

DILLARD'S, INC.  
Form 10-K  
March 29, 2019  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
(Mark one)

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

For the fiscal year ended February 2, 2019

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 71-0388071  
State or other jurisdiction (IRS Employer  
of incorporation or organization Identification No.)

1600 CANTRELL ROAD, LITTLE ROCK, ARKANSAS 72201  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (501) 376-5200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Class A Common Stock New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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 every Interactive Data File required to be submitted 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 such files).  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer,"

"accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Smaller Reporting Company

Non-Accelerated Filer

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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Exchange Act.

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

Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of August 4, 2018: \$1,548,976,368.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of March 2, 2019:

CLASS A COMMON STOCK, \$0.01 par value 22,338,129

CLASS B COMMON STOCK, \$0.01 par value 4,010,401

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held May 18, 2019 (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

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## PART I

## ITEM 1. BUSINESS.

Dillard's, Inc. ("Dillard's", the "Company", "we", "us", "our" or "Registrant") ranks among the nation's largest fashion apparel, cosmetics and home furnishing retailers. The Company, originally founded in 1938 by William T. Dillard, was incorporated in Delaware in 1964. As of February 2, 2019, we operated 291 Dillard's stores, including 26 clearance centers, and an Internet store offering a wide selection of merchandise including fashion apparel for women, men and children, accessories, cosmetics, home furnishings and other consumer goods. The Company also operates a general contracting construction company, CDI Contractors, LLC ("CDI"), a portion of whose business includes constructing and remodeling stores for the Company.

The following table summarizes the percentage of net sales by segment and major product line:

	Percentage of Net Sales					
	Fiscal 2018		Fiscal 2017		Fiscal 2016	
Retail operations segment:						
Cosmetics	14	%	14	%	14	%
Ladies' apparel	22		23		22	
Ladies' accessories and lingerie	15		16		16	
Juniors' and children's apparel	9		8		8	
Men's apparel and accessories	17		17		17	
Shoes	15		16		16	
Home and furniture	4		4		4	
	96		98		97	
Construction segment	4		2		3	
Total	100%		100%		100%	

Additional information regarding our business, results of operations and financial condition, including information pertaining to our reporting segments, can be found in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 hereof and in Note 2 in the "Notes to Consolidated Financial Statements" in Item 8 hereof.

We operate retail department stores in 29 states, primarily in the southwest, southeast and midwest regions of the United States. Most of our stores are located in suburban shopping malls and open-air centers. Customers may also purchase our merchandise online at our website, [www.dillards.com](http://www.dillards.com), which features online gift registries and a variety of other services.

Our retail merchandise business is conducted under highly competitive conditions. Although we are a large regional department store, we have numerous competitors at the national and local level that compete with our individual stores, including specialty, off-price, discount and Internet retailers. Competition is characterized by many factors including location, reputation, merchandise assortment, advertising, price, quality, operating efficiency, service and credit availability. We believe that our stores are in a strong competitive position with regard to each of these factors. Other retailers may compete for customers on some or all of these factors, or on other factors, and may be perceived by some potential customers as being better aligned with their particular preferences.

Our merchandise selections include, but are not limited to, our lines of exclusive brand merchandise such as Antonio Melani, Gianni Bini, GB, Roundtree & Yorke and Daniel Cremieux. Our exclusive brands/private label merchandise program provides benefits for Dillard's and our customers. Our customers receive fashionable, higher quality product often at a savings compared to national brands. Our private label merchandise program allows us to ensure the Company's high standards are achieved, while minimizing costs and differentiating our merchandise offerings from other retailers.

We have made a significant investment in our trademark and license portfolio, in terms of design function, advertising, quality control and quick response to market trends in a quality manufacturing environment. Dillard's trademark registrations are maintained for as long as Dillard's holds the exclusive right to use the trademarks on the

listed products.

Our merchandising, sales promotion and store operating support functions are conducted primarily at our corporate headquarters. Our back office sales support functions, such as accounting, product development, store planning and information technology, are also centralized.

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We have developed a knowledge of each of our trade areas and customer bases for our stores. This knowledge is enhanced through regular store visits by senior management and merchandising personnel and through the use of online merchandise information and is supported by our regional merchandising offices. We will continue to use existing technology and research to edit merchandise assortments by store to meet the specific preference, taste and size requirements of each local operating area.

Certain departments in our stores are licensed to independent companies in order to provide high quality service and merchandise where specialization, focus and expertise are critical. The licensed departments vary by store to complement our own merchandising departments. The principal licensed department is an upscale women's apparel vendor in certain stores. The terms of the license agreements typically range between three and five years with one year renewals and require the licensee to pay for fixtures and to provide their own employees. We regularly evaluate the performance of the licensed departments and require compliance with established customer service guidelines.

Wells Fargo Bank, N.A. ("Wells Fargo") owns and manages Dillard's private label credit cards, including credit cards co-branded with American Express (collectively "private label cards") under a long-term marketing and servicing alliance ("Wells Fargo Alliance"). Under the Wells Fargo Alliance, Wells Fargo establishes and owns private label card accounts for our customers, retains the benefits and risks associated with the ownership of the accounts, provides key customer service functions, including new account openings, transaction authorization, billing adjustments and customer inquiries, receives the finance charge income and incurs the bad debts associated with those accounts. Pursuant to the Wells Fargo Alliance, we receive on-going cash compensation from Wells Fargo based upon the portfolio's earnings. The compensation received from the portfolio is determined monthly and has no recourse provisions. We participate in the marketing of the private label cards, which includes the cost of customer reward programs. The Wells Fargo Alliance expires in fiscal 2024.

We seek to expand the number and use of the private label cards by, among other things, providing incentives to sales associates to open new credit accounts, which generally can be opened while a customer is visiting one of our stores. Customers who open accounts are rewarded with discounts on future purchases. Private label card customers are sometimes offered private shopping nights, direct mail catalogs, special discounts and advance notice of sale events. Wells Fargo administers the loyalty program that rewards customers for private label card usage.

Our earnings depend to a significant extent on the results of operations for the last quarter of our fiscal year. Due to holiday buying patterns, sales for that period average approximately one-third of annual sales. Additionally, working capital requirements fluctuate during the year, increasing during the second half of the year in anticipation of the holiday season.

As of February 2, 2019, we employed approximately 39,000 full-time and part-time associates, of which approximately 41% were part-time. The number of associates varies during the year, with increases occurring during peak seasonal selling periods.

We purchase merchandise from many sources and do not believe that we are dependent on any one supplier. We have no long-term purchase commitments or arrangements with any of our suppliers, but we consider our relationships to be strong and mutually beneficial.

Our fiscal year ends on the Saturday nearest January 31 of each year. Fiscal year 2018 ended on February 2, 2019 and contained 52 weeks, fiscal year 2017 ended on February 3, 2018 and contained 53 weeks, and fiscal year 2016 ended on January 28, 2017 and contained 52 weeks.

The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K (this "Annual Report") and should not be considered to be a part of this Annual Report. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, statements of changes in beneficial ownership of securities on Form 4 and Form 5 and amendments to those reports filed or furnished with the SEC pursuant to Section 13(a), 15(d) or 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as applicable, are available free of charge (as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC) on the Dillard's, Inc. website: [www.dillards.com](http://www.dillards.com).

We have adopted a Code of Conduct and Corporate Governance Guidelines, as required by the listing standards of the New York Stock Exchange and the rules of the SEC. We have posted on our website our Code of Conduct, Corporate Governance Guidelines, Social Accountability Policy, our most recent Social Accountability Report and committee

charters for the Audit Committee of the Board of Directors and the Stock Option and Executive Compensation Committee of the Board of Directors.

Our corporate offices are located at 1600 Cantrell Road, Little Rock, Arkansas 72201, telephone: 501-376-5200.

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ITEM 1A. RISK FACTORS.

The risks described in this Item 1A, Risk Factors, of this Annual Report could materially and adversely affect our business, financial condition and results of operations.

The Company cautions that forward-looking statements, as such term is defined in the Private Securities Litigation Reform Act of 1995, contained in this Annual Report on Form 10-K are based on estimates, projections, beliefs and assumptions of 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.

The retail merchandise business is highly competitive, and that competition could lower our revenues, margins and market share.

We conduct our retail merchandise business under highly competitive conditions. Competition is characterized by many factors including location, reputation, fashion, merchandise assortment, advertising, operating efficiency, price, quality, customer service and credit availability. We have numerous competitors nationally, locally and on the Internet, including conventional department stores, specialty retailers, off-price and discount stores, boutiques, mass merchants, and Internet and mail-order retailers. Although we are a large regional department store, some of our competitors are larger than us with greater financial resources and, as a result, may be able to devote greater resources to sourcing, promoting and selling their products. Additionally, we compete in certain markets with a substantial number of retailers that specialize in one or more types of merchandise that we sell. In recent years, competition has intensified as a result of reduced discretionary consumer spending, increased promotional activity, deep price discounting, and few barriers to entry. Also, online retail shopping continues to rapidly evolve, and we continue to expect competition in the e-commerce market to intensify in the future as the Internet facilitates competitive entry and comparison shopping. We anticipate that intense competition will continue from both existing competitors and new entrants. If we are unable to maintain our competitive position, we could experience downward pressure on prices, lower demand for products, reduced margins, the inability to take advantage of new business opportunities and the loss of market share.

Changes in economic, financial and political conditions, and the resulting impact on consumer confidence and consumer spending, could have an adverse effect on our business and results of operations.

The retail merchandise business is highly sensitive to changes in overall economic and political conditions that impact consumer confidence and spending. Various economic conditions affect the level of disposable income consumers have available to spend on the merchandise we offer, including unemployment rates, interest rates, taxation, energy costs, the availability of consumer credit, the price of gasoline, consumer confidence in future economic conditions and general business conditions. Due to the Company's concentration of stores in energy producing regions, volatile conditions in these regions could adversely affect the Company's sales. Consumer purchases of discretionary items and other retail products generally decline during recessionary periods, and also may decline at other times when changes in consumer spending patterns affect us unfavorably. In addition, any significant decreases in shopping mall traffic could also have an adverse effect on our results of operations.

Our business is dependent upon our ability to accurately predict rapidly changing fashion trends, customer preferences, and other fashion-related factors.

Our sales and operating results depend in part on our ability to effectively predict and quickly respond to changes in fashion trends and customer preferences. We continuously assess emerging styles and trends and focus on developing a merchandise assortment to meet customer preferences at competitive prices. Even with these efforts, we cannot be certain that we will be able to successfully meet constantly changing fashion trends and customer preferences. If we are unable to successfully predict or respond to changing styles or preferences, we may be faced with lower sales, increased inventories, additional markdowns or promotional sales to dispose of excess or slow-moving inventory, and lower gross margins, all of which would have an adverse effect on our business, financial condition, and results of operations.





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Our failure to protect our reputation could have an adverse effect on our business.

We offer our customers quality products at competitive prices and a high level of customer service, resulting in a well-recognized brand and customer loyalty. As discussed in the immediately preceding risk factor, our brand and customer loyalty depend, in part, on our ability to predict or respond to changes in fashion trends and consumer preferences in a timely manner. Failure to respond rapidly to changing trends could diminish brand and customer loyalty and impact our reputation with customers.

Additionally, the value of our reputation is based, in part, on subjective perceptions of the quality of our merchandise selections. Isolated incidents involving us or our merchandise that erode trust or confidence could adversely affect our reputation and our business, particularly if the incidents result in significant adverse publicity or governmental investigation or inquiry. Similarly, information posted about us, including our lines of exclusive brand merchandise, on the Internet, including social media platforms that allow individuals access to a wide audience of consumers and other interested persons, may adversely affect our reputation, even if the information is inaccurate.

Any significant damage to our brand or reputation could negatively impact sales, diminish customer trust and generate negative sentiment, any of which would harm our business and results of operation.

Risks associated with our private label merchandise program could adversely affect our business.

Our merchandise selections include our lines of exclusive brand merchandise, such as Antonio Melani, Gianni Bini, GB, Roundtree & Yorke and Daniel Cremieux. We expect to grow our private label merchandise program and have invested in our development and procurement resources and marketing efforts related to these exclusive brand offerings. The expansion of our private label merchandise subjects us to certain additional risks. These include, among others, risks related to: our failure to comply with government and industry safety standards; our ability to successfully protect our trademark and license portfolio and our other proprietary rights in our exclusive brands/private label merchandise program; and risks associated with overseas sourcing and manufacturing. In addition, damage to the reputation of our private label trade names may generate negative customer sentiment. Our failure to adequately address some or all of these risks could have a material adverse effect on our business, results of operations and financial condition.

Fluctuations in the price of merchandise, raw materials, fuel and labor or their reduced availability could increase our cost of goods and negatively impact our financial results.

Fluctuations in the price and availability of fuel, labor and raw materials, combined with the inability to mitigate or to pass cost increases on to our customers or to change our merchandise mix as a result of such cost increases, could have an adverse impact on our profitability. Vendors and other suppliers of the Company may experience similar fluctuations, which may subject us to the effects of their price increases. We may or may not be able to pass such costs along to our customers. Even when successful, attempts to pass such costs along to our customers might cause a decline in our sales volume. Additionally, any decrease in the availability of raw materials could impair our ability and the ability of our branded vendors to meet purchasing requirements in a timely manner. Both the increased cost and lower availability of merchandise, raw materials, fuel and labor may also have an adverse impact on our cash and working capital needs.

Third party suppliers on whom we rely to obtain materials and provide production facilities and other third parties with whom we do business may experience financial difficulties due to current and future economic conditions, which may subject them to insolvency risk or may result in their inability or unwillingness to perform the obligations they owe us.

Our suppliers may experience financial difficulties due to a downturn in the industry or in other macroeconomic environments. Our suppliers' cash and working capital needs can be adversely impacted by the increased cost and lower availability of merchandise, raw materials, fuel and labor. Current and future economic conditions may prevent our suppliers from obtaining financing on favorable terms, which could impact their ability to supply us with merchandise on a timely basis.

We are also party to contractual and business relationships with various other parties, including vendors and service providers, pursuant to which such parties owe performance, payment and other obligations to us. In some cases, we depend upon such third parties to provide essential products, services or other benefits, such as advertising, software

development and support, logistics and other goods and services necessary to operate our business. Economic, industry and market conditions could result in increased risks to us associated with the potential financial distress of such third parties.

If any of the third parties with which we do business become subject to insolvency, bankruptcy, receivership or similar proceedings, our rights and benefits in relation to, contractual and business relationships with such third parties could be terminated, modified in a manner adverse to us, or otherwise materially impaired. There can be no assurances that we would be

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able to arrange for alternate or replacement contractual or business relationships on terms as favorable as our existing ones, if at all. Any inability on our part to do so could negatively affect our cash flows, financial condition and results of operations.

We source many of our products from foreign countries, which exposes us to certain risks that include political and economic conditions.

Political discourse has recently focused on ways to discourage corporations in the United States from outsourcing manufacturing and production activities to foreign jurisdictions. In 2018, the United States imposed additional tariffs on certain items sourced from foreign countries, including China. Other proposals to address this issue include the possibility of imposing additional tariffs, border adjustments or other penalties on goods manufactured outside the United States to attempt to discourage these practices. It has also been suggested that the United States may materially modify or withdraw from some of its existing trade agreements. While recent tariffs have not resulted in a material impact on our cash flows, financial condition and results of operations, any additional actions, if ultimately enacted, could negatively impact our ability and the ability of our third-party vendors and suppliers to source products from foreign jurisdictions and could lead to an increase in the cost of goods and adversely affect our profitability.

Moreover, our third-party suppliers in foreign jurisdictions are subject to political and economic uncertainty. As a result, we are subject to risks and uncertainties associated with changing economic and political conditions in foreign countries where our suppliers are located, including increased import duties, tariffs, trade restrictions and quotas, work stoppages, economic uncertainties, human rights concerns, working conditions and other labor rights and conditions, the environmental impact in foreign countries where merchandise is produced and raw materials or products are sourced, changing labor, environmental and other laws in these countries, adverse foreign government regulations, wars, fears of war, terrorist attacks and organizing activities, adverse fluctuations of foreign currencies and political unrest. We cannot predict when, or the extent to which, the countries in which our products are manufactured will experience any of the foregoing events. Any event causing a disruption or delay of imports from foreign locations would likely increase the cost or reduce the supply of merchandise available to us and would adversely affect our operating results. In addition, trade restrictions, including increased tariffs or quotas, embargoes, safeguards, and customs restrictions against apparel items, as well as United States or foreign labor strikes, work stoppages, or boycotts, could increase the cost or reduce the supply of merchandise available to us or may require us to modify our current business practices, any of which could adversely affect our profitability.

Failure by third party suppliers to comply with our supplier compliance programs or applicable laws could have a material adverse effect on our business.

All of our suppliers must comply with our supplier compliance programs and applicable laws, including consumer and product safety laws, but we do not control our vendors or their labor and business practices. The violation of labor or other laws by one or more of our vendors could have an adverse effect on our business. Additionally, although we diversify our sourcing and production, the failure of any supplier to produce and deliver our goods on time, to meet our quality standards and adhere to our product safety requirements or to meet the requirements of our supplier compliance program or applicable laws, could impact our ability to flow merchandise to our stores or directly to consumers in the right quantities at the right time, which could adversely affect our profitability and could result in damage to our reputation and translate into sales losses.

A decrease in cash flows from our operations and constraints to accessing other financing sources could limit our ability to fund our operations, capital projects, interest and debt repayments, stock repurchases and dividends. Our business depends upon our operations to generate strong cash flow and to some extent upon the availability of financing sources to supply capital to fund our general operating activities, capital projects, interest and debt repayments, stock repurchases and dividends. Our inability to continue to generate sufficient cash flows to support these activities or the lack of available financing in adequate amounts and on appropriate terms when needed could adversely affect our financial performance including our earnings per share.

Reductions in the income and cash flow from our long-term marketing and servicing alliance related to the private label credit cards could impact operating results and cash flows.

Wells Fargo owns and manages the private label credit cards under the Wells Fargo Alliance. The Wells Fargo Alliance provides for certain payments to be made by Wells Fargo to the Company, including the Company's share of earnings under this alliance. The income and cash flow that the Company receives from the Wells Fargo Alliance is dependent upon a number of factors including the level of sales on Wells Fargo accounts, the level of balances carried on the Wells Fargo accounts by Wells Fargo customers, payment rates on Wells Fargo accounts, finance charge rates and other fees on Wells Fargo accounts, the level of credit losses for the Wells Fargo accounts, Wells Fargo's ability to extend credit to our customers as well as the cost of customer rewards programs, all of which can vary based on changes in federal and state banking and consumer protection laws

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and from a variety of economic, legal, social and other factors that we cannot control. If the income or cash flow that the Company receives from the Wells Fargo Alliance decreases, our operating results and cash flows could be adversely affected.

Credit card operations are subject to numerous federal and state laws that impose disclosure and other requirements upon the origination, servicing, and enforcement of credit accounts, and limitations on the amount of finance charges and fees that may be charged by a credit card provider. Wells Fargo may be subject to regulations that may adversely impact its operation of the private label credit card. To the extent that such limitations or regulations materially limit the availability of credit or increase the cost of credit to the cardholders or negatively impact provisions which affect our earnings associated with the private label credit card, our results of operations could be adversely affected. In addition, changes in credit card use, payment patterns, or default rates could be affected by a variety of economic, legal, social, or other factors over which we have no control and cannot predict with certainty. Such changes could also negatively impact Wells Fargo's ability to facilitate consumer credit or increase the cost of credit to the cardholders.

We are subject to customer payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and potentially disrupt our business operations.

We accept payments using a variety of methods, including cash, checks, debit cards, credit cards (including the private label credit cards) and gift cards. As a result, we are subject to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. The payment methods that we offer also subject us to potential fraud and theft by persons who seek to obtain unauthorized access to or exploit any weaknesses that may exist in the payment systems.

The regulatory environment related to information security and privacy is increasingly rigorous, with new and constantly changing requirements applicable to our business, and compliance with those requirements could result in additional costs or accelerate these costs. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which could increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could disrupt our business.

Our business is seasonal, and fluctuations in our revenues during the last quarter of our fiscal year can have a disproportionate effect on our results of operations.

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. Our fiscal fourth-quarter results may fluctuate significantly, based on many factors, including holiday spending patterns and weather conditions, and any such fluctuation could have a disproportionate effect on our results of operations for the entire fiscal year.

Because of the seasonality of our business, our operating results vary considerably from quarter to quarter, and results from any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

A shutdown of, or disruption in, any of the Company's distribution or fulfillment centers would have an adverse effect on the Company's business and operations.

Our business depends on the orderly operation of the process of receiving and distributing merchandise, which relies on adherence to shipping schedules and effective management of distribution or fulfillment centers. Although we believe that our receiving and distribution process is efficient and that we have appropriate contingency plans, unforeseen disruptions in operations due to fire, severe weather conditions, natural disasters, or other catastrophic events, labor disagreements, or other shipping problems may result in the loss of inventory and/or delays in the delivery of merchandise to our stores and customers.

Current store locations may become less desirable, and desirable new locations may not be available for a reasonable price, if at all, either of which could adversely affect our results of operations.

In order to generate customer traffic and for convenience of our customers, we attempt to locate our stores in desirable locations within shopping malls and open air centers. Our stores benefit from the abilities that our Company, other anchor tenants and other area attractions have to generate consumer traffic. Adverse changes in the development of new shopping malls in the United States, the availability or cost of appropriate locations within existing or new shopping malls, competition with other retailers for prominent locations, the success of individual shopping malls and the success or failure of other anchor tenants, the continued proper management and development of existing malls, or the continued popularity of shopping malls may continue to impact our ability to maintain or grow our sales in our existing stores, as well as our ability to open new stores, which could have an adverse effect on our financial condition or results of operations.

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Ownership and leasing of significant amounts of real estate exposes us to possible liabilities and losses. We own the land and building, or lease the land and/or the building, for all of our stores. Accordingly, we are subject to all of the risks associated with owning and leasing real estate. In particular, the value of our real estate assets could decrease, and their operating costs could increase, because of changes in the investment climate for real estate, demographic trends and supply or demand for the use of the store, which may result from competition from similar stores in the area. Additionally, we are subject to potential liability for environmental conditions on the property that we own or lease. If an existing owned store is not profitable, and we decide to close it, we may be required to record an impairment charge and/or exit costs associated with the disposal of the store. We generally cannot cancel our leases. If an existing or future store is not profitable, and we decide to close it, we may be committed to perform certain obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. In addition, as each of the leases expires, we may be unable to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close stores in desirable locations. We may not be able to close an unprofitable owned store due to an existing operating covenant which may cause us to operate the location at a loss and prevent us from finding a more desirable location. We have approximately 75 stores along the Gulf and Atlantic coasts that are covered by third-party insurance but are self-insured for property and merchandise losses related to "named storms." As a result, the repair and replacement costs will be borne by us for damage to any of these stores from "named storms," which could have an adverse effect on our financial condition or results of operations.

A privacy breach could adversely affect our business, reputation and financial condition.

We receive and store certain personal information about our employees and our customers, including information permitting cashless payments, both in our stores and through our online operations at [www.dillards.com](http://www.dillards.com). In addition, our online operations depend upon the secure transmission of confidential information over public networks.

We have a longstanding Information Security Program committed to regular risk assessment and risk mitigation practices surrounding the protection of confidential data. This program includes network segmentation along with identity and access controls around the computer resources that house confidential data. We continue to evaluate the security environment surrounding the handling and control of our critical data, especially the private data we receive from our customers, and we institute additional measures to help protect us from a privacy breach.

Despite our security measures, it is possible that unauthorized persons (through cyberattacks, which are evolving and becoming increasingly sophisticated, physical breach or other means) might defeat our security measures, those of Wells Fargo or of our other third-party service providers or vendors, and obtain personal information of customers, employees or others. While we likewise have measures in place to prevent exposing the personal information of customers, employees or others, we are at continued risk for exposure of such information.

We have purchased Cyber Risk Liability insurance to provide some financial protection should a privacy breach occur; however, such a compromise, whether in our information security system or our third-party service providers or vendors, resulting in personal information being obtained by or exposed to unauthorized persons could adversely affect our operations, results of operations, financial condition and liquidity, and could result in litigation against us or the imposition of penalties. For example, customers have an increasingly high expectation that companies will adequately protect their personal information from security breaches or cyberattacks and unauthorized exposure. Our reputation and our ability to attract new customers could be materially adversely impacted if we fail, or are perceived to have failed, to properly prevent and respond to these incidents. In addition, a security breach could require that we expend significant additional resources related to our information security systems and could result in a disruption of our operations, particularly our online sales operations.

A security breach also could result in a violation attributable to the Company of applicable U.S. and international privacy and other laws, and subject us to litigation by private customers, business partners, or securities litigation and regulatory investigations and proceedings, any of which could result in our exposure to material civil or criminal liability. The regulatory environment surrounding information security, cybersecurity, and privacy is increasingly demanding, with new and changing requirements, such as the European Union's General Data Protection Regulation and the California Consumer Privacy Act. Security breaches, cyber incidents or allegations that we used personal information in violation of applicable privacy and other laws could result in significant legal and financial exposure.



Litigation with customers, employees and others could harm our reputation and impact operating results. In the ordinary course of business, we may be involved in lawsuits and regulatory actions. We are impacted by trends in litigation, including, but not limited to, class-action allegations brought under various consumer protection, employment, and privacy and information security laws. Additionally, we may be subject to employment-related claims alleging discrimination, harassment, wrongful termination and wage issues, including those relating to overtime compensation. We are susceptible to claims filed by customers alleging responsibility for injury suffered during a visit to a store or from product defects, and we are also subject to lawsuits filed by patent holders alleging patent infringement. These types of claims, as well as other types of

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lawsuits to which we are subject from time to time, can distract management's attention from core business operations and impact operating results, particularly if a lawsuit results in an unfavorable outcome.

Our profitability may be adversely impacted by weather conditions.

Our merchandise assortments reflect assumptions regarding expected weather patterns and our profitability depends on our ability to timely deliver seasonally appropriate inventory. Unexpected or unseasonable weather conditions could render a portion of our inventory incompatible with consumer needs. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of the Company's inventory incompatible with those unseasonable conditions. Additionally, extreme weather or natural disasters, particularly in the areas in which our stores are located, could also severely hinder our ability to timely deliver seasonally appropriate merchandise. For example, frequent or unusually heavy snowfall, ice storms, rainstorms, hurricanes or other extreme weather conditions over a prolonged period could make it difficult for the Company's customers to travel to its stores and thereby reduce the Company's sales and profitability. A reduction in the demand for or supply of our seasonal merchandise or reduced sales due to reduced customer traffic in our stores could have an adverse effect on our inventory levels, gross margins and results of operations.

Natural disasters, war, acts of violence, acts of terrorism, other armed conflicts, and public health issues may adversely impact our business.

The occurrence of, or threat of, a natural disaster, war, acts of violence, acts of terrorism, other armed conflicts, and public health issues could disrupt our operations, disrupt international trade and supply chain efficiencies, suppliers or customers, or result in political or economic instability. If commercial transportation is curtailed or substantially delayed our business may be adversely impacted, as we may have difficulty shipping merchandise to our distribution centers, fulfillment centers, stores, or directly to customers. As a result of the occurrence of, or threat of, a natural disaster, acts of violence or acts of terrorism in the United States, we may be required to suspend operations in some or all of our stores, which could have a material adverse impact on our business, financial condition, and results of operations.

Increases in employee wages and the cost of employee benefits could impact the Company's financial results and cash flows.

The Company's expenses relating to employee wages and health benefits are significant. Increases in employee wages, including the minimum wage, or unfavorable changes in the cost of healthcare benefits could impact the Company's financial results and cash flows. Healthcare costs have risen significantly in recent years, and recent legislative and private sector initiatives regarding healthcare reform have resulted and could continue to result in significant changes to the U.S. healthcare system. Due to the breadth and complexity of the U.S. healthcare system, and uncertainty regarding legislative or regulatory changes, the Company is not able to fully determine the impact that future healthcare reform will have on our company sponsored medical plans.

The Company depends on its ability to attract and retain quality employees, and failure to do so could adversely affect our ability to execute our business strategy and our operating results.

The Company's business is dependent upon attracting and retaining quality employees. The Company has a large number of employees, many of whom are in entry level or part-time positions with historically high rates of turnover. The Company's ability to meet its labor needs while controlling the costs associated with hiring and training new employees is subject to external factors such as unemployment levels, changing demographics, prevailing wage rates, and current or future minimum wage and healthcare reform legislation. In addition, as a complex enterprise operating in a highly competitive and challenging business environment, the Company is highly dependent upon management personnel to develop and effectively execute successful business strategies and tactics. Any circumstances that adversely impact the Company's ability to attract, train, develop and retain quality employees throughout the organization could adversely affect the Company's business and results of operations.

Variations in the amount of vendor allowances received could adversely impact our operating results.

We receive vendor allowances for advertising, payroll and margin maintenance that are a strategic part of our operations. A reduction in the amount of cooperative advertising allowances would likely cause us to consider other methods of advertising as well as the volume and frequency of our product advertising, which could increase/decrease our expenditures and/or revenue. Decreased payroll reimbursements would either cause payroll costs to rise,

negatively impacting operating income, or cause us to reduce the number of employees, which may cause a decline in sales. A decline in the amount of margin maintenance allowances would either increase cost of sales, which would negatively impact gross margin and operating income, or cause us to reduce merchandise purchases, which may cause a decline in sales.

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Our operations are dependent on information technology systems, and disruptions in those systems could have an adverse impact on our results of operations.

Our operations are dependent upon the integrity, security and consistent operation of various systems and data centers, including the point-of-sale systems in the stores, our Internet website, data centers that process transactions, communication systems and various software applications used throughout our Company to track inventory flow, process transactions and generate performance and financial reports. The Company's computer systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, cyberattack or other security breaches, catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes, acts of war or terrorism, and usage errors by the Company's employees. If the Company's computer systems are damaged or cease to function properly, the Company may have to make a significant investment to repair or replace them, and the Company may suffer loss of critical data and interruptions or delays in its operations in the interim. Any material interruption in the Company's computer systems could adversely affect its business or results of operations.

Additionally, to keep pace with changing technology, we must continuously provide for the design and implementation of new information technology systems and enhancements of our existing systems. We could encounter difficulties in developing new systems or maintaining and upgrading existing systems. Such difficulties could lead to significant expenses or to losses due to disruption in business operations.

The cost-to-cost method of accounting that we use to recognize contract revenues for our construction segment may result in material adjustments, which could result in a credit or a charge against our earnings.

Our construction segment recognizes contract revenues based on the cost-to-cost method. Under this method, estimated contract revenues are measured based on the ratio of costs incurred to total estimated contract costs.

Estimated contract losses are recognized in full when determined. Total contract revenues and cost estimates are reviewed and revised at a minimum on a quarterly basis as the work progresses and as change orders are approved.

Adjustments are reflected in contract revenues in the period when these estimates are revised. To the extent that these adjustments result in an increase, a reduction or an elimination of previously reported contract profit, we are required to recognize a credit or a charge against current earnings, which could be material.

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## ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

## ITEM 2. PROPERTIES.

All of our stores are owned by us or leased from third parties. At February 2, 2019, we operated 291 stores in 29 states totaling approximately 49.0 million square feet of which we owned approximately 44.3 million square feet. Our third-party store leases typically provide for rental payments based on a percentage of net sales with a guaranteed minimum annual rent. In general, the Company pays the cost of insurance, maintenance and real estate taxes related to the leases.

The following table summarizes by state of operation the number of retail stores we operate and the corresponding owned and leased footprint at February 2, 2019:

Location	Number of stores	Owned Stores	Leased Stores	Owned Building on Leased Land	Partially Owned and Partially Leased
Alabama	9	9	—	—	—
Arkansas	8	8	—	—	—
Arizona	17	16	—	1	—
California	3	3	—	—	—
Colorado	7	7	—	—	—
Florida	42	39	1	2	—
Georgia	12	8	3	1	—
Iowa	5	5	—	—	—
Idaho	2	2	—	—	—
Illinois	3	3	—	—	—
Indiana	3	3	—	—	—
Kansas	5	3	—	2	—
Kentucky	6	5	1	—	—
Louisiana	15	14	1	—	—
Missouri	9	6	1	2	—
Mississippi	6	4	1	1	—
Montana	2	2	—	—	—
North Carolina	14	14	—	—	—
Nebraska	3	2	1	—	—
New Mexico	6	3	3	—	—
Nevada	5	5	—	—	—
Ohio	13	11	2	—	—
Oklahoma	10	6	4	—	—
South Carolina	7	7	—	—	—
Tennessee	10	8	1	—	1
Texas	57	44	7	1	5
Utah	5	5	—	—	—
Virginia	6	5	—	1	—
Wyoming	1	1	—	—	—
Total	291	248	26	11	6



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At February 2, 2019, we operated the following additional facilities:

Facility	Location	Square Feet	Owned / Leased
Distribution Centers:	Mabelvale, Arkansas	400,000	Owned
	Gilbert, Arizona	295,000	Owned
	Valdosta, Georgia	370,000	Owned
	Olathe, Kansas	500,000	Owned
	Salisbury, North Carolina		