At July 28, 2012, the intrinsic value of outstanding and exercisable stock options was \$83.3 million.

Note 4. Asset Impairment and Store Closing Charges

There were no asset impairment and store closing charges recorded during the three and six months ended July 28, 2012 and three months ended July 30, 2011.

During the six months ended July 30, 2011, the Company recorded a pretax charge of \$1.2 million for asset impairment and store closing costs. The charge was for the write-down of one property held for sale.

Following is a summary of the activity in the reserve established for store closing charges for the six months ended July 28, 2012:

| (in thousands) | Balance Beginning of Period | Adjustments and Charges* | Cash Payments | Balance End of Period |
|------------------------------------|--|-------------------------------------|----------------------|----------------------------------|
| Rent, property taxes and utilities | \$ 738 | \$ 746 | \$ 490 | \$ 994 |

* included in rentals

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

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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 | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Basic: | | | | |
| Net income | \$ 31,022 | \$ 17,565 | \$ 126,005 | \$ 94,242 |
| Weighted average shares of common stock outstanding | 48,288 | 54,262 | 48,834 | 55,862 |
| Basic earnings per share | \$ 0.64 | \$ 0.32 | \$ 2.58 | \$ 1.69 |

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Diluted: | | | | |
| Net income | \$ 31,022 | \$ 17,565 | \$ 126,005 | \$ 94,242 |
| Weighted average shares of common stock outstanding | 48,288 | 54,262 | 48,834 | 55,862 |
| Dilutive effect of stock-based compensation | 944 | 978 | 937 | 1,024 |
| Total weighted average equivalent shares | 49,232 | 55,240 | 49,771 | 56,886 |
| Diluted earnings per share | \$ 0.63 | \$ 0.32 | \$ 2.53 | \$ 1.66 |

Total stock options outstanding were 2,100,000 and 2,270,000 at July 28, 2012 and July 30, 2011, respectively.

Note 6. Commitments and Contingencies

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

At July 28, 2012, letters of credit totaling \$83.9 million were issued under the Company's revolving credit facility.

Note 7. Benefit Plans

The Company has an unfunded, nonqualified defined benefit plan (Pension Plan) for its officers. The Pension Plan is noncontributory and provides benefits based on years of service and compensation during employment. Pension expense is determined using various actuarial cost methods to estimate the total benefits ultimately payable to officers and allocates this cost to service periods. The actuarial assumptions used to calculate pension costs are reviewed annually. The Company made contributions to the Pension Plan of \$1.1 million and \$2.2 million during the three and six months ended July 28, 2012, respectively. The Company expects to make contributions to the Pension Plan of approximately \$2.3 million for the remainder of fiscal 2012.

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Components of net periodic benefit costs: | | | | |
| Service cost | \$ 817 | \$ 831 | \$ 1,634 | \$ 1,663 |
| Interest cost | 1,823 | 1,800 | 3,647 | 3,600 |
| Net actuarial loss | 1,283 | 492 | 2,566 | 984 |
| Amortization of prior service cost | 157 | 157 | 313 | 313 |
| Net periodic benefit costs | \$ 4,080 | \$ 3,280 | \$ 8,160 | \$ 6,560 |

Note 8. Revolving Credit Agreement

At July 28, 2012, 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 at either JPMorgan s Base Rate or LIBOR plus 1.5% (1.75% at July 28, 2012) 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 \$902.9 million at July 28, 2012. Borrowings of \$24.0 million were outstanding and letters of credit totaling \$83.9 million were issued under this credit agreement leaving unutilized availability under the facility of approximately \$795 million at July 28, 2012. 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**2012 Stock Plan**

In February 2012, the Company announced that the Board of Directors authorized the repurchase of up to \$250 million of the Company s Class A Common Stock under an open-ended 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 Securities Exchange Act of 1934 (Exchange Act) or through privately negotiated transactions. The 2012 Stock Plan has no expiration date. During the three months ended July 28, 2012, the Company repurchased 2.1 million shares for \$134.6 million at an average price of \$64.52 per share. At July 28, 2012, \$115.4 million of authorization remained under the 2012 Stock Plan.

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 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 six months ended July 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.

February 2011 Stock Plan

In February 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 plan (February 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 six months ended July 30, 2011, the Company repurchased 6.0 million shares for \$250.0 million at an average price of \$41.93 per share, which completed the authorization under the February 2011 Stock Plan.

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2010 Stock Plan

In August 2010, the Company's Board of Directors authorized the Company to repurchase up to \$250 million of the Company's Class A Common Stock under an open-ended plan (2010 Stock Plan). During the six months ended July 30, 2011, the Company repurchased 0.4 million shares for \$18.7 million at an average price of \$42.19 per share, which completed the remaining authorization under the 2010 Stock Plan.

Note 10. Income Taxes

During the three months ended July 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. Certain federal tax credits were not extended into fiscal 2012. During the three months ended July 30, 2011, income tax expense differed from what would be computed using the statutory federal tax rate due to the effect of state and local income taxes offset by a benefit due to decreases in net deferred tax liabilities resulting from legislatively-enacted state tax rate reductions and benefits for federal tax credits.

During the six months ended July 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 partially offset by a benefit due to net decreases in unrecognized tax benefits primarily related to statute lapses. Certain federal tax credits were not extended into fiscal 2012. During the six months ended June 30, 2011 income tax expense differed from what would be computed using the statutory federal tax rate due to the effect of state and local income taxes offset by a benefit due to decreases in net deferred tax liabilities resulting from legislatively-enacted state tax rate reductions and benefits for federal tax credits.

Note 11. Income on Joint Venture

During the six months ended July 30, 2011, the Company received a distribution of excess cash from a mall joint venture of \$6.7 million and recorded a related gain of \$4.2 million in income on and equity in losses of joint ventures.

Note 12. Gain on Disposal of Assets

During the six months ended July 28, 2012, the Company received proceeds of \$7.8 million from the sales of two former retail stores located in Cincinnati, Ohio and Antioch, Tennessee that were held for sale and one building that was formerly a portion of a currently operating retail location, resulting in a net gain of \$0.9 million.

During the three months ended July 30, 2011, the Company received proceeds of \$11.0 million from the sale of an interest in a mall joint venture, resulting in a gain of \$2.1 million that was recorded in gain on disposal of assets.

Note 13. 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 (for publicly traded unsecured notes) and on discounted future cash flows using current interest rates for financial instruments with similar characteristics and maturities (for bank notes and mortgage notes).

The fair value of the Company's cash and cash equivalents, accounts receivable and other short-term borrowings approximates their carrying values at July 28, 2012 due to the short-term maturities of these instruments. The fair value of the Company's long-term debt at July 28, 2012 was approximately \$718 million. The carrying value of the Company's long-term debt at July 28, 2012 was \$691 million. The fair value of the Company's subordinated debentures at July 28, 2012 was approximately \$204 million. The carrying value of the Company's subordinated debentures at July 28, 2012 was \$200 million.

Table of Contents*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

| (in thousands) | Fair Value of Assets (Liabilities) | Basis of Fair Value Measurements | | |
|--|--|---|---|--|
| | | Quoted Prices In Active Markets for Identical Items (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Long-lived assets held for sale | | | | |
| As of July 28, 2012 | \$ 12,689 | \$ | \$ | \$ 12,689 |
| As of January 28, 2012 | 17,348 | | | 17,348 |
| As of July 30, 2011 | \$ 26,348 | \$ | \$ | \$ 26,348 |
| As of January 29, 2011 | 27,548 | | | 27,548 |

During the six months ended July 28, 2012, the Company sold two former retail store locations with carrying values totaling \$4.6 million.

During the six months ended July 30, 2011, long-lived assets held for sale with a carrying value of \$27.5 million were written down to their fair value of \$26.3 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 in both periods included selling prices from commercial real estate transactions for similar assets in similar markets that we estimated would be used by a market participant in valuing these assets.

Note 14. Recently Issued Accounting Standards*Fair Value Measurements and Disclosure*

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this update change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. This update was effective for interim and annual periods beginning after December 15, 2011 and was to be applied prospectively. The adoption of this standard did not have a significant impact on the Company's financial statements.

Presentation of Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*, to make the presentation of items within other comprehensive income (OCI) more prominent. The new standard requires companies to present items of net income, items of OCI and total comprehensive income in one continuous statement or two separate consecutive statements, and companies will no longer be allowed to present items of OCI in the statement of stockholders' equity. This new update was effective for interim and annual periods beginning after December 15, 2011 and was applied retrospectively. The adoption of this standard changed the order and placement where certain financial statement items are presented but did not have any other impact on the Company's financial statements.

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In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-5* which deferred the requirement from the June 2011 guidance that related to the presentation of reclassification adjustments. The amendment will allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented.

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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 January 28, 2012.

EXECUTIVE OVERVIEW

For the fourth consecutive quarter, Dillard's produced record operating results. Comparable store sales were up for the eighth consecutive quarter, supporting a gross margin improvement from retail operations of 70 basis points of sales while operating spending was down by the same rate. Net income increased 76.6% over the prior year second quarter to \$31.0 million, or \$0.63 per share – our highest historical second fiscal quarter earnings per share – compared to \$17.6 million, or \$0.32 per share.

Included in net income for the quarter ended July 30, 2011 is a \$2.1 million pretax gain (\$1.4 million after tax or \$0.02 per share) relating to the sale of an interest in a mall joint venture.

Highlights of the quarter ended July 28, 2012 included:

- a 3% increase in comparable store sales,
- gross margin from retail operations improvement of 70 basis points of sales,
- advertising, selling, administrative and general expenses improvement of 70 basis points of sales,
- net income of \$31.0 million, a 76.6% increase over the prior year second quarter,
- repurchase of \$134.6 million (2.1 million shares) of Class A Common Stock, and
- record second quarter earnings per share of \$0.63 per share, a 96.9% increase over the prior year second quarter.

As of July 28, 2012, we had working capital of \$727.0 million, cash and cash equivalents of \$162.5 million and \$914.6 million of total debt outstanding, excluding capital lease obligations. Cash flows from operating activities were \$152.8 million for the six months ended July 28, 2012. We operated 303 total stores, including 18 clearance centers, and one internet store, as of July 28, 2012, a decrease of two stores from the same period last year.

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 | |
|---|---------------------------|--------------------------|
| | July 28, 2012 | July 30, 2011 |
| Net sales (in millions) | \$ 1,487.9 | \$ 1,441.7 |
| Net sales trend | 3% | 4% |
| Gross profit (in millions) | \$ 500.1 | \$ 478.2 |
| Gross profit as a percentage of net sales | 33.6% | 33.2% |
| Cash flow from operations (in millions)* | \$ 152.8 | \$ 125.0 |
| Total store count at end of period | 303 | 305 |
| Retail sales per square foot | \$ 28 | \$ 27 |
| Retail store sales trend | 2% | 5% |
| Comparable retail store sales trend | 3% | 6% |
| Comparable retail store inventory trend | 0% | 3% |
| Retail merchandise inventory turnover | 2.7 | 2.7 |

*Cash flow from operations data is for the six months ended July 28, 2012 and July 30, 2011.

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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 credit 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), bankcard fees, freight to the distribution centers, employee and promotional discounts, non-specific margin maintenance allowances 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.

Advertising, selling, administrative and general expenses. Advertising, selling, administrative and general 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 expense includes 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, relating to the Company's unsecured notes, mortgage notes, 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 interest in a mall joint venture, if any.

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Asset impairment and store closing charges. Asset impairment and store closing charges consist of write-downs to fair value of under-performing or held for sale properties and 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 as well as a distribution of excess cash from one of the Company's mall 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.

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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 and percentage of net sales for the periods indicated.

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|--------------------------|--------------------------|--------------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Service charges and other income | 2.5 | 2.3 | 2.4 | 2.3 |
| | 102.5 | 102.3 | 102.4 | 102.3 |
| Cost of sales | 66.4 | 66.8 | 64.0 | 64.0 |
| Advertising, selling, administrative and general expenses | 26.8 | 27.5 | 26.1 | 27.0 |
| Depreciation and amortization | 4.3 | 4.4 | 4.2 | 4.4 |
| Rentals | 0.6 | 0.8 | 0.6 | 0.8 |
| Interest and debt expense, net | 1.2 | 1.3 | 1.1 | 1.3 |
| Gain on disposal of assets | (0.0) | (0.2) | (0.0) | (0.1) |
| Asset impairment and store closing charges | 0.0 | 0.0 | 0.0 | 0.1 |
| Income before income taxes and income on and equity in losses of joint ventures | 3.2 | 1.7 | 6.4 | 4.8 |
| Income taxes | 1.1 | 0.5 | 2.3 | 1.7 |
| Income on and equity in losses of joint ventures | 0.0 | 0.0 | 0.0 | 0.1 |
| Net income | 2.1% | 1.2% | 4.1% | 3.2% |

Table of Contents**Net Sales Three Month Comparison**

| (in thousands of dollars) | Three Months Ended | | \$ Change |
|---------------------------|--------------------|------------------|-----------|
| | July 28, 2012 | July 30, 2011 | |
| Net sales: | | | |
| Retail operations segment | \$ 1,456,025 | \$ 1,425,590 | \$ 30,435 |
| Construction segment | 31,900 | 16,157 | 15,743 |
| Total net sales | \$ 1,487,925 | \$ 1,441,747 | \$ 46,178 |

The percent change by category in the Company's retail operations segment sales for the three months ended July 28, 2012 compared to the three months ended July 30, 2011 as well as the percentage by segment and category to total net sales for the three months ended July 28, 2012 is as follows:

| | Three Months | |
|----------------------------------|-----------------------|-------------------|
| | % Change 2012-2011 | % of Net Sales |
| Retail operations segment | | |
| Cosmetics | 3.4% | 14% |
| Ladies' apparel | 0.3 | 25 |
| Ladies' accessories and lingerie | 7.9 | 15 |
| Juniors' and children's apparel | (0.8) | 8 |
| Men's apparel and accessories | 0.3 | 17 |
| Shoes | 3.7 | 14 |
| Home and furniture | (1.6) | 5 |
| | | 98 |
| Construction segment | 97.4 | 2 |
| Total | | 100% |

Net sales from the retail operations segment increased \$30.4 million or 2% during the three months ended July 28, 2012 compared to the three months ended July 30, 2011 while sales in comparable stores increased 3% between the same periods. Sales of ladies' accessories and lingerie increased significantly over the prior year period, and sales of shoes and cosmetics increased moderately. Sales of men's apparel and accessories and ladies' apparel were essentially flat between the periods. Sales of juniors' and children's apparel decreased slightly over the prior year period, and sales of home and furniture decreased moderately.

The number of sales transactions decreased 3% for the three months ended July 28, 2012 over the comparable prior year period while the average dollars per sales transaction increased 6%. We recorded an allowance for sales returns of \$7.6 million and \$8.6 million as of July 28, 2012 and July 30, 2011, respectively.

We believe that we may continue to see some sales growth in the retail operations segment during fiscal 2012; however, there is no guarantee of improved sales performance.

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During the three months ended July 28, 2012, net sales from the construction segment increased \$15.7 million or 97% compared to the three months ended July 30, 2011 due to an increase in new construction projects. We believe that we will continue to see some sales growth in the construction segment during fiscal 2012; however, there is no guarantee of improved sales performance. The backlog of awarded construction contracts at July 28, 2012 totaled \$92.7 million.

Table of Contents**Net Sales Six Month Comparison**

| (in thousands of dollars) | Six Months Ended | | \$ Change |
|---------------------------|------------------|------------------|------------|
| | July 28, 2012 | July 30, 2011 | |
| Net sales: | | | |
| Retail operations segment | \$ 2,978,000 | \$ 2,881,100 | \$ 96,900 |
| Construction segment | 59,244 | 29,845 | 29,399 |
| Total net sales | \$ 3,037,244 | \$ 2,910,945 | \$ 126,299 |

The percent change by category in the Company's retail operations segment sales for the six months ended July 28, 2012 compared to the six months ended July 30, 2011 as well as the percentage by segment and category to total net sales for the six months ended July 28, 2012 is as follows:

| | Six Months | |
|----------------------------------|-----------------------|-------------------|
| | % Change 2012-2011 | % of Net Sales |
| Retail operations segment | | |
| Cosmetics | 4.3% | 15% |
| Ladies' apparel | 2.0 | 24 |
| Ladies' accessories and lingerie | 7.4 | 14 |
| Juniors' and children's apparel | 0.3 | 8 |
| Men's apparel and accessories | 2.8 | 17 |
| Shoes | 4.8 | 15 |
| Home and furniture | (1.0) | 5 |
| | | 98 |
| Construction segment | 98.5 | 2 |
| Total | | 100% |

Net sales from the retail operations segment increased \$96.9 million or 3% during the six months ended July 28, 2012 compared to the six months ended July 30, 2011 while sales in comparable stores increased 4% between the same periods. Sales of shoes and ladies' accessories and lingerie increased significantly over the prior year period, and sales of cosmetics, ladies' apparel and men's apparel and accessories increased moderately. Sales of juniors' and children's apparel were essentially flat between the periods, and sales of home and furniture declined slightly.

The number of sales transactions decreased 3% for the six months ended July 28, 2012 compared to the six months ended July 30, 2011 while the average dollars per sales transaction increased 6%.

Storewide sales penetration of exclusive brand merchandise for the six months ended July 28, 2012 was 21.9% compared to 22.1% during the six months ended July 30, 2011.

During the six months ended July 28, 2012, net sales from the construction segment increased \$29.4 million or 99% compared to the six months ended July 30, 2011 due to an increase in new construction contracts.

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

| (in thousands of dollars) | Three Months Ended | | Six Months Ended | | Three | Six |
|---|--------------------|------------------|------------------|------------------|----------------------------------|----------------------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 | Months \$ Change 2012-2011 | Months \$ Change 2012-2011 |
| Service charges and other income: | | | | | | |
| Retail operations segment | | | | | | |
| Leased department income | \$ 2,370 | \$ 2,424 | \$ 4,858 | \$ 4,734 | \$ (54) | \$ 124 |
| Income from GE marketing and servicing alliance | 26,243 | 24,086 | 51,430 | 45,217 | 2,157 | 6,213 |
| Shipping and handling income | 4,355 | 4,169 | 8,707 | 8,526 | 186 | 181 |
| Other | 4,254 | 3,746 | 8,901 | 6,625 | 508 | 2,276 |
| | 37,222 | 34,425 | 73,896 | 65,102 | 2,797 | 8,794 |
| Construction segment | 35 | 5 | 54 | 25 | 30 | 29 |
| Total service charges and other income | \$ 37,257 | \$ 34,430 | \$ 73,950 | \$ 65,127 | \$ 2,827 | \$ 8,823 |

Service charges and other income is composed primarily of income from the Alliance with GE. Income from the Alliance increased during the three and six months ended July 28, 2012 compared to the three and six months ended July 30, 2011 primarily due to decreased credit losses and increases in finance charge and late charge fee income.

Gross Profit

| (in thousands of dollars) | July 28, 2012 | July 30, 2011 | \$ Change | % Change |
|---|---------------|---------------|-------------|-------------|
| Gross profit: | | | | |
| Three months ended | | | | |
| Retail operations segment | \$ 498,717 | \$ 478,988 | \$ 19,729 | 4.1% |
| Construction segment | 1,406 | (764) | 2,170 | >100.0 |
| Total gross profit | \$ 500,123 | \$ 478,224 | \$ 21,899 | 4.6% |
| Six months ended | | | | |
| Retail operations segment | \$ 1,089,780 | \$ 1,047,533 | \$ 42,247 | 4.0% |
| Construction segment | 2,749 | (136) | 2,885 | >100.0 |
| Total gross profit | \$ 1,092,529 | \$ 1,047,397 | \$ 45,132 | 4.3% |
| Gross profit as a percentage of segment net sales: | | | | |
| Retail operations segment | 34.3% | 33.6% | 36.6% | 36.4% |
| Construction segment | 4.4 | (4.7) | 4.6 | (0.5) |
| Total gross profit as a percentage of net sales | 33.6 | 33.2 | 36.0 | 36.0 |

Gross profit improved 40 basis points of sales during the three months ended July 28, 2012 compared to the three months ended July 30, 2011, and gross profit remained flat during the six months ended July 28, 2012 compared to the six months ended July 30, 2011.

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During the three months ended July 28, 2012 compared to the three months ended July 30, 2011, gross profit from retail operations improved 70 basis points of sales as a result of decreased markdowns and increased markups. Gross margin improved significantly in home and furniture and improved slightly in juniors and childrens apparel, mens apparel and accessories and ladies accessories and lingerie. Gross margin was flat in cosmetics, shoes and ladies apparel.

During the six months ended July 28, 2012 compared to the six months ended July 30, 2011, gross profit from retail operations improved 20 basis points of sales as a result of increased markups partially offset by increased

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markdowns. Gross margin was flat in most merchandise categories with the exception of ladies apparel and ladies accessories and lingerie, both of which improved slightly.

Inventory in comparable stores was flat at July 28, 2012 compared to July 30, 2011. A 1% change in the dollar amount of markdowns would have impacted net income by approximately \$2 million and \$4 million for the three and six months ended July 28, 2012, respectively.

We believe that gross margin from retail operations will improve slightly during fiscal 2012; however, there is no guarantee of improved gross margin performance.

Gross profit from the construction segment increased by \$2.2 million (910 basis points of sales) and \$2.9 million (510 basis points of sales) during the three and six months ended July 28, 2012 compared to the three and six months ended July 30, 2011, respectively. The improvement in both periods was due to increased revenue and improved fee percentages on new contracts as well as a \$1.2 million loss that was recorded during the three months ended July 30, 2011 on an electrical contract that was completed in 2011.

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

| (in thousands of dollars) | July 28, 2012 | July 30, 2011 | \$ Change | % Change |
|---|---------------------------|----------------------|-------------------------|----------------------|
| SG&A: | | | | |
| Three months ended | | | | |
| Retail operations segment | \$ 397,551 | \$ 394,780 | \$ 2,771 | 0.7% |
| Construction segment | 1,237 | 1,257 | (20) | (1.6) |
| Total SG&A | \$ 398,788 | \$ 396,037 | \$ 2,751 | 0.7% |
| Six months ended | | | | |
| Retail operations segment | \$ 789,600 | \$ 782,834 | \$ 6,766 | 0.9% |
| Construction segment | 2,426 | 2,470 | (44) | (1.8) |
| Total SG&A | \$ 792,026 | \$ 785,304 | \$ 6,722 | 0.9% |
| | Three Months Ended | | Six Months Ended | |
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| SG&A as a percentage of segment net sales: | | | | |
| Retail operations segment | 27.3% | 27.7% | 26.5% | 27.2% |
| Construction segment | 3.9 | 7.8 | 4.1 | 8.3 |
| Total SG&A as a percentage of net sales | 26.8 | 27.5 | 26.1 | 27.0 |

SG&A improved 70 basis points of sales during the three months ended July 28, 2012 compared to the three months ended July 30, 2011 while total SG&A dollars increased \$2.8 million. The dollar increase was most noted in services purchased (\$3.6 million), payroll and payroll related taxes (\$2.5 million) and insurance (\$1.9 million) partially offset by decreased net advertising expenditures (\$3.7 million) and utilities (\$2.6 million).

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SG&A improved 90 basis points of sales during the six months ended July 28, 2012 compared to the six months ended July 30, 2011 while total SG&A dollars increased \$6.7 million. The dollar increase was most noted in services purchased (\$6.2 million), payroll and payroll related taxes (\$5.7 million) and insurance (\$5.2 million) partially offset by decreased net advertising expenditures (\$9.6 million) and utilities (\$4.7 million).

We believe that SG&A will improve slightly as a percentage of sales during fiscal 2012; however, there is no guarantee of improved SG&A performance.

Table of Contents**Rentals**

| (in thousands of dollars) | July 28, 2012 | July 30, 2011 | \$ Change | % Change |
|---------------------------|---------------|---------------|------------|----------|
| Rentals: | | | | |
| Three months ended | | | | |
| Retail operations segment | \$ 8,629 | \$ 12,133 | \$ (3,504) | (28.9)% |
| Construction segment | 12 | 6 | 6 | 100.0 |
| Total rentals | \$ 8,641 | \$ 12,139 | \$ (3,498) | (28.8)% |
| Six months ended | | | | |
| Retail operations segment | \$ 16,880 | \$ 23,550 | \$ (6,670) | (28.3)% |
| Construction segment | 26 | 19 | 7 | 36.8 |
| Total rentals | \$ 16,906 | \$ 23,569 | \$ (6,663) | (28.3)% |

The decrease in rental expense for the three and six months ended July 28, 2012 compared to the three and six months ended July 30, 2011 was primarily due to a reduction in the amount of equipment leased by the Company.

We believe that rental expense will continue to decline significantly during fiscal 2012, with a current projected reduction of \$14 million from fiscal 2011, primarily as a result of the expiration of certain equipment leases.

Interest and Debt Expense, Net

| (in thousands of dollars) | July 28, 2012 | July 30, 2011 | \$ Change | % Change |
|---|---------------|---------------|------------|----------|
| Interest and debt expense (income), net: | | | | |
| Three months ended | | | | |
| Retail operations segment | \$ 17,708 | \$ 18,460 | \$ (752) | (4.1)% |
| Construction segment | (35) | (38) | 3 | 7.9 |
| Total interest and debt expense, net | \$ 17,673 | \$ 18,422 | \$ (749) | (4.1)% |
| Six months ended | | | | |
| Retail operations segment | \$ 35,199 | \$ 36,776 | \$ (1,577) | (4.3)% |
| Construction segment | (71) | (79) | 8 | 10.1 |
| Total interest and debt expense, net | \$ 35,128 | \$ 36,697 | \$ (1,569) | (4.3)% |

The decrease in net interest and debt expense for the three and six months ended July 28, 2012 compared to the three and six months ended July 30, 2011 is primarily attributable to lower average debt levels. Total weighted average debt decreased approximately \$96.4 million and \$80.7 million for the three and six months ended July 28, 2012 compared to the three and six months ended July 30, 2011, respectively.

Gain on Disposal of Assets

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| (in thousands of dollars) | July 28, 2012 | July 30, 2011 | \$ Change |
|---|---------------|---------------|------------|
| Gain (loss) on disposal of assets: | | | |
| Three months ended | | | |
| Retail operations segment | \$ 141 | \$ 2,363 | \$ (2,222) |
| Construction segment | 1 | | 1 |
| Total gain on disposal of assets | \$ 142 | \$ 2,363 | \$ (2,221) |
| Six months ended | | | |
| Retail operations segment | \$ 1,138 | \$ 2,454 | \$ (1,316) |
| Construction segment | 1 | (63) | 64 |
| Total gain on disposal of assets | \$ 1,139 | \$ 2,391 | \$ (1,252) |

During the six months ended July 28, 2012, the Company received proceeds of \$7.8 million from the sales of two former retail stores located in Cincinnati, Ohio and Antioch, Tennessee that were held for sale and one building that was formerly a portion of a currently operating retail location, resulting in a net gain of \$0.9 million.

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During the three months ended July 30, 2011, we received proceeds of \$11.0 million from the sale of an interest in a mall joint venture, resulting in a gain of \$2.1 million that was recorded in gain on disposal of assets.

Asset Impairment and Store Closing Charges

| (in thousands of dollars) | July 28, 2012 | July 30, 2011 | \$ Change |
|--|---------------|---------------|------------|
| Asset impairment and store closing charges: | | | |
| Six months ended | | | |
| Retail operations segment | \$ | \$ 1,200 | \$ (1,200) |
| Construction segment | | | |
| Total asset impairment and store closing charges | \$ | \$ 1,200 | \$ (1,200) |

There were no asset impairment and store closing charges recorded during the three and six months ended July 28, 2012 and the three months ended July 30, 2011.

During the six months ended July 30, 2011, the Company recorded a pretax charge of \$1.2 million for asset impairment and store closing costs. The charge was for the write-down of one property held for sale.

Income Taxes

The Company's estimated federal and state income tax rate, inclusive of income on and equity in losses of joint ventures, was approximately 35.8% and 28.5% for the three months ended July 28, 2012 and July 30, 2011, respectively. During the three months ended July 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. Certain federal tax credits were not extended into fiscal 2012. During the three months ended July 30, 2011, income tax expense differed from what would be computed using the statutory federal tax rate due to the effect of state and local income taxes offset by a benefit due to decreases in net deferred tax liabilities resulting from legislatively-enacted state tax rate reductions and benefits for federal tax credits.

The Company's estimated federal and state income tax rate, inclusive of income on and equity in losses of joint ventures, was approximately 35.8% and 34.5% for the six months ended July 28, 2012 and July 30, 2011, respectively. During the six months ended July 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 partially offset by a benefit due to net decreases in unrecognized tax benefits primarily related to statute lapses. Certain federal tax credits were not extended into fiscal 2012. During the six months ended June 30, 2011, income tax expense differed from what would be computed using the statutory federal tax rate due to the effect of state and local income taxes offset by a benefit due to decreases in net deferred tax liabilities resulting from legislatively-enacted state tax rate reductions and benefits for federal tax credits.

The Company's effective tax rate for fiscal 2012 is expected to approximate 36%. This rate may change if results of operations for fiscal 2012 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.

Income on Joint Venture

During the six months ended July 30, 2011, the Company's retail operations segment received a distribution of excess cash from a mall joint venture of \$6.7 million and recorded a related gain of \$4.2 million in income on and equity in losses of joint ventures.

Table of Contents**FINANCIAL CONDITION**

A summary of net cash flows for the six months ended July 28, 2012 and July 30, 2011 follows:

| (in thousands of dollars) | Six Months Ended | | \$ Change |
|----------------------------|------------------|---------------|------------|
| | July 28, 2012 | July 30, 2011 | |
| Operating Activities | \$ 152,821 | \$ 125,030 | \$ 27,791 |
| Investing Activities | (78,857) | (33,624) | (45,233) |
| Financing Activities | (135,703) | (255,172) | 119,469 |
| Total Cash Provided (Used) | \$ (61,739) | \$ (163,766) | \$ 102,027 |

Net cash flows from operations increased \$27.8 million during the six months ended July 28, 2012 compared to the six months ended July 30, 2011. This improvement was primarily attributable to higher net income, as adjusted for non-cash items, of \$39.9 million. This increase was partially offset by a decrease of \$12.1 million related to changes in working capital items, primarily of decreases in income taxes payable partially offset by increases in trade accounts payable and accrued expenses and other liabilities.

GE owns and manages Dillard's branded proprietary credit card business under the Alliance that expires in fiscal 2014. The Alliance provides for certain payments to be made by GE to the Company, including a revenue sharing and marketing reimbursement. The Company received income of approximately \$51.4 million and \$45.2 million from GE during the six months ended July 28, 2012 and July 30, 2011, respectively. While future cash flows under this Alliance are difficult to predict, the Company expects income from the Alliance to improve moderately during fiscal 2012 compared to fiscal 2011. The amount the Company receives is dependent on the level of sales on GE accounts, the level of balances carried on the GE accounts by GE customers, payment rates on GE accounts, finance charge rates and other fees on GE accounts, the level of credit losses for the GE accounts as well as GE's funding costs.

During the six months ended July 28, 2012, the Company received proceeds of \$7.8 million from the sales of two former retail stores located in Cincinnati, Ohio and Antioch, Tennessee that were held for sale and one building that was formerly a portion of a currently operating retail location, resulting in a net gain of \$0.9 million.

During the six months ended July 30, 2011, the Company received proceeds of \$11.0 million from the sale of an interest in a mall joint venture, resulting in a gain of \$2.1 million that was recorded in gain on disposal of assets.

Capital expenditures were \$86.7 million and \$48.7 million for the six months ended July 28, 2012 and July 30, 2011, respectively. The current year expenditures were primarily for the remodeling of existing stores, purchase of equipment, including the buyout of certain leased equipment, and completion of the Company's new internet fulfillment center located in Maumelle, Arkansas, which began processing merchandise during the first quarter of fiscal 2012. This new 850,000 square foot internet fulfillment center has replaced the Company's Nashville, Tennessee internet fulfillment center (285,000 square feet), which closed in July 2012. During the three months ended July 28, 2012, we also closed our Hutchinson Mall location in Hutchinson, Kansas (70,000 square feet). We have also announced the upcoming closure of our Southpark Mall location in Colonial Heights, Virginia (85,000 square feet), which is expected to close during the third quarter of fiscal 2012 with minimal closing costs. We remain committed to closing under-performing stores where appropriate and may incur future closing costs related to these stores when they close.

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Capital expenditures for fiscal 2012 are expected to be approximately \$140 million compared to actual expenditures of \$116 million during fiscal 2011. There are no planned store openings for fiscal 2012.

During the six months ended July 30, 2011, the Company received a distribution of excess cash from a mall joint venture of \$6.7 million and recorded a related gain of \$4.2 million in income on and equity in losses of joint ventures.

The Company had cash on hand of approximately \$162.5 million as of July 28, 2012. As part of our overall liquidity management strategy and for peak working capital requirements, the Company maintains a \$1.0 billion credit facility. During the six months ended July 28, 2012, the Company amended and extended this credit facility, which now has higher availability for the same amount of pledged inventory as the previous agreement and expires April 11, 2017.

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Limited to 90% of the inventory of certain Company subsidiaries, availability for borrowings and letter of credit obligations under the credit agreement was \$902.9 million at July 28, 2012. Borrowings of \$24.0 million were outstanding and letters of credit totaling \$83.9 million were issued under this credit agreement leaving unutilized availability under the facility of approximately \$795 million at July 28, 2012.

During the six months ended July 28, 2012, the Company repurchased 2.5 million shares of its Class A Common Stock for \$162.1 million (including the accrual of \$9.0 million of share repurchases that had not settled as of July 28, 2012) at an average price of \$64.21 per share under its 2012 and May 2011 Stock Plans. During the six months ended July 30, 2011, the Company repurchased 6.4 million shares of its Class A Common Stock for \$268.7 million at an average price of \$41.95 per share under its 2010 and February 2011 Stock Plans. At July 28, 2012, no authorization remained under the 2010, February 2011 and May 2011 Stock Plans, and \$115.4 million of authorization remained under the 2012 Stock Plan. The ultimate disposition of the repurchased stock has not been determined.

During fiscal 2012, the Company expects to finance its capital expenditures and its working capital requirements, including required debt repayments and stock repurchases, from cash on hand, cash flows generated from operations and utilization of the credit facility. During fiscal 2012, the Company expects peak borrowings to not exceed \$200 million. Depending on conditions in the capital markets and other factors, the Company will from time to time consider other possible financing transactions, the proceeds of which could be used to refinance current indebtedness or for other corporate purposes.

There have been no material changes in the information set forth under the caption Contractual Obligations and Commercial Commitments in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2012.

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

Fair Value Measurements and Disclosure

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this update change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. This update was effective for interim and annual periods beginning after December 15, 2011 and was to be applied prospectively. The adoption of this standard did not have a significant

impact on the Company's financial statements.

Presentation of Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*, to make the presentation of items within other comprehensive income (OCI) more prominent. The new standard requires companies to present items of net income, items of OCI and total comprehensive income in one continuous statement or two separate consecutive statements, and companies will no longer be allowed to present items of OCI in the statement of stockholders' equity. This new update was effective for interim and annual periods beginning after December 15, 2011 and was applied retrospectively. The adoption of this standard changed the order and placement where certain financial statement items were presented but did not have any other impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-5* which deferred the requirement from the June 2011 guidance that related to the presentation of reclassification adjustments.

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The amendment will allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented.

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, believe, expect, future, anticipate, intend, plan, estimate, continue, or the negative or other variations thereof; (b) statements regarding matters that are not historical facts; and (c) statements about the Company's future occurrences, plans and objectives, including statements regarding management's expectations and forecasts for the remainder of fiscal 2012 and fiscal 2013. 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, 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 28, 2012, 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 28, 2012.

Item 4. Controls and Procedures

The Company has established and maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). The Company's management, with the participation of our CEO and CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the fiscal quarter covered by this quarterly report, and based on that evaluation, the Company's CEO and

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CFO have concluded that these disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended July 28, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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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 August 29, 2012, 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 28, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**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 |
|-------------------------------------|---|---|---|---|
| April 29, 2012 through May 26, 2012 | 320,937 | \$ 65.28 | 320,937 | \$ 229,050,571 |
| May 27, 2012 through June 30, 2012 | 1,210,003 | 65.33 | 1,210,003 | 150,000,182 |
| July 1, 2012 through July 28, 2012 | 555,254 | 62.32 | 555,254 | 115,396,785 |
| Total | 2,086,194 | \$ 64.52 | 2,086,194 | \$ 115,396,785 |

During the first fiscal quarter of 2012, the Company completed the remaining authorization under the May 2011 Stock Plan. In late 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 the 2012 Stock Plan. Reference is made to the discussion in Note 9. 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.

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Item 6. Exhibits

| Number | Description |
|---------|---|
| 10.1 | Second Amended and Restated Credit Agreement between Dillard's, Inc. and JPMorgan Chase Bank, N.A. as agent for a syndicate of lenders (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated as of April 13, 2012) |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). |
| 32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350). |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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: August 29, 2012

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