GENESIS MICROCHIP INC /DE
Form 10-K
June 09, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended March 31, 2005

OR

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

Commission file number: 000-33477

GENESIS MICROCHIP INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**77-0584301**
(State of incorporation)	**(IRS employer identification number)**
2150 GOLD STREET	
P.O. BOX 2150	
ALVISO, CALIFORNIA	**95002**
(Address of principal executive offices)	**(Zip Code)**

(408) 262-6599

(Registrant s telephone number)

Securities registered pursuant to section 12(g) of the Act:

Shares of Common Stock, $0.001 par value

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No ¨

The aggregate market value of the voting stock held by non-affiliates of the registrant as of September 30, 2004 was approximately $358,009,511 based on the number of shares held by non-affiliates of the registrant as of September 30, 2004, and based on the reported last sale price of common stock on September 30, 2004, which was the last business day of the registrant s most recently completed second fiscal quarter. This calculation does not reflect a determination that persons are affiliates for any other purposes. Shares of stock held by five percent stockholders have been excluded from this calculation as they may be deemed affiliates.

The number of shares outstanding of the issuer s common stock as of March 31, 2005 was 33,480,301.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Proxy Statement for the 2005 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13 and 14 hereof.

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STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations concerning matters that are not historical facts. Words such as projects, believes, anticipates, plans, expects, intends and similar words and expressions are intended to identify forward-looking state
We believe that the expectations reflected in the forward-looking statements are reasonable but we cannot assure you that those expectations will prove to be correct. Important factors that could cause our actual results to differ materially from those expectations are disclosed in this report, including, without limitation, in the Risk Factors described in Item 7. All forward-looking statements are expressly qualified in their entirety by these factors and all related cautionary statements. We do not undertake any obligation to update any forward-looking statements.

TRADEMARKS

Genesis®, Genesis Display Perfection, Faroudja®, DCDi® by Faroudja, Faroudja Picture Plus®, Faroudja DCDi Cinema®, Faroudja DCDi Edge®, Nuon®, SmartSCAN®, RealColor®, Real Recovery, Ultra-Reliable DVI®, Energy Spectrum Management®, and ESM® are our trademarks or registered trademarks. This report also refers to the trademarks of other companies.

AVAILABLE INFORMATION

Our Internet address is www.gnss.com. We make publicly available free of charge on our Internet Web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

In addition, the public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

CODES OF ETHICS

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of our codes of ethics by filing a current report on Form 8-K with the Securities and Exchange Commission disclosing such information or, to the extent permissible, by posting such information on our Web site, www.gnss.com, within the period required by Item 10 of Form 8-K and, as applicable, the listing standards of the Nasdaq National Market.

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PART I

ITEM 1. *BUSINESS:*

OVERVIEW

We design, develop and market integrated circuits called display controllers that receive and process analog and digital video and graphic images for viewing on a flat-panel display. Our display controllers are typically located inside a flat-panel display device, such as a flat-panel computer monitor or television. We are currently targeting established display applications such as flat-panel computer monitor, and display applications such as liquid crystal display (LCD) television, plasma television and digital television.

The transition from analog display systems, such as most televisions and computer monitors that use cathode ray tubes (CRTs), to digital display systems that use a fixed matrix of pixels to represent an image, requires sophisticated digital image-processing solutions. Our products solve input, resolution, format and frame refresh rate conversion problems while maintaining critical image information and improving image quality. Our display controller products utilize patented algorithms and integrated circuit architectures as well as advanced integrated circuit design and system design expertise.

We began business as a Canadian company in 1987, and changed our domicile to become a Delaware corporation in February 2002. Until 1999, we were focused primarily on developing digital image processing technologies. In May 1999, we acquired a private U.S. corporation, Paradise Electronics, Inc., which, in addition to developing digital image processing technologies, was developing analog and mixed signal communications technologies. We have now combined analog and mixed signal technologies with digital image processing technologies into more comprehensive display controller solutions.

In February 2002, we acquired a public U.S. corporation, Sage, Inc. In addition to bringing additional image processing and mixed signal technologies to address the flat-panel monitor market, Sage was developing significant expertise in technologies addressing other emerging display applications, including those technologies acquired during Sage s acquisition of Faroudja, Inc. in June 2000. In March 2002, we acquired the technology assets of VM Labs, Inc. Those technologies included digital video decoding and audio technologies. These acquisitions improved our product offerings for the flat-panel monitor market, and our ability to diversify our business into other emerging display markets, such as LCD television.

In March 2003, we entered into an agreement to merge with Pixelworks, Inc., an Oregon corporation. In August 2003, both companies agreed to terminate the proposed merger. Under the terms of the agreement, the parties agreed to a mutual release of claims, and Pixelworks paid us $5.5 million as a reimbursement of our expenses.

We operate through subsidiaries and offices in the United States, Canada, China, India, Japan, South Korea and Taiwan. Our business is conducted globally, with the majority of our suppliers and customers located in China, Japan, South Korea and Taiwan. For a geographical breakdown of our revenues, long-lived assets and information regarding our operating segment, see Note 14 to our consolidated financial statements included in Item 8 of this report.

MARKETS AND APPLICATIONS

Our targeted applications include the following:

Flat-Panel Computer Monitors. Flat-panel computer monitors using LCDs are increasingly replacing monitors that use CRTs. For the year ended March 31, 2005, the flat-panel computer monitor controller market represented an estimated 54% of our total revenues. Companies whose flat-panel computer monitors incorporate our products include AOC, BenQ, Dell, Fujitsu, Gateway, Hewlett-Packard, IBM, Legend, Lite-On, NEC, Philips, Samsung, Sony, ViewSonic, and many other leading brands.

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Flat-Panel Television. We are leveraging our technologies in video image processing to produce products for the fast-growing flat-panel television and high definition digital television applications. These products may also be designed into other applications such as home theaters, video projectors and DVD players. Companies whose flat-panel televisions incorporate our products include leading manufacturers for these TVs, such as Changhong, Dell, Eizo, Fujitsu, Hisense, Iiyama, LG, NEC, Philips, Samsung, Sharp, Sony, Toshiba, Vestel and Zenith. For the year ended March 31, 2005, the flat-panel television controller market represented an estimated 44% of our total revenues.

Faroudja Home Theater Systems. We leverage our patented technologies to develop, manufacture and sell a broad portfolio of products catering to the home theater and industrial markets. These products include video processors that produce cinema-quality images for large screen applications such as home theaters; plasma packages that combine optimized plasma panels with high performance digital video processors; projector packages and DLP projectors that offer high performance, digital theater projection systems for business and home theater applications, all sold through authorized home theater dealers and installers. For the year ended March 31, 2005, the Faroudja home theater systems business represented an estimated 2% of our total revenues.

PRODUCTS

The following table shows our principal integrated circuit product families and Faroudja home theater systems as of March 31, 2005:

PRODUCT FAMILY	DESCRIPTION	MARKETS
FLI22xx/FLI23xx	Video format conversion and image enhancement processors	CRT TVs, flat-panel TVs, DVD players, video projectors
gm15xx/gm16xx	Graphics/TV video processors for SXGA-WUXGA resolutions	LCD monitors, flat-panel TVs, video projectors
gm21xx	Integrated analog LCD monitor controllers (for XGA and SXGA-resolution monitors)	LCD monitors and other fixed-resolution pixilated displays
gm22xx/gm52xx	Integrated LCD monitor controllers supporting resolutions up to SXGA	Multi-function monitors and entry-level LCD TVs
gm23xx/gm53xx	Integrated LCD monitor controllers supporting resolutions up to SXGA	LCD monitors
gm50xx	Dual interface analog and DVI LCD monitor controllers (for XGA to UXGA resolutions) with frame rate conversion	Multi-synchronous LCD monitors and other fixed-resolution pixelated displays
gm51xx	Dual interface analog and DVI LCD monitor controllers (for XGA and SXGA-resolution monitors)	LCD monitors and other fixed-resolution pixelated displays
gm60xx	Digital TV video processors	CRT TVs, flat-panel TVs, video projectors
gm 7030	Digital CRT interface controller	Digital CRT displays
gmZAN3xx	Analog interface LCD monitor controllers (for XGA and SXGA-resolution monitors)	LCD monitors and other fixed-resolution pixelated displays
JagASM/Jag200	Analog and digital interface LCD monitor controllers (for SXGA to UXGA-resolution monitors)	Multi-synchronous LCD monitors and other fixed-resolution pixelated displays

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PRODUCT FAMILY	DESCRIPTION	MARKETS
gm56xx/26xx (Phoenix)	Pin/firmware compatibly family of analog & dual (DVI & analog) input LCD monitor controllers for XGA and SXGA resolutions	Mainstream LCD monitors using LVDS or RSDS LCD panels
FLI8125 (Hudson)	Single chip flat-panel TV controller for cost sensitive applications with 2D NTSC/PAL decoder and DCDI Edge Faroudja video processing	Cost-sensitive flat-panel and digital CRT TVs
FLI8532 (Cortez)	Single chip high-end flat-panel TV controller with 3D NTSC/PAL decoder and high-end DCDI Cinema Faroudja video processing	Mid-range to high-end flat-panel TVs
FLI5961 (Oak)	Single chip highly integrated, mixed-signal LCD controller for multi- function monitors supporting resolutions up to WUXGA	Multi-function monitors
Faroudja Home Theater Systems Products		
DVP1000/1010	Digital video processors	HD projection and fixed-pixel displays. Professional/high-end home theater systems
DVP1500/1510	Digital video processors that incorporate DVD drives	HD projection and fixed-pixel displays. Professional/high-end home theater systems
DVP4000	Digital video processors that incorporate DVD drives	HD projection and fixed-pixel displays. Professional/high-end home theater systems
Plasma packages	42-inch, 50-inch or 61-inch High Definition plasma TVs packaged and optimized for use with Faroudja digital video processor systems	HD projection and fixed-pixel displays. Professional/high-end home theater systems
Projection systems	High Definition DLP and DILA projectors packaged and customized for use with Faroudja digital video processor systems	HD projection and fixed-pixel displays. Professional/high-end home theater systems

RESEARCH AND DEVELOPMENT

Our research and development efforts are performed within the following specialized groups:

Algorithm development group: focuses on developing high-quality image processing technologies and their implementation in silicon.

Product development group: focuses on developing standard semiconductor components to service our monitor and computer OEM customers. In addition, we develop semiconductor components to serve customers who are designing products for new market applications, such as flat-panel television and other potential mass markets.

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Software engineering group: develops the software environment required for our products to work within target systems. Software is embedded in many of our products. The other major role of software engineering is tool development. We provide sophisticated software tools to help our customers develop their applications and customize their software to improve the productivity of those engineers involved in the process of getting their products into production.

As of March 31, 2005, we had 207 full-time employees engaged in research and development. Expenditures for research and development, including stock-based compensation, were $33.3 million for the year ended March 31, 2005, $31.0 million for the year ended March 31, 2004 and $33.3 million for the year ended March 31, 2003.

CUSTOMERS, SALES AND MARKETING

Our sales and marketing personnel work closely with customers, industry leaders, sales representatives and our distributors to define features, performance, price and market timing of our products. We focus on developing long-term customer relationships with both system manufacturers and equipment manufacturers. Our marketing group includes application engineers who support customer designs as well as producing evaluation boards and reference designs for both LCD monitors and flat-panel television applications, thereby providing complete turnkey solutions that facilitate the integration of our products into the end products manufactured by our customers.

We sell and market our products directly to customers and through regional sales representatives and distributors. Prior to selling our products, we provide our customers with technical support, design assistance and customer service both at their facilities and through our offices in the United States, Canada, India, Japan, South Korea, China, and Taiwan. Our sales representatives and distributors also provide ongoing support and service on our behalf. We generally provide a one-year warranty for our integrated circuit products.

We derive a substantial portion of our revenues from a limited number of products. For the year ended March 31, 2005, our top five products contributed 52% of our total revenues. For the year ended March 31, 2004, our top five products contributed 44% of our total revenues. For the year ended March 31, 2003, our top five products contributed 52% of our total revenues.

Our sales are also derived from a limited number of customers. Our largest five customers accounted for 52% of total revenues in fiscal 2005, 53% of total revenues in fiscal 2004 and 55% of total revenues in fiscal 2003.

For the year ended March 31, 2005, two customers, Samsung Electronics Co. and LG Electronics, Inc., each accounted for more than 10% of our total revenues. For the year ended March 31, 2004, two customers, Samsung Electronics Co. and Royal Philips Electronics, N.V., each accounted for more than 10% of our total revenues. For the year ended March 31, 2003, two customers, Samsung Electronics Co. and LG Electronics, Inc., each accounted for more than 10% of our total revenues. At March 31, 2005 one customer represented more than 10% of accounts receivable trade. At March 31, 2004 and 2003, two and four customers each represented more than 10% of accounts receivable trade, respectively. The loss of any significant customer could have a material adverse impact on our business.

We sell our products primarily outside of the United States. For the year ended March 31, 2005, 96% of our revenues were from sales to China, Japan, South Korea, Taiwan, other countries located in Asia, and Europe, and 4% of our revenues were from customers in the United States.

Additional information on the concentration of our revenues by geography, customers and markets can be found in Note 14 to our consolidated financial statements included in Item 8 of this report.

As of March 31, 2005, our sales and marketing force totaled 172 people. This included 60 field application engineers whose role is to create reference designs and assist our customers to incorporate our integrated circuits into their products.

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MANUFACTURING

Third parties with state-of-the-art fabrication equipment and technology manufacture our products. This approach enables us to focus on product design and development, minimizes capital expenditures and provides us with access to advanced manufacturing facilities. Currently, our products are being fabricated, assembled or tested by Taiwan Semiconductor Manufacturing Corporation, Advanced Semiconductor Engineering, International Semiconductor Engineering Labs, Global Advanced Packaging Technology Co. Ltd., STATS ChipPAC Ltd., and Siliconware Precision Industries Ltd. These manufacturers assemble and test our products based on the design and test specifications we have provided. After this process has been completed, the manufacturers will then ship our products to OEMs or system integrators for integration into the final product. As semiconductor manufacturing technologies advance, manufacturers typically retire their older manufacturing processes in favor of newer processes. When this occurs, the manufacturer generally provides notice to its customers of its intent to discontinue a process, and its customers will either retire the affected part or design a newer version of the part that can be manufactured on the more advanced process. Consequently, our products may become unavailable from their current manufacturers if the processes on which they are produced are discontinued. Our devices are produced using 0.25, 0.18 and 0.16 micron process technologies and these geometries will likely be available for the next two to three years. We must manage the transition to new parts from existing parts. We have commitments from our suppliers to provide notice of any discontinuance of their manufacturing processes in order to assist us in managing these types of product transitions.

All of our products are currently sourced such that we have only one supplier for any one semiconductor die. Based on our current production volumes, this approach of single sourcing is reasonable. As our volumes grow, we intend to secure sufficient fabrication capacity and diversify our sources of supply. Any inability of a current supplier to provide adequate capacity would require us to obtain products from alternate sources. There is a considerable amount of time required to change or start a new wafer fabrication supplier for any single product, as well as substantial costs to bring that supplier into volume production. Should a source of a product cease to be available, we believe that this would have a material adverse effect on our business, financial condition and results of operations. We have no guarantees of minimum capacity from our suppliers and are not liable for minimum purchase commitments.

QUALITY ASSURANCE

Genesis strives for continuous quality improvement and consistent delivery of high quality outputs at all stages of product development, manufacturing and delivery. We are an ISO 9001 certified company. We aim to provide reliable, high quality products and services by assigning stringent checks and controls at all stages of product creation and delivery.

Our business model requires use of manufacturing subcontractors. Since we depend heavily on our subcontractors ability to meet our requirements and provide quality products, we must carefully select our subcontractors. We employ detailed processes for supplier qualification, monitoring and review to help ensure quality of our subcontractors deliverables. All our primary manufacturing subcontractors are ISO 9000 certified.

We also focus on continuous process improvement. This improvement is not limited to manufacturing and testing processes. We review our development and product planning processes in an effort to design quality into our products from the start. We also have demanding criteria for various stages of product release. Product is considered fit for release to mass production only when compliance to these criteria is considered satisfactory upon formal cross-functional reviews.

We use data provided by subcontractors as well as our own qualification testing in an effort to ensure that our products are reliable. This testing includes accelerated stress testing at elevated temperatures and voltages, environment testing and many other types of testing using methods

which are recognized industry standards. The need for failure analysis may arise during product development or during use by a customer. We perform failure

analysis of our devices using in-house and subcontracted facilities. Depending on the failure we use both non- destructive and destructive failure analysis techniques so as to ensure that any decisions to be taken as a result of the failure are informed and based on quantifiable information and data.

We have also taken steps towards addressing environmental concerns. For example, we have qualified lead-free packaging for our products to provide our customers the option of ordering products in lead-free packaging.

INTELLECTUAL PROPERTY AND LICENSES

We protect our technology through a combination of patents, copyrights, trade secret laws, trademark registrations, confidentiality procedures and licensing arrangements. We have over 185 United States and foreign patents with additional patent applications pending. In addition to the United States, we apply for and have been granted numerous patents in other jurisdictions, including Europe, China, Singapore, Japan, Taiwan and South Korea. Our patents relate to various aspects of algorithms, product design or architectures. To supplement our proprietary technology, we also license technology from third parties.

We have patents in the areas of scaling and format detection that expire in 2017, which we believe are material to our monitor business. We also believe that these patents are enforceable. However, we do not believe that our patents necessarily prohibit third parties from competing with us, as other parties may be able to design competing products without relying on our patents. In addition, our ability to enforce our patents is subject to general litigation risks. In protecting our patents, we may need to litigate to assure our patents are not infringed. Litigation can be time-consuming and expensive, and there can be no assurance that we will be successful in any litigation we undertake. An unfavorable outcome to litigation could result in invalidation of the patents we assert.

COMPETITION

The market in which we operate is intensely competitive and is characterized by technological change, evolving industry standards and rapidly declining average selling prices. We face competition from both large companies and start-up companies, including ATI Technologies, Broadcom Corp., Intel Corp., LSI Logic Corp., Micronas Semiconductor Holding AG, Media Reality Technologies, Inc., Mediatek Corp., Mstar Semiconductor, Inc., Novatek Microelectronics, Philips Semiconductors, a division of Philips Electronics N.V., Pixelworks, Inc., Realtek Semiconductor Corp., Silicon Image, Inc., ST Microelectronics, Inc., Trident Microsystems, Inc., and Zoran Corporation. In addition, many our of current and potential customers have their own internally developed integrated circuit solutions, and may choose not to purchase solutions from third party suppliers like Genesis. We anticipate that as the market for our products develops, our current customers may develop their own products and competition from diversified electronic and semiconductor companies will intensify. Some competitors are likely to include companies with greater financial and other resources than us. Increased competition could harm our business, by, for example, increasing pressure on our profit margins or causing us to lose customers.

We believe that the principal competitive factors in our markets are:

- product design features and performance,

- product price,
- image quality,
- the time to market of our products, and
- the quality and speed of customer support.

BACKLOG

Our customers typically order products using purchase orders that may be canceled or rescheduled without significant penalty. These purchase orders are subject to price negotiations and to changes in quantities of

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products and delivery schedules that reflect changes in their requirements and manufacturing availability. Historically, most of our sales have been made pursuant to short lead-time orders. In addition, our actual shipments depend on the manufacturing capability of our suppliers and the availability of products from those suppliers. As a result of the foregoing factors, we do not believe our backlog at any given time is necessarily a meaningful indicator of our future revenues. We do, however, track revenue and backlog trends on a quarter-to-quarter basis as a means of comparing revenue at a particular date in a quarter to revenue at comparable dates in past quarters.

EMPLOYEES

As of March 31, 2005, we employed a total of 476 full-time employees, including 207 in research and development, 172 in sales and marketing, 40 in manufacturing operations and 57 in finance, information technology, human resources and administration. We employ a number of temporary and part-time employees and consultants on a contract basis. Our employees are not represented by a collective bargaining organization. We believe that relations with our employees are satisfactory.

EXECUTIVE OFFICERS

The following table lists the names and positions held by each of our executive officers as of March 31, 2005:

NAME	AGE	POSITION
Elias Antoun	48	Chief Executive Officer and Director
Anders Frisk	49	Executive Vice President
Michael Healy	43	Chief Financial Officer and Senior Vice President, Finance
Tzoyao Chan	52	Senior Vice President, Engineering
Raphael Mehrbians	45	Senior Vice President, Product Marketing
Mohammad Tafazzoli	45	Senior Vice President, Operations
Ernest Lin	51	Senior Vice President, Worldwide Sales
Rajeev Munshi	41	Vice President, Quality Assurance
Ken Murray	54	Vice President, Human Resources
Ava Hahn	32	General Counsel and Secretary

Elias Antoun has served as Chief Executive Officer and a member of our Board of Directors since November 2004. Prior to his appointment, Mr. Antoun served as the President and Chief Executive Officer of Pixim, Inc., an imaging solution provider for the video surveillance market, between March 2004 and November 2004. From February 2000 to August 2003, Mr. Antoun served as the President and Chief Executive Officer of MediaQ, Inc., a mobile handheld graphics IC company acquired by NVIDIA Corporation in August 2003. From January 1991 to February 2000, Mr. Antoun held a variety of positions with LSI Logic Corporation, most recently serving as Executive Vice President of the Consumer Products Division from 1998 until his departure in January 2000. Mr. Antoun has served as a Director of HPL Technologies, Inc. since August 2000 and as Chairman of the Board of Directors of HPL Technologies, Inc. since July 2002.

Anders Frisk has served as Executive Vice President since January 2003. Mr. Frisk joined Genesis in March 2000 as Vice President, Marketing. Prior to then, he served as Director of Technology Planning with Nokia from February 1998 to March 2000, and as PC Architecture Manager with Fujitsu ICL Computers from April 1991 to January 1998. Mr. Frisk has served on the board of the Video Electronics Standards Association, or VESA, and chaired VESA s Monitor Committee for four years. Mr. Frisk holds a master s degree in electrical engineering from Stockholm s Royal Institute of Technology.

Michael Healy has served as Chief Financial Officer and Senior Vice President of Finance since February 2004. Previously, Mr. Healy served as Chief Financial Officer of Jamcracker, Inc., a software and application

service provider, from November 2002 to February 2004. From September 1997 to January 2002, Mr. Healy held senior level finance positions at Exodus Communications, including Senior Vice President of Finance. Prior to then, he held various senior financial management positions at Apple Computer, and was an auditor at Deloitte & Touche. Mr. Healy holds a bachelor s degree in accounting from Santa Clara University and is a Certified Public Accountant. Mr. Healy is a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

Tzoyao Chan has served as Senior Vice President, Engineering since February 2003. Prior to then, Mr. Chan served as Vice President, Engineering from May 1999. Mr. Chan joined Genesis as the result of the merger with Paradise Electronics. Prior to joining Paradise in May 1997, Dr. Chan was Director of Engineering at Cirrus Logic, Inc., a semiconductor company. He has also held various engineering and management positions at several chip-design companies including Bell Labs (now Lucent Technology), Intel Corp, LSI Logic, Chips & Technologies and S3. Dr. Chan holds a Ph.D. in electrical engineering from the University of Arizona.

Raphael Mehrbians has served as Senior Vice President, Product Marketing since September 2003. Mr. Mehrbians joined Genesis in February 2002 as Vice President, LCD Monitor Product Marketing. Mr. Mehrbians served as Director of Marketing for NeoMagic Corporation, a handheld applications processor company, from October 1999 to February 2002. Prior to then, he was Vice President of Product Marketing for Lexar Media, a digital storage media company, from April 1997 to October 1999. Mr. Mehrbians also served in various positions including Director of Marketing for Cirrus Logic, Inc., a semiconductor company, from September 1985 to April 1997. Mr. Mehrbians holds a bachelor s degree from the University of Michigan, and a master s degree in electrical engineering from the University of Michigan.

Mohammad Tafazzoli has served as Senior Vice President, Operations since May 2004. Prior to then, Mr. Tafazzoli served as Vice President, Operations from June 2000. He was previously the Director of Operations at Genesis and joined the company as a result of the merger with Paradise Electronics. Prior to joining Paradise in 1998, Mr. Tafazzoli was a Senior Manager, Product Engineering for the Graphics Business Unit of Cirrus Logic, Inc., a semiconductor company, from October 1993 to March 1998. Mr. Tafazzoli holds a bachelor s degree in electrical engineering from San Jose State University.

Ernest Lin has served as Senior Vice President, Worldwide Sales since January 2005. Prior to joining Genesis, Mr. Lin served as vice president of global sales at NeoMagic Corporation, a semiconductor company, from December 2001 to December 2004. Prior to then, Mr. Lin served as executive vice president of business operations for LinkUp System Corporation from September 1997 until its acquisition by NeoMagic in December 2001. Prior to then, Mr. Lin held several executive management, sales and engineering positions, including vice president, Asia Pacific Sales, at Cirrus Logic. Mr. Lin holds an M.B.A. from Santa Clara University, a master s degree in computer science from the University of Utah and a bachelor s degree in electrical engineering from the National Taiwan University in Taipei, Taiwan.

Rajeev Munshi has served as Vice President, Quality Assurance since December 2002. Mr. Munshi joined Genesis in December 2000 as Director of Quality Assurance. From June 2000 to December 2000, Mr. Munshi served as Director of Quality Assurance for ChipPAC, Inc., a provider of semiconductor packaging and test services. From 1997 to December 2000, Mr. Munshi was Director of Quality and Reliability of the Mass Storage Division at Cirrus Logic Inc., a semiconductor company. Mr. Munshi holds a bachelor s degree from Delhi University, India and an M.B.A. from California State University at Stanislaus.

Ken Murray has served as Vice President, Human Resources since August 2000. He served as Vice President, Human Resources at Chordiant Software from November 1999 to August 2000 and at NeoMagic Corporation from July 1997 to November 1999. From 1984 to July 1997, Mr. Murray served as Vice President, Human Resources for Akashic Memories Corporation, a magnetic media company. Mr. Murray holds a bachelor s degree in business administration from San Jose State University.

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Ava Hahn has served as General Counsel since May 2003, and as Secretary since October 2003. Ms. Hahn joined Genesis in August 2002 as Corporate Counsel. From September 2002 to October 2003, she also served as Assistant Secretary. Prior to Genesis, from August 2000 to August 2002, Ms. Hahn was Director, Legal Affairs at LuxN, Inc., an optical networking company. Prior to then, Ms. Hahn was an attorney at Wilson Sonsini Goodrich & Rosati, P.C. Ms. Hahn holds a bachelor s degree from the University of California at Berkeley and a J.D. from Columbia Law School.

ITEM 2. ***PROPERTIES:***

Our principal administrative, sales, marketing, service and research and development offices are located in leased offices in Alviso, California. We also lease offices in San Jose, California, Thornhill, Ontario, Canada, and Bangalore, India primarily for research and development. In addition, we lease offices in Taipei, Taiwan, Seoul, South Korea, Shenzen, China, Shanghai, China, and Tokyo, Japan primarily for sales and field support. We believe our existing facilities are adequate to meet our needs for the immediate future and that future growth can be accomplished by leasing additional or alternative space on commercially reasonable terms. Further information on our lease commitments can be found in Note 13 to our consolidated financial statements included in Item 8 of this report.

ITEM 3. ***LEGAL PROCEEDINGS:***

Silicon Image Litigation

In April 2001, Silicon Image, Inc. (Silicon Image) filed a patent infringement lawsuit against Genesis in the United States District Court for the Eastern District of Virginia (District Court) and simultaneously filed a complaint before the United States International Trade Commission (ITC). The complaint and suit alleged that certain Genesis products that contain digital receivers infringe various Silicon Image patent claims. Silicon Image was seeking an injunction to halt the sale, manufacture and use of Genesis s DVI receiver products and unspecified monetary damages. In December 2001, Silicon Image formally moved to withdraw its complaint before the ITC and those proceedings have terminated.

In July 2003, the District Court issued a memorandum opinion, followed by a final judgment in August 2003 and an amended final judgment in December 2003. In its opinion, the District Court ruled that Genesis and Silicon Image have settled their disputes based on a Memorandum of Understanding (MOU) signed on December 18, 2002. The District Court s opinion states that the MOU is a binding settlement agreement and that Genesis will pay Silicon Image a monetary settlement, license fee and running royalties on all DVI and HDMI products. We recorded a provision for costs associated with this patent litigation in the year ended March 31, 2003; a portion of which was paid in escrow to the court in August 2003 and an additional undisclosed amount was paid to the court as a bond in March 2004. The payments to the court have been accounted for as reductions of the related liability. In addition, we have established a reserve for contingent royalty payments in the event that the litigation is resolved against us.

In January 2004, Genesis filed a notice of appeal to the United States Court of Appeals for the Federal Circuit. On January 28, 2005, the Court of Appeals found that the district court s order was not final, and dismissed the appeal for lack of jurisdiction. The case has returned to the District Court for further adjudication.

The future financial impact arising from this dispute, any appeal or other legal actions related to the dispute, is not yet determinable.

MRT, Trumpion and Mstar Litigation

In March 2002, Genesis filed a patent infringement lawsuit against Media Reality Technologies, Inc. (MRT), SmartASIC Inc., and Trumpion Microelectronics, Inc. (Trumpion) in the United States District Court for the Northern District of California. The complaint alleges that the defendants display controllers

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infringe various claims of a Genesis U.S. patent. Genesis is seeking monetary damages and a permanent injunction that bars the defendants from making, using, importing, offering to sell, or selling the allegedly infringing products in the United States. In January 2003, Genesis announced a settlement of its litigation against SmartASIC Inc. MRT has asserted counterclaims against Genesis, alleging trade secret misappropriation, interference with economic advantage, and unfair practices and competition. Genesis intends to vigorously defend against these claims. In May 2005, the court granted Genesis s motion for summary judgment on infringement by MRT. In June 2005, as part of a settlement of the litigation, Trumpion consented to a stipulated judgment admitting its infringement of Genesis s patent.

Genesis previously filed a similar patent infringement complaint against MRT, Trumpion and Mstar Semiconductor, Inc. (Mstar) in the U.S. International Trade Commission (ITC). In August 2004, the ITC determined that Mstar, MRT and Trumpion infringe Genesis s patent, and issued an exclusion order preventing the importation of Mstar, MRT and Trumpion s infringing display controllers into the United States, as well as LCD monitors and boards containing these products.

In December 2004, Mstar filed an appeal of the exclusion order and related ITC rulings to the Federal Circuit Court of Appeals. MRT and Trumpion did not appeal.

In response to a complaint filed by MRT, the Taiwan Fair Trade Commission investigated Genesis s alleged violation of the Taiwan Fair Trade Law; however, in December 2004, the Taiwan Fair Trade Commission found that Genesis did not commit any such violation.

In response to a complaint filed by Mstar, the Taiwan Fair Trade Commission is investigating Genesis s alleged violation of the Taiwan Fair Trade Law. Genesis believes that it has meritorious defenses to the alleged violation and is cooperating with the investigation.

The future financial impact of these claims is not yet determinable and no provision has been made in our consolidated financial statements for any future costs or settlements associated with these claims.

Securities Class Action Litigation

In November 2002, a putative securities class action captioned Kuehbeck v. Genesis Microchip et al., Civil Action No. 02-CV-05344, was filed against Genesis, former Chief Executive Officer Amnon Fisher, and former Interim Chief Executive Officer Eric Erdman, and amended in July 2003 to include Executive Vice President Anders Frisk (collectively the Individual Defendants) in the United States District Court for the Northern District of California. The complaint alleges violations of Section 10(b) of the Securities and Exchange Act of 1934 (the Exchange Act) and Rule 10b-5 promulgated there under against Genesis and the Individual Defendants, and violations of Section 20(a) of the Exchange Act against the Individual Defendants. The complaint seeks unspecified damages on behalf of a purported class of purchasers of Genesis s common stock between April 29, 2002 and June 14, 2002. The parties are currently awaiting a ruling on Genesis s motion to dismiss the case. Genesis believes that it has meritorious defenses to this lawsuit and will continue to defend the litigation vigorously. The future financial impact of this claim is not yet determinable and no provision has been made in our consolidated financial statements for any future costs associated with this claim.

An unfavorable resolution of any of these lawsuits could have a material adverse effect on Genesis s business, results of operations or financial condition.

We are not a party to any other material legal proceedings.

ITEM 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS:***

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2004.

PART II

ITEM 5. ***MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS:***

MARKET INFORMATION

Our common stock trades on the Nasdaq National Market under the symbol GNSS. We have not listed our stock on any other markets or exchanges. The following table shows the high and low closing prices for our common stock as reported by the Nasdaq National Market:

	HIGH	LOW
2003 Calendar Year		
First Quarter	$ 18.15	$ 10.49
Second Quarter	$ 19.02	$ 13.05
Third Quarter	$ 16.40	$ 8.69
Fourth Quarter	$ 19.87	$ 11.25
2004 Calendar Year		
First Quarter	$ 22.36	$ 14.20
Second Quarter	$ 19.75	$ 13.20
Third Quarter	$ 13.50	$ 9.60
Fourth Quarter	$ 17.29	$ 13.45
2005 Calendar Year		
First Quarter	$ 16.35	$ 11.98
Second Quarter (to June 3)	$ 18.55	$ 13.32

As of June 3, 2005, we had approximately 185 common stockholders of record and a substantially greater number of beneficial owners.

DIVIDEND POLICY

We have never declared or paid dividends on our common stock. We currently intend to retain our earnings for use in our business and therefore we do not anticipate declaring or paying any cash dividends in the foreseeable future.

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ITEM 6. ***SELECTED CONSOLIDATED FINANCIAL DATA:***

Selected consolidated financial data for the last five fiscal years appears below (in thousands, except per share data):

	YEAR ENDED MARCH 31,				
	2005	2004	2003	2002	2001
STATEMENTS OF OPERATIONS DATA:					
Revenues	$ 204,115	$ 213,420	$ 194,325	$ 163,370	$ 63,627
Cost of revenues	117,694	127,035	119,410	89,287	32,416
Gross profit	86,421	86,385	74,915	74,083	31,211
Operating expenses:					
Research and development	33,348	30,983	33,275	21,762	17,413
Selling, general and administrative	48,300	39,149	36,231	21,469	15,947
Amortization of acquired intangibles	10,616	10,616	10,627	1,032	
Provision for costs associated with patent litigation	2,589	12,630	14,504		
Restructuring				1,858	
In-process research and development					
Total stockholders' equity	1,812,012	1,795,305	2,126,941		
Total liabilities and stockholders' equity	$4,025,646	$3,863,901	$4,471,050		

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	April 30, 2016	May 2, 2015
Net sales	$1,503,242	$1,573,493
Service charges and other income	35,555	39,925
	1,538,797	1,613,418
Cost of sales	938,579	960,419
Selling, general and administrative expenses	398,344	403,560
Depreciation and amortization	60,645	61,153
Rentals	5,990	5,757
Interest and debt expense, net	15,714	15,227
Gain on disposal of assets	(95)	(43)
Income before income taxes and income on and equity in earnings of joint ventures	119,620	167,345
Income taxes	42,200	58,040
Income on and equity in earnings of joint ventures	11	266
Net income	77,431	109,571
Retained earnings at beginning of period	3,994,211	3,734,891
Cash dividends declared	(2,491)	(2,472)
Retained earnings at end of period	$4,069,151	$3,841,990
Earnings per share:		
Basic and diluted	$2.17	$2.66
Cash dividends declared per common share	$0.07	$0.06

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	
	April 30, 2016	May 2, 2015
Net income	$77,431	$109,571
Other comprehensive income:		
Amortization of retirement plan and other retiree benefit adjustments (net of tax of $115 and $352, respectively)	186	572
Comprehensive income	$77,617	$110,143

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	April 30, 2016	May 2, 2015
Operating activities:		
Net income	$77,431	$109,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and other deferred cost	61,188	61,657
Gain on disposal of assets	(95)	(43)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	4,606	(1,012)
Increase in merchandise inventories	(273,340)	(266,443)
Decrease (increase) in other current assets	2,364	(4,520)
Decrease (increase) in other assets	1,117	(3,735)
Increase in trade accounts payable and accrued expenses and other liabilities	159,485	200,294
Decrease in income taxes payable	(12,580)	(4,496)
Net cash provided by operating activities	20,176	91,273
Investing activities:		
Purchases of property and equipment	(17,741)	(42,161)
Proceeds from disposal of assets	167	86
Decrease in restricted cash	—	7,346
Net cash used in investing activities	(17,574)	(34,729)
Financing activities:		
Principal payments on long-term debt and capital lease obligations	(223)	(203)
Cash dividends paid	(2,512)	(2,471)
Purchase of treasury stock	(52,426)	—
Net cash used in financing activities	(55,161)	(2,674)
(Decrease) increase in cash and cash equivalents	(52,559)	53,870
Cash and cash equivalents, beginning of period	202,869	403,752
Cash and cash equivalents, end of period	$150,310	$457,622
Non-cash transactions:		
Accrued capital expenditures	$3,418	$12,243
Accrued purchases of treasury stock	5,993	—

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 presentation have been included. Operating results for the three months ended April 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending January 28, 2017 due to, among other things, the seasonal nature of the business.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 30, 2016 filed with the SEC on March 23, 2016.

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 April 30, 2016:			
Net sales from external customers	$1,449,389	$ 53,853	$ 1,503,242
Gross profit	562,181	2,482	564,663
Depreciation and amortization	60,476	169	60,645
Interest and debt expense (income), net	15,730	(16)	15,714
Income before income taxes and income on and equity in earnings of joint ventures	118,779	841	119,620
Income on and equity in earnings of joint ventures	11	—	11
Total assets	3,980,286	45,360	4,025,646
Three Months Ended May 2, 2015:			
Net sales from external customers	$1,518,360	$ 55,133	$ 1,573,493
Gross profit	610,993	2,081	613,074
Depreciation and amortization	61,063	90	61,153
Interest and debt expense (income), net	15,240	(13)	15,227
Income before income taxes and income on and equity in earnings of joint ventures	166,390	955	167,345
Income on and equity in earnings of joint ventures	266	—	266
Total assets	4,410,242	60,808	4,471,050

Intersegment construction revenues of $9.8 million and $22.7 million for the three months ended April 30, 2016 and May 2, 2015, respectively, were eliminated during consolidation and have been excluded from net sales for the respective periods.

Note 3. Earnings Per Share Data

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

	Three Months Ended	
	April 30, 2016	May 2, 2015
Net income	$77,431	$109,571
Weighted average shares of common stock outstanding	35,652	41,192
Basic and diluted earnings per share	$2.17	$2.66

The Company maintains a capital structure in which common stock is the only security issued and outstanding, and there were no shares of preferred stock, stock options, other dilutive securities or potentially dilutive securities issued or outstanding during the three months ended April 30, 2016 and May 2, 2015.

Note 4. Commitments and Contingencies

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

At April 30, 2016, letters of credit totaling $26.4 million were issued under the Company's revolving credit facility.

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Note 5. Benefit Plans

The Company has an unfunded, nonqualified defined benefit plan ("Pension Plan") for its officers. The Pension Plan is noncontributory and provides benefits based on years of service and compensation during employment. The Company determines pension expense using an actuarial cost method to estimate the total benefits ultimately payable to officers and allocates this cost to service periods. The actuarial assumptions used to calculate pension costs are reviewed annually. The Company contributed $1.0 million to the Pension Plan during the three months ended April 30, 2016 and expects to make additional contributions to the Pension Plan of approximately $3.0 million during the remainder of fiscal 2016.

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

	Three Months Ended	
	April 30, 2016	May 2, 2015
Components of net periodic benefit costs:		
Service cost	$983	$983
Interest cost	1,920	1,684
Net actuarial loss	301	924
Net periodic benefit costs	$3,204	$3,591

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

Note 6. Revolving Credit Agreement

At April 30, 2016, the Company maintained a $1.0 billion unsecured revolving credit facility ("credit agreement"). The credit agreement matures on May 13, 2020 and is available to the Company for working capital needs and general corporate purposes. The Company pays a variable rate of interest on borrowings under the credit agreement and a commitment fee to the participating banks based on the Company's debt rating. The rate of interest on borrowings is LIBOR plus 1.375%, and the commitment fee for unused borrowings is 0.20% per annum.

At April 30, 2016, no borrowings were outstanding, and letters of credit totaling $26.4 million were issued under the credit agreement leaving unutilized availability under the facility of approximately $973.6 million.

To be in compliance with the financial covenants of the credit agreement, the Company's total leverage ratio cannot exceed 4.0 to 1.0, and the coverage ratio cannot be less than 2.5 to 1.0. At April 30, 2016, the Company was in compliance with all financial covenants related to the credit agreement.

Note 7. Stock Repurchase Programs

On February 25, 2016, the Company's Board of Directors authorized the Company to repurchase $500 million of the Company's Class A Common Stock under an open-ended stock repurchase plan. The repurchase plan permits the Company to repurchase its Class A Common Stock in the open market, pursuant to preset trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 or through privately negotiated transactions up to the dollar amount authorized in the repurchase plan. The repurchase plan has no expiration date. The following is a summary of share repurchase activity for the periods indicated (in millions, except per share data):

	Three Months Ended	
	April 30, 2016	May 2, 2015

Cost of shares repurchased	$58.4	$ —
Number of shares repurchased	0.7	—
Average price per share	$80.98	$ —

All repurchases of the Company's Class A Common Stock above were made at the market price at the trade date. Accordingly, all amounts paid to reacquire these shares were allocated to Treasury Stock. As of April 30, 2016, $441.6 million of authorization remained under the Company's stock repurchase plan.

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Note 8. Income Taxes

During the three months ended April 30, 2016, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes partially offset by tax benefits recognized for federal tax credits. During the three months ended May 2, 2015, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes.

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

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

Details about AOCL Components	Amount Reclassified from AOCL Three Months Ended April 30, 2016	May 2, 2015	Affected Line Item in the Statement Where Net Income Is Presented
Defined benefit pension plan items			
Amortization of actuarial losses	$ 301	$ 924	Total before tax (1)
	115	352	Income tax expense
	$ 186	$ 572	Total net of tax

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

Note 10. Changes in Accumulated Other Comprehensive Loss

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

	Defined Benefit Pension Plan Items Three Months Ended April 30, 2016	May 2, 2015
Beginning balance	$17,118	$31,029
Other comprehensive income before reclassifications	—	—
Amounts reclassified from AOCL	(186)	(572)
Net other comprehensive income	(186)	(572)
Ending balance	$16,932	$30,457

Note 11. Fair Value Disclosures

The estimated fair values of financial instruments presented herein have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of amounts the Company could realize in a current market exchange.

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

The fair value of the Company's cash and cash equivalents and accounts receivable approximates their carrying values at April 30, 2016 due to the short-term maturities of these instruments. The fair value of the Company's long-term debt at April 30, 2016 was approximately $692 million. The carrying value of the Company's long-term debt at April 30, 2016 was $613.1 million. The fair value of the Company's subordinated debentures at April 30, 2016 was approximately $212 million. The carrying value of the Company's subordinated debentures at April 30, 2016 was $200.0 million.

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Note 12. Recently Issued Accounting Standards

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

This update was amended by ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date for the Company from the first quarter of fiscal 2017 to the first quarter of fiscal 2018 with early adoption permitted.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This ASU clarifies the implementation guidance on principal versus agent considerations, as it assists in the determination of whether the entity controls the good or service before it is transferred to the customer.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This ASU clarifies two aspects of Topic 606, including identifying performance obligations and the licensing implementation guidance, while retaining the principles for those areas.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. This ASU clarifies three aspects of Topic 606, including the objective of the collectibility criterion, the measurement date for noncash consideration and the requirements for a completed contract. The ASU also includes a practical expedient for contract modifications. Additionally, the amendments allow an entity to exclude amounts collected from customers for all sales taxes from the transaction price.

The Company is currently assessing the impact of these updates on its consolidated financial statements.

Presentation of Financial Statements - Going Concern

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40), which requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. This ASU is effective for reporting periods ending after December 15, 2016, and we plan to adopt this ASU for the annual period ending on January 28, 2017. We do not believe the adoption of this guidance will have a material impact on the Company's consolidated financial statements.

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred taxes in the balance sheet. Under this amendment, entities will no longer be required to separate deferred income tax liabilities and assets into current and noncurrent amounts in

the balance sheet. Rather, the amendment requires deferred tax liabilities and assets be classified as noncurrent in the balance sheet. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and early adoption is permitted as of the beginning of an interim or annual reporting period. The Company elected to adopt the accounting standard in the beginning of the fourth quarter of fiscal 2015. The prior period in our consolidated financial statements were retrospectively adjusted.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, to amend ASC Topic 835. The amendment adds the requirement for an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset and to report amortization of the debt issuance costs as interest expense. ASU No. 2015-03 requires retrospective application and represents a change in accounting principle. The Company adopted ASU No. 2015-03 during the first quarter of fiscal 2016, using

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retrospective application as permitted. Prior period amounts in our condensed consolidated financial statements have been reclassified to conform with current presentation. As a result, the Company reclassified $1.7 million and $1.9 million of debt issuance costs from other assets to reduce long-term debt on our condensed consolidated balance sheets at January 30, 2016 and May 2, 2015, respectively.

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

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

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, to simplify the measurement of inventory using the first-in, first out (FIFO) or average cost methods. Under this amendment, inventory under the FIFO or average cost methods should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This update will be effective for the Company beginning in the first quarter of fiscal 2017. Approximately 96% of the Company's merchandise inventories are valued using the retail inventory method, which is outside the scope of ASU No. 2015-11. The remaining 4% of the Company's merchandise inventories are valued at the lower of cost or market using the average cost or specific identified cost methods, and the Company is evaluating the effect of this update on these inventory values. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

Leases: Amendments to the FASB Accounting Standards Codification

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842): Amendments to the FASB Accounting Standards Codification, to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under these amendments, lessees are required to recognize lease assets and lease liabilities for leases classified as operating leases under ASC 840. ASU No. 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Company is currently assessing the impact of this update on its consolidated financial statements.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the condensed consolidated financial statements and the footnotes thereto included elsewhere in this report, as well as the financial and other information included in our Annual Report on Form 10-K for the year ended January 30, 2016.

EXECUTIVE OVERVIEW

The Company's first quarter performance of fiscal 2016 was weaker than anticipated, as disappointing sales pressured our gross margin and net income performance. During the three months ended April 30, 2016, comparable store sales declined 5% over last year's first quarter. Gross margin from retail operations declined 145 basis points of net sales primarily due to increased markdowns. Selling, general and administrative expenses ("SG&A") from retail operations increased 89 basis points of net sales while SG&A dollars decreased. Net income decreased $32.1 million to $77.4 million ($2.17 per share) for the current year first quarter from $109.6 million ($2.66 per share) for the prior year first quarter.

During the three months ended April 30, 2016, the Company purchased $58.4 million of Class A Common Stock under its $500 million stock repurchase plan. As of April 30, 2016, authorization of $441.6 million remained under the plan.

As of April 30, 2016, the Company had working capital of $982.8 million, cash and cash equivalents of $150.3 million and $813.1 million of total debt outstanding, excluding capital lease obligations. Cash flows from operating activities were $20.2 million for the three months ended April 30, 2016. The Company currently operates 272 Dillard's locations, 24 clearance centers and one internet store.

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	
	April 30, 2016	May 2, 2015
Net sales (in millions)	$1,503.2	$1,573.5
Retail stores sales trend	(5)%	(1)%
Comparable retail stores sales trend	(5)%	(1)%
Gross profit (in millions)	$564.7	$613.1
Gross profit as a percentage of net sales	37.6 %	39.0 %
Retail gross profit as a percentage of net sales	38.8 %	40.2 %
Selling, general and administrative expenses as a percentage of net sales	26.5 %	25.6 %
Cash flow from operations (in millions)	$20.2	$91.3
Total retail store count at end of period*	296	297
Retail sales per square foot	$30	$31
Comparable retail store inventory trend	0 %	5 %
Annualized retail merchandise inventory turnover	2.4	2.5

* On May 7, 2016, the Company closed its Aiken store in Aiken, South Carolina, which has been excluded from the total retail store count.

General

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

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

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

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

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

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

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

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

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

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

Seasonality

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

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RESULTS OF OPERATIONS

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

	Three Months Ended	
	April 30, 2016	May 2, 2015
Net sales	100.0 %	100.0 %
Service charges and other income	2.4	2.5
	102.4	102.5
Cost of sales	62.4	61.0
Selling, general and administrative expenses	26.5	25.6
Depreciation and amortization	4.0	3.9
Rentals	0.4	0.4
Interest and debt expense, net	1.0	1.0
Gain on disposal of assets	—	—
Income before income taxes and income on and equity in earnings of joint ventures	8.0	10.6
Income taxes	2.8	3.7
Income on and equity in earnings of joint ventures	—	—
Net income	5.2 %	7.0 %

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Net Sales

(in thousands of dollars)	Three Months Ended April 30, 2016	Three Months Ended May 2, 2015	$ Change
Net sales:			
Retail operations segment	$1,449,389	$1,518,360	$(68,971)
Construction segment	53,853	55,133	(1,280)
Total net sales	$1,503,242	$1,573,493	$(70,251)

The percent change in the Company’s sales by segment and product category for the three months ended April 30, 2016 compared to the three months ended May 2, 2015 as well as the sales percentage by segment and product category to total net sales for the three months ended April 30, 2016 are as follows:

	% Change 2016-2015	% of Net Sales
Retail operations segment		
Cosmetics	(4.3)%	15 %
Ladies’ apparel	(4.4)	23
Ladies’ accessories and lingerie	(9.4)	14
Juniors’ and children’s apparel	(5.4)	9
Men’s apparel and accessories	(3.9)	16
Shoes	—	16
Home and furniture	(5.7)	3
		96
Construction segment	(2.3)	4
Total		100 %

Net sales from the retail operations segment decreased $69.0 million during the three months ended April 30, 2016 compared to the three months ended May 2, 2015, decreasing 5% in both total and comparable stores. Sales of ladies' accessories and lingerie, juniors' and children's apparel and home and furniture decreased significantly over the first quarter last year. Sales of ladies' apparel, men's apparel and accessories and cosmetics decreased moderately while sales of shoes remained essentially flat.

The number of sales transactions decreased 6% for the three months ended April 30, 2016 compared to the three months ended May 2, 2015 while the average dollars per sales transaction increased 2%. We recorded an allowance for sales returns of $8.1 million as of April 30, 2016 and May 2, 2015.

During the three months ended April 30, 2016, net sales from the construction segment decreased $1.3 million or 2.3% compared to the three months ended May 2, 2015 due to a decrease in construction projects. The backlog of awarded construction contracts at April 30, 2016 totaled $308.0 million, increasing approximately 84% from January 30, 2016 and increasing approximately 3% from May 2, 2015.

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Service Charges and Other Income

(in thousands of dollars)	Three Months Ended April 30, 2016	May 2, 2015	$ Change
Service charges and other income:			
Retail operations segment			
Income from Wells Fargo Alliance and former Synchrony Alliance	$23,865	$26,736	$(2,871)
Shipping and handling income	6,463	5,779	684
Leased department income	1,577	1,615	(38)
Other	3,612	5,522	(1,910)
	35,517	39,652	(4,135)
Construction segment	38	273	(235)
Total service charges and other income	$35,555	$39,925	$(4,370)

Service charges and other income is composed primarily of income from the Wells Fargo Alliance and former Synchrony Alliance. Income from the alliances decreased during the three months ended April 30, 2016 compared to the three months ended May 2, 2015 primarily due to a decrease in income from the former Synchrony Alliance.

Gross Profit

(in thousands of dollars)	April 30, 2016	May 2, 2015	$ Change	% Change
Gross profit:				
Three months ended				
Retail operations segment	$562,181	$610,993	$(48,812)	(8.0)%
Construction segment	2,482	2,081	401	19.3
Total gross profit	$564,663	$613,074	$(48,411)	(7.9)%

	Three Months Ended April 30, 2016	May 2, 2015
Gross profit as a percentage of segment net sales:		
Retail operations segment	38.8%	40.2%
Construction segment	4.6	3.8
Total gross profit as a percentage of net sales	37.6	39.0

Gross profit declined 140 basis points of net sales during the three months ended April 30, 2016 compared to the three months ended May 2, 2015. Gross profit from retail operations declined 145 basis points of net sales during the same comparable periods primarily due to higher markdowns. Gross margin declined moderately in ladies' accessories and lingerie, shoes and men’s apparel and accessories. Gross margin declined slightly in juniors’ and children’s apparel and home and furniture, while remaining essentially flat in cosmetics and ladies' apparel.

Gross profit from the construction segment increased $0.4 million, an increase of 84 basis points of construction sales, over the prior year first quarter.

Inventory remained flat in both total and comparable stores as of April 30, 2016 compared to May 2, 2015. A 1% change in the dollar amount of markdowns would have impacted net income by approximately $2 million for the three months ended April 30, 2016.

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Selling, General and Administrative Expenses (“SG&A”)

(in thousands of dollars)	April 30, 2016	May 2, 2015	$ Change	% Change
SG&A:				
Three months ended				
Retail operations segment	$396,827	$402,253	$(5,426)	(1.3)%
Construction segment	1,517	1,307	210	16.1
Total SG&A	$398,344	$403,560	$(5,216)	(1.3)%

	Three Months Ended	
	April 30, 2016	May 2, 2015
SG&A as a percentage of segment net sales:		
Retail operations segment	27.4%	26.5%
Construction segment	2.8	2.4
Total SG&A as a percentage of net sales	26.5	25.6

SG&A increased 85 basis points of net sales during the three months ended April 30, 2016 compared to the three months ended May 2, 2015 while total SG&A decreased $5.2 million. SG&A from retail operations increased 89 basis points of net sales during the three months ended April 30, 2016 compared to the three months ended May 2, 2015 while total SG&A from retail operations decreased by $5.4 million. This decrease was primarily due to a decrease in advertising expense ($2.6 million), services purchased ($2.3 million), supplies ($1.6 million) and utilities expense ($1.6 million) partially offset by an increase in insurance expense ($2.1 million).

Depreciation and Amortization

(in thousands of dollars)	April 30, 2016	May 2, 2015	$ Change	% Change
Depreciation and amortization:				
Three months ended				
Retail operations segment	$60,476	$61,063	$ (587)	(1.0)%
Construction segment	169	90	79	87.8
Total depreciation and amortization	$60,645	$61,153	$ (508)	(0.8)%

The decrease in depreciation and amortization expense for the three months ended April 30, 2016 compared to the three months ended May 2, 2015 was primarily due to the timing and composition of capital expenditures.

Interest and Debt Expense, Net

(in thousands of dollars)	April 30, 2016	May 2, 2015	$ Change	% Change
Interest and debt expense (income), net:				
Three months ended				
Retail operations segment	$15,730	$15,240	$ 490	3.2 %
Construction segment	(16)	(13)	(3)	(23.1)

Total interest and debt expense, net	$15,714	$15,227	$ 487	3.2 %

The increase in net interest and debt expense for the three months ended April 30, 2016 compared to the three months ended May 2, 2015 was primarily attributable to a decrease in capitalized interest and interest income, partially offset by a decrease in credit facility commitment fees. Total weighted average debt increased slightly by $0.1 million during the three months ended April 30, 2016 compared to the three months ended May 2, 2015.

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Income Taxes

The Company's estimated federal and state effective income tax rate, inclusive of income on and equity in earnings of joint ventures, was approximately 35.3% and 34.6% for the three months ended April 30, 2016 and May 2, 2015, respectively. During the three months ended April 30, 2016, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes partially offset by tax benefits recognized for federal tax credits. During the three months ended May 2, 2015, income tax expense differed from what would be computed using the statutory federal tax rate primarily due to the effect of state and local income taxes.

The Company expects the fiscal 2016 federal and state effective income tax rate to approximate 35%. This rate may change if results of operations for fiscal 2016 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.

FINANCIAL CONDITION

A summary of net cash flows for the three months ended April 30, 2016 and May 2, 2015 follows:

(in thousands of dollars)	Three Months Ended April 30, 2016	May 2, 2015	$ Change
Operating Activities	$20,176	$91,273	$(71,097)
Investing Activities	(17,574)	(34,729)	17,155
Financing Activities	(55,161)	(2,674)	(52,487)
Total Cash (Used) Provided	$(52,559)	$53,870	$(106,429)

Net cash flows from operations decreased $71.1 million during the three months ended April 30, 2016 compared to the three months ended May 2, 2015. This decline was primarily attributable to a decrease of $38.4 million related to changes in working capital items, primarily due to decreases in accounts payable and accrued expenses and a decrease in gross profit.

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

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

the private label cards in our stores as a convenience to customers who prefer to pay in person rather than by paying online or mailing their payments to Wells Fargo. The Wells Fargo Alliance expires in fiscal 2024.

The Company received income of approximately $23.9 million and $26.7 million from the Wells Fargo Alliance and former Synchrony Alliance during the three months ended April 30, 2016 and May 2, 2015, respectively.

Capital expenditures were $17.7 million and $42.2 million for the three months ended April 30, 2016 and May 2, 2015, respectively. The decline in capital expenditures was primarily related to the construction of new stores and the remodeling of existing stores during the comparable prior year period. Capital expenditures for fiscal 2016 are expected to be approximately $150 million compared to actual expenditures of $166 million during fiscal 2015.

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Changes in restricted cash balances are reflected as an investment activity in the accompanying condensed consolidated statements of cash flows. During the three months ended May 2, 2015, payments of $7.3 million were made from restricted cash for like-kind property.

We closed the Aiken store in Aiken, South Carolina on May 7, 2016, and we remain committed to closing under-performing stores where appropriate and may incur future closing costs related to these stores when they close.

The Company had cash on hand of $150.3 million as of April 30, 2016. As part of our overall liquidity management strategy and for peak working capital requirements, the Company maintained a $1.0 billion unsecured credit facility. The credit facility is available for working capital needs and general corporate purposes. The rate of interest on borrowings is LIBOR plus 1.375%, and the commitment fee for unused borrowings is 0.20% per annum. To be in compliance with the financial covenants of the credit agreement, the Company's total leverage ratio cannot exceed 4.0 to 1.0, and the Company's coverage ratio cannot be less than 2.5 to 1.0.

At April 30, 2016, no borrowings were outstanding, and letters of credit totaling $26.4 million were issued under the credit agreement leaving unutilized availability under the facility of approximately $973.6 million.

During the three months ended April 30, 2016, the Company repurchased 0.7 million shares of Class A Common Stock at an average price of $80.98 per share for $58.4 million. During the three months ended May 2, 2015, the Company did not repurchase any shares of its Common Stock. At April 30, 2016, $441.6 million of authorization remained under the Company's stock repurchase plan. The ultimate disposition of the repurchased stock has not been determined.

During fiscal 2016, the Company expects to finance its capital expenditures, working capital requirements and stock repurchases from cash on hand, cash flows generated from operations and utilization of the credit facility. Depending on conditions in the capital markets and other factors, the Company may from time to time consider other possible financing transactions, the proceeds of which could be used to refinance current indebtedness or for other corporate purposes.

There have been no material changes in the information set forth under caption “Contractual Obligations and Commercial Commitments” in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, in the Company’s Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

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.

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NEW ACCOUNTING STANDARDS

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 12 to the accompanying financial statements.

FORWARD-LOOKING INFORMATION

This report contains certain forward-looking statements. The following are or may constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995: (a) statements including words such as "may," "will," "could," "should," "believe," "expect," "future," "potential," "anticipate," "intend," "plan," "esti 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 2016 and beyond, statements concerning the opening of new stores or the closing of existing stores, statements concerning capital expenditures and sources of liquidity, statements concerning share repurchases, statements concerning pension contributions and statements concerning estimated taxes. The Company cautions that forward-looking statements contained in this report are based on estimates, projections, beliefs and assumptions of management and information available to management at the time of such statements and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. Forward-looking statements of the Company involve risks and uncertainties and are subject to change based on various important factors. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management as a result of a number of risks, 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 30, 2016, contain other information on factors that may affect financial results or cause actual results to differ materially from forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the information set forth under caption "Item 7A-Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

Item 4. Controls and Procedures

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

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended April 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is involved in litigation relating to claims arising out of the Company's operations in the normal course of business. This may include litigation with customers, employment related lawsuits, class action lawsuits, purported class action lawsuits and actions brought by governmental authorities. As of June 2, 2016, 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 30, 2016.

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

(c) Purchases of Equity Securities
Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 31, 2016 through February 27, 2016	—	$ —	—	$ 500,000,000
February 28, 2016 through April 2, 2016	427,143	85.29	427,143	463,567,683
April 3, 2016 through April 30, 2016	294,230	74.72	294,230	441,581,411
Total	721,373	$ 80.98	721,373	$ 441,581,411

In February 2016, the Company's Board of Directors authorized the repurchase of up to $500 million of the Company's Class A Common Stock under an open-ended stock repurchase plan. This repurchase plan permits the Company to repurchase its Class A Common Stock in the open market, pursuant to preset trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934 or through privately negotiated transactions. The repurchase plan has no expiration date.
During the three months ended April 30, 2016, the Company repurchased 0.7 million shares totaling $58.4 million. Reference is made to the discussion in Note 7, Stock Repurchase Programs, in the "Notes to Condensed Consolidated Financial Statements" in Part I of this Quarterly Report on Form 10-Q, which information is incorporated by reference herein.

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Item 6. Exhibits

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

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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: June 2, 2016 /s/ Phillip R. Watts
Phillip R. Watts
Senior Vice President, Co-Principal Financial Officer and Principal Accounting Officer

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

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