

DSW Inc.  
Form 10-K  
March 24, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended January 30, 2016 OR  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-32545

DSW INC.

(Exact name of registrant as specified in its charter)

Ohio

31-0746639

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

810 DSW Drive, Columbus, Ohio

43219

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (614) 237-7100

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

Title of each class:

Name of each exchange on which registered:

Class A Common Shares, without par value

New York Stock Exchange

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

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

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) 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 a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer   
Accelerated Filer   
Non-accelerated Filer   
(Do not check if smaller reporting company)  
Smaller reporting company

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

The aggregate market value of voting stock held by non-affiliates of the registrant computed by reference to the price at which such voting stock was last sold, as of August 1, 2015, was \$2,412,226,836.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 74,185,264 Class A Common Shares and 7,732,807 Class B Common Shares were outstanding at March 18, 2016.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company’s Proxy Statement relating to fiscal 2015 for the Annual Meeting of Shareholders to be held on June 8, 2016 are incorporated by reference into Part III.

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PART I

All references to “we,” “us,” “our,” or the “Company” in this Annual Report on Form 10-K mean DSW Inc. and its wholly owned subsidiaries. DSW refers to the DSW segment, which includes DSW stores and dsw.com. DSW Class A Common Shares are listed for trading under the ticker symbol “DSW” on the New York Stock Exchange (“NYSE”).

We own many trademarks and service marks. This Annual Report on Form 10-K may contain trademarks, tradenames and trade dress of other companies. Use or display of other parties’ trademarks, trade dress or tradenames is not intended to and does not imply a relationship with the trademark, trade dress or tradename owner.

Cautionary Statement Regarding Forward-Looking Information for Purposes of the “Safe Harbor” Provisions of the Private Securities Litigation Reform Act of 1995

Some of the statements in this Annual Report on Form 10-K contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. Examples of such forward-looking statements include references to our future expansion and our acquisitions. You can identify these forward-looking statements by the use of forward-looking words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative of those words or other comparable words. Any forward-looking statements contained in this Annual Report on Form 10-K are based upon current plans, estimates, expectations and assumptions relating to our operations, results of operations, financial condition, growth strategy and liquidity. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to numerous risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In addition to other factors discussed elsewhere in this report, including those factors described under “Part I, Item 1A. Risk Factors,” some important factors that could cause actual results, performance or achievements for DSW Inc. to differ materially from those discussed in forward-looking statements include, but are not limited to, the following:

- our success in opening and operating new stores on a timely and profitable basis;
- maintaining strong relationships with our vendors;
- our ability to anticipate and respond to fashion trends;
- our success in meeting customer expectations;
- disruption of our distribution and/or fulfillment operations;
- continuation of supply agreements and the financial condition of our affiliated business partners;
- fluctuation of our comparable sales and quarterly financial performance;
- risks related to our information systems and data;
- failure to retain our key executives or attract qualified new personnel;
- our competitiveness with respect to style, price, brand availability and customer service;
- our reliance on our DSW Rewards program and marketing to drive traffic, sales and customer loyalty;
- uncertain general economic conditions;
- our reliance on foreign sources for merchandise and risks inherent to international trade;
- risks related to our handling of sensitive and confidential data;
- risks related to leases of our properties;
- risks related to prior and current acquisitions;
- foreign currency exchange risk; and
- risks related to our cash and investments.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results, performance or achievements may vary materially from what we have projected. Furthermore, new factors emerge from time to time and it is not possible for management to predict all such factors, nor can management assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

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### ITEM 1. BUSINESS.

#### General

DSW is the destination for fabulous brands at a great value every single day. With a breathtaking assortment of shoes, handbags and accessories for women, men and children in 468 stores nationwide and on dsw.com, DSW strives to delight customers with finding the perfect shoe at an incredible price. Our DSW stores average approximately 21,000 square feet and carry approximately 21,500 pairs of shoes. In addition, our DSW Rewards loyalty program means shopping comes with perks; members earn points towards certificates every time they purchase. We believe this combination of assortment, convenience and value differentiates us from our competitors and appeals to consumers from a broad range of socioeconomic and demographic backgrounds.

As a segment of DSW Inc., the Affiliated Business Group ("ABG") partners with multi-category retailers to develop strategies and business models for targeted shoe assortments. ABG provides service to 379 store locations and e-commerce channels through leased partnerships with Stein Mart, Gordmans and Frugal Fannie's.

DSW Inc. also has an equity investment in Town Shoes Limited ("Town Shoes"). Town Shoes is the market leader in branded footwear in Canada, with sales of over \$330 million CAD in its fiscal year ended January 2016. As of January 30, 2016, Town Shoes operated 185 locations across Canada under The Shoe Company, Shoe Warehouse, Town Shoes and DSW banners, as well as an e-commerce site. In 2014, DSW Inc. entered into a licensing agreement with Town Shoes, which allows Town Shoes to use the DSW Designer Shoe Warehouse tradename for their new larger concept Canadian stores. As of January 30, 2016, there are 13 DSW Designer Shoe Warehouse stores in Canada.

See our consolidated financial statements and the notes thereto in Item 8 of this Annual Report on Form 10-K for financial information about our two segments: the DSW segment, which includes DSW stores and dsw.com, and the ABG segment. Additionally, a five year summary of certain financial and operational information is included in Item 6 of this Annual Report.

We follow a 52/53-week fiscal year that ends on the Saturday nearest to January 31 in each year. The periods presented in these financial statements and selected financial data are the fiscal years ended January 30, 2016 ("fiscal 2015"), January 31, 2015 ("fiscal 2014"), February 1, 2014 ("fiscal 2013"), February 2, 2013 ("fiscal 2012") and January 28, 2012 ("fiscal 2011"). Fiscal 2015, 2014, 2013 and 2011 each consisted of 52 weeks, while fiscal 2012 consisted of 53 weeks.

#### Corporate History

We were incorporated in the state of Ohio on January 20, 1969 and opened our first DSW store in Dublin, Ohio in 1991. In 1998, a predecessor of RVI purchased DSW and affiliated shoe businesses from Schottenstein Stores Corporation and Nacht Management, Inc. In July 2005, we completed an initial public offering of our Class A Common Shares, selling approximately 32.4 million shares at an offering price of \$9.50 per share. On May 26, 2011, RVI merged (the "Merger") with and into DSW MS LLC ("Merger Sub"), with Merger Sub surviving the merger and continuing as a wholly owned subsidiary of DSW Inc. Upon the closing of the Merger, each outstanding RVI common share was converted into 0.435 DSW Class A Common Shares, unless the holder properly and timely elected to receive a like amount of DSW Class B Common Shares. On October 14, 2013, the shareholders of DSW Inc. approved a two-for-one stock split of DSW Common Shares. The stock split became effective on November 4, 2013 and provided for the issuance of one Class A Common Share for each Class A and Class B Common Share outstanding.

## Competitive Strengths

DSW Inc. is a leading footwear retailer with a history of growth and financial strength that is leveraging its operating model to gain market share. We believe that having a leading market position is driven by our competitive strengths: assortment, convenience and value.

### Assortment

Our goal is to excite our customers with a competitive, compelling assortment of shoes and complementary accessories that fulfill a broad range of style and fashion preferences. DSW sells a large assortment of brand name, designer and private brand merchandise. We purchase directly from over 400 domestic and foreign vendors, primarily in-season footwear found in specialty and department stores and branded make-ups (shoes made exclusively for a retailer). We also make opportunistic and close-out purchases to offer value to our customers. Through our stores, fulfillment center and expanding drop ship network,



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we offer thousands of shoes for women, men and children and a complementary assortment of handbags, hosiery, jewelry and other accessories which appeal to our brand and fashion conscious customers.

Our vendors include suppliers who either manufacture their own merchandise or supply merchandise manufactured by others, or both. Most of our domestic vendors import a large portion of their merchandise from abroad. We have quality control programs under which our buyers are involved in establishing standards for quality and fit, and our personnel examine incoming merchandise in regards to color, material and overall quality. As our sales volumes continue to grow, we believe there will continue to be adequate sources available to acquire a sufficient supply of quality merchandise in a timely manner and on satisfactory economic terms. During fiscal 2015, 2014 and 2013, our top three vendors supplied approximately 18%, 18% and 19% of our merchandise, respectively.

Our merchandising group continuously monitors current fashion trends, as well as historical sales trends, to identify popular styles and styles that may become popular in the upcoming season. We track performance and sales trends on a weekly basis and have a flexible buying process that allows us to reorder successful styles and cancel underperforming styles throughout each season. To keep our product mix fresh and on target, we test new fashions and actively monitor sell-through rates. We also aim to improve the quality and breadth of existing vendor offerings and identify new vendor and category opportunities.

We separate our DSW merchandise into four primary categories: women's footwear; men's footwear; athletic footwear; and accessories and other (which includes kids' footwear). The following table sets forth the approximate percentages of DSW segment sales attributable to each merchandise category for the fiscal years below:

Category	Fiscal year			
	2015	2014	2013	
Women's footwear	59	% 61	% 62	%
Men's footwear	18	% 18	% 17	%
Athletic footwear	14	% 12	% 12	%
Accessories and Other	9	% 9	% 9	%

#### Convenience

We provide our customers with the highest level of convenience based on our belief that customers should be empowered to control and personalize their shopping experiences.

In stores, our merchandise is displayed on the selling floor with self-service fixtures to enable customers to view and touch the merchandise. We believe this shopping experience provides our customers with maximum convenience as they are able to browse and try on merchandise without feeling rushed or pressured to make a purchasing decision. Our traditional and mobile points of sale allow us to interact and transact with customers on the selling floor. Merchandise is organized in a logical manner that groups together similar styles, such as dress, casual, seasonal and athletic merchandise, for easy browsing.

Our goal is to create an endless aisle for the customer. Customers can order additional styles, sizes, widths and categories that can be fulfilled from other stores, our fulfillment center or the suppliers' warehouse. To further meet customer demand of how they receive products, we launched the additional capabilities for buy online, pickup in store and buy online, ship to store options in 2015.

#### Value For Our Customers

Through our buying organization, we are able to provide customers with high quality, in-season fashion styles at attractive prices compared to the sale prices found at specialty retailers and department stores. We have historically employed a consistent pricing strategy that provides customers with the same price on our merchandise from the day it arrives in store until it enters our planned clearance rotation. Our pricing strategy differentiates us from our competitors who usually price and promote merchandise at discounts available only for limited time periods. We find that customers appreciate shopping for value when it is most convenient for them, rather than waiting for a sale event.

In order to provide additional value to our customers, we maintain a loyalty program, DSW Rewards, which rewards customers for shopping, both in DSW stores and at dsw.com. DSW Rewards members earn reward certificates that offer discounts on future purchases. Reward certificates expire three months after being issued. Members also receive promotional offers and gifts

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with purchase. We employ a variety of methods, including email, direct mail and social media, to communicate exclusive offers to our rewards customers. In fiscal 2014, we also introduced a co-branded credit card that allows DSW Rewards members to earn points for purchases made at DSW, as well as other locations that accept Visa.

As of January 30, 2016, approximately 24 million members were enrolled in our DSW Rewards program and have made at least one purchase over the course of the last two years as compared to approximately 23 million members as of January 31, 2015. In fiscal 2015 and 2014, shoppers in the loyalty program generated approximately 89% and 90% of DSW segment sales, respectively.

## Growth Strategy

Our growth strategy is to continue to strengthen our position as a leading footwear and accessories retailer by: expanding into new markets with the right banners and store format, extending our customer reach through new categories, and acquiring new strengths to compete in ways and places that are relevant to the customer, such as our recent acquisition of Ebuys, Inc. We will also continue expanding our physical and digital presence in relevant markets through existing and new formats, investing in our infrastructure, and utilizing our financial strength to invest in key initiatives.

## Expanding Our Physical and Digital Presence

We opened 40 DSW stores and closed 3 DSW stores in fiscal 2015. Of the store openings in fiscal 2015, 9 were small format stores. Our small format stores average approximately 12,000 square feet and, if successful, could pave the way for more small format stores. As of January 30, 2016, the Company has a total of 16 small format stores. We plan to open approximately 30 to 35 DSW stores in fiscal 2016 and an additional 15 to 20 DSW stores in each of the following three to five years. We believe we have the potential to operate more than 550 stores, which excludes small format stores. We are evaluating our real estate strategy to optimize how we can best serve the customers' shopping preferences in store and online. Our plan is to open stores in both new and existing markets, with the primary focus on power strip centers and to reposition existing stores as opportunities arise. Depending on the market, we also consider regional malls, lifestyle centers and urban street locations. In general, our evaluation of potential new stores integrates information on demographics, co-tenancy, retail traffic patterns, site visibility and accessibility, store size and configuration and lease terms. Our real estate decision-making entails an analysis of underlying demand for our products through both physical and digital channels. Our analysis also looks at current penetration levels in markets we serve and our ability to deepen our market share and acquire new customers.

As of January 30, 2016, we operated 468 DSW stores in 42 states, the District of Columbia and Puerto Rico. The following table shows the number of our DSW stores by state and territory:

Alabama	6	Louisiana
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