DILLARDS INC
Form 10-Q
December 05, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **November 3, 2007.**

OR

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

For the transition period from _____ to _____.

Commission file number 1-6140

DILLARD'S, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	71-0388071
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). Check one:

Large Accelerated Filer T Accelerated Filer £ Non-Accelerated Filer £

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

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

CLASS A COMMON STOCK as of December 1, 2007	71,155,347
CLASS B COMMON STOCK as of December 1, 2007	4,010,929

Index

DILLARD'S, INC.

		Page Number
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited):	
	Condensed Consolidated Balance Sheets as of November 3, 2007, February 3, 2007 and October 28, 2006.	3
	Condensed Consolidated Statements of Operations and Retained Earnings for the Three and Nine Months Ended November 3, 2007 and October 28, 2006.	4
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended November 3, 2007 and October 28, 2006.	5
	Notes to Condensed Consolidated Financial Statements.	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3.	Quantitative and Qualitative Disclosure about Market Risk.	22
Item 4.	Controls and Procedures.	22
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings.	23
Item 1A.	Risk Factors	23
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	23
Item 3.	Defaults Upon Senior Securities.	24
Item 4.	Submission of Matters to a Vote of Security Holders.	24
Item 5.	Other Information.	24
Item 6.	Exhibits.	24
SIGNATURES		24

Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DILLARD'S, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Amounts in Thousands)

	November 3, 2007	February 3, 2007	October 28, 2006
Assets			
Current assets:			
Cash and cash equivalents	$ 73,038	$ 193,994	$ 95,039
Accounts receivable	9,985	10,508	10,733
Merchandise inventories	2,363,176	1,772,150	2,392,557
Other current assets	59,915	71,194	40,339
Total current assets	**2,506,114**	**2,047,846**	**2,538,668**
Property and equipment, net	3,276,739	3,157,906	3,190,747
Goodwill	31,912	34,511	34,511
Other assets	169,790	167,752	170,059
Total Assets	**$ 5,984,555**	**$ 5,408,015**	**$ 5,933,985**
Liabilities and Stockholders' Equity			
Current liabilities:			
Trade accounts payable and accrued expenses	$ 1,309,806	$ 797,806	$ 1,373,358
Current portion of capital lease obligations	2,845	3,679	4,414
Current portion of long-term debt	96,430	100,635	200,620
Other short-term borrowings	340,000	-	-
Federal and state income taxes	5,477	74,995	19,333
Total current liabilities	**1,754,558**	**977,115**	**1,597,725**
Long-term debt	860,345	956,611	956,775
Capital lease obligations	26,214	28,328	29,006
Other liabilities	223,198	206,122	251,050
Deferred income taxes	440,800	452,886	467,389
Guaranteed preferred beneficial interests in the Company's subordinated debentures	200,000	200,000	200,000
Stockholders' equity:			
Common stock	1,205	1,202	1,198
Additional paid-in capital	779,225	772,560	762,782
Accumulated other comprehensive loss	(19,946)	(21,229)	(14,574)
Retained earnings	2,643,516	2,647,388	2,495,603
Less treasury stock, at cost	(924,560)	(812,968)	(812,969)

Total stockholders' equity	**2,479,440**	**2,586,953**	**2,432,040**
Total Liabilities and Stockholders' Equity	**$ 5,984,555**	**$ 5,408,015**	**$ 5,933,985**

See notes to condensed consolidated financial statements.

Index

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

	Three Months Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Net sales	$ 1,633,443	$ 1,719,321	$ 5,044,930	$ 5,240,107
Service charges and other income	40,716	40,013	117,766	129,341
	1,674,159	1,759,334	5,162,696	5,369,448
Cost of sales	1,070,661	1,118,313	3,325,431	3,420,023
Advertising, selling, administrative and general expenses	521,001	513,182	1,516,148	1,518,428
Depreciation and amortization	75,043	73,557	224,838	220,942
Rentals	13,952	12,842	40,707	36,033
Interest and debt expense, net	23,121	23,435	66,598	71,632
Gain on disposal of assets	(11,724)	(1,063)	(12,307)	(16,400)
Asset impairment and store closing charges	3,666	-	4,354	-
(Loss) income before income taxes and equity in earnings of joint ventures	(21,561)	19,068	(3,073)	118,790
Income taxes (benefit)	(6,830)	7,675	1,210	32,490
Equity in earnings of joint ventures	3,390	2,216	10,700	4,355
Net (Loss) Income	**(11,341)**	**13,609**	**6,417**	**90,655**
Retained earnings at beginning of period	2,657,919	2,485,180	2,647,388	2,414,491
Cash dividends declared	(3,062)	(3,186)	(9,486)	(9,543)
Cumulative effect of accounting change related to adoption of FIN 48	-	-	(803)	-
Retained Earnings at End of Period	**$ 2,643,516**	**$ 2,495,603**	**$ 2,643,516**	**$ 2,495,603**
(Loss) Earnings Per Share:				
Basic	$ (0.15)	$ 0.17	$ 0.08	$ 1.14
Diluted	$ (0.15)	$ 0.17	$ 0.08	$ 1.13
Cash Dividends Declared Per Common Share	$ 0.04	$ 0.04	$ 0.12	$ 0.12

See notes to condensed consolidated financial statements.

Index

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

	Nine Months Ended	
	November 3, 2007	October 28, 2006
Operating Activities:		
Net income	$ 6,417	$ 90,655
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and deferred financing	226,294	222,468
Share-based compensation	62	942
Excess tax benefits from share-based compensation	(577)	(1,233)
Gain from hurricane insurance proceeds	(18,181)	-
Proceeds from hurricane insurance	5,881	-
Asset impairment and store closing charges	4,354	-
Loss (gain) on disposal of property and equipment	1,803	(2,590)
Gain on sale of joint venture	-	(13,810)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	523	1,790
Increase in merchandise inventories and other current assets	(601,447)	(594,780)
Increase in other assets	(2,978)	(4,146)
Increase in trade accounts payable and accrued expenses, other liabilities and income taxes	433,740	411,475
Net cash provided by operating activities	**55,891**	**110,771**
Investing Activities:		
Purchases of property and equipment	(326,855)	(258,905)
Proceeds from sale of joint venture	-	19,990
Proceeds from hurricane insurance	16,101	25,317
Proceeds from sale of property and equipment	12,314	3,062
Net cash used in investing activities	**(298,440)**	**(210,536)**
Financing Activities:		
Principal payments of long-term debt and capital lease obligations	(103,419)	(104,345)
Increase in short-term borrowings	340,000	-
Proceeds from issuance of common stock	6,028	11,544
Excess tax benefits from share-based compensation	577	1,233
Cash dividends paid	(9,486)	(9,543)
Purchase of treasury stock	(111,591)	(3,332)
Payment of line of credit fees and expenses	(516)	(593)
Net cash provided by (used in) financing activities	**121,593**	**(105,036)**
Decrease in Cash and Cash Equivalents	(120,956)	(204,801)

Cash and Cash Equivalents, Beginning of Period	193,994	299,840
Cash and Cash Equivalents, End of Period	**$ 73,038**	**$ 95,039**
Non-cash transactions:		
Accrued capital expenditures	18,801	17,704
Cumulative adjustment to retained earnings for adoption of FIN 48	803	-

See notes to condensed consolidated financial statements.

Index

DILLARD'S, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Dillard's, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, each as promulgated under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America 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 and nine months ended November 3, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending February 2, 2008 due to the seasonal nature of the business. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended February 3, 2007 filed with the Securities and Exchange Commission on April 4, 2007.

Reclassifications– The following reclassifications were made to the prior periods' condensed consolidated statements of operations to conform to the 2007 presentation: (1) leased department income of $2.2 million and $6.6 million for the three and nine months ended October 28, 2006, respectively, was reclassified from net sales to service charges and other income, (2) gain on disposal of assets was reclassified from service charges and other income to its own line item and (3) equity in earnings of joint ventures was reclassified from service charges and other income to its own line item below income taxes. In the condensed consolidated statement of cash flows, line of credit fee payments of $593,000 were reclassified in the prior period from an increase in other assets in operating activities to a separate line in financing activities.

Note 2. Stock-Based Compensation

The Company has various stock option plans that provide for the granting of options to purchase shares of Class A common stock to certain key employees of the Company. Exercise and vesting terms for options granted under the plans are determined at each grant date. There were no stock options granted during the three and nine months ended November 3, 2007 and October 28, 2006, respectively.

Stock option transactions for the three months ended November 3, 2007 are summarized as follows:

Fixed Options	Shares		Weighted-Average Exercise Price
Outstanding, beginning of period	5,732,194	$	25.93
Granted	-		-
Exercised	-		-
Forfeited	(20,000)		25.74
Outstanding, end of period	5,712,194	$	25.93
Options exercisable at period end	5,692,194	$	25.94

The following table summarizes information about stock options outstanding at November 3, 2007:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life (Yrs.)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$24.01 - $24.73	146,867	1.39	$ 24.36	126,867	$ 24.41
$25.74 - $25.74	3,925,000	8.22	25.74	3,925,000	25.74
$25.95 - $30.47	1,640,327	1.71	26.52	1,640,327	26.52
	5,712,194	6.18	$ 25.93	5,692,194	$ 25.94

There was no intrinsic value of outstanding or exercisable stock options at November 3, 2007.

Index

Note 3. Asset Impairment and Store Closing Charges

During the three and nine months ended November 3, 2007, the Company recorded pretax expense of $3.7 million and $4.4 million, respectively, for asset impairment and store closing costs. The expense includes a $1.1 million future lease obligation on a store closed during the third quarter of 2007 and a $2.6 million write-off of goodwill for a leased store planned to close during the fourth quarter of 2007 where the projected cash flows were unable to sustain the amount of goodwill.

There were no asset impairment and store closing charges recorded during the three and nine months ended October 28, 2006.

Following is a summary of the activity in the reserve established for store closing charges for the nine months ended November 3, 2007:

(in thousands)	Balance, February 3, 2007	Charges	Cash Payments	Balance November 3, 2007
Rent, property taxes and utilities	$ 3,406	$ 1,068	$ 999	$ 3,475

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

Note 4. Note Repurchase

During the three and nine months ended October 28, 2006, the Company repurchased $1.7 million of its outstanding, unsecured notes prior to their maturity dates. The notes bore interest at 6.3% and had a maturity date of February 2008.

There were no notes repurchased during the three and nine months ended November 3, 2007.

Note 5. Earnings Per Share Data

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

	Three Months Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Basic:				
Net (loss) income	$ (11,341)	$ 13,609	$ 6,417	$ 90,655
Weighted-average shares of common stock outstanding	77,919	79,633	79,486	79,504
Basic (loss) earnings per share	$ (0.15)	$ 0.17	$ 0.08	$ 1.14

	Three Months Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006

Diluted:				
Net (loss) income	$ (11,341)	$ 13,609	$ 6,417	$ 90,655
Weighted-average shares of common stock outstanding	77,919	79,633	79,486	79,504
Effect of dilutive securities: Stock options	-	1,279	930	690
Total weighted-average equivalent shares	77,919	80,912	80,416	80,194
Diluted (loss) earnings per share	$ (0.15)	$ 0.17	$ 0.08	$ 1.13

Index

No stock options were included in the three months ended November 3, 2007 computation of diluted earnings per share because they would be antidilutive due to the net loss.

Note 6. Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss only consists of the minimum pension liability, which is calculated annually in the fourth quarter. The following table shows the computation of comprehensive income (in thousands):

	Three Months Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Net (loss) income	$ (11,341)	$ 13,609	$ 6,417	$ 90,655
Other comprehensive loss:				
Amortization of minimum pension liability adjustment, net of taxes	427	-	1,282	-
Total comprehensive (loss) income	$ (10,914)	$ 13,609	$ 7,699	$ 90,655

Note 7. Commitments and Contingencies

On July 29, 2002, a Class Action Complaint (followed on December 13, 2004 by a Second Amended Class Action Complaint) was filed in the United States District Court for the Southern District of Ohio against the Company, the Mercantile Stores Pension Plan (the "Plan") and the Mercantile Stores Pension Committee (the "Committee") on behalf of a putative class of former Plan participants. The complaint alleged that certain actions by the Plan and the Committee violated the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), as a result of amendments made to the Plan that allegedly were either improper and/or ineffective and as a result of certain payments made to certain beneficiaries of the Plan that allegedly were improperly calculated and/or discriminatory on account of age. The Second Amended Complaint did not specify any liquidated amount of damages sought and sought recalculation of certain benefits paid to putative class members.

During the year ended February 3, 2007, the Company signed a memorandum of understanding and accrued $35.0 million to settle the case. The settlement became final in early April 2007. As of November 3, 2007, the Company had paid this settlement in full. The litigation continues between the Company and the Plan's actuarial firm over the Company's cross claim against the actuarial firm seeking reimbursement for the settlement and additional damages.

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

At November 3, 2007, letters of credit totaling $73.9 million were issued under the Company's $1.2 billion line of credit facility.

Note 8. Benefit Plans

The Company has a nonqualified defined benefit plan for certain officers. The plan is noncontributory and provides benefits based on years of service and compensation during employment. Pension expense is determined using various actuarial cost methods to estimate the total benefits ultimately payable to officers and is allocated to service periods. The pension plan is unfunded. The actuarial assumptions used to calculate pension costs are reviewed annually. The Company made contributions of $0.9 million and $2.7 million during the three and nine months ended

November 3, 2007, respectively. The Company expects to make a contribution to the pension plan of approximately $1.3 million for the remainder of fiscal 2007.

Index

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

	Three Months Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Components of net periodic benefit costs:				
Service cost	$ 517	$ 545	$ 1,551	$ 1,636
Interest cost	1,500	1,349	4,501	4,047
Net actuarial gain	518	504	1,553	1,512
Amortization of prior service cost	157	157	471	470
Net periodic benefit costs	$ 2,692	$ 2,555	$ 8,076	$ 7,665

Note 9. Recently Issued Accounting Standards

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* ("SFAS 159"). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective at the beginning of an entity's first fiscal year that begins after November 15, 2007. We expect that the adoption of SFAS 159 will not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having concluded in those other accounting pronouncements that fair value is the relevant measurement attribute. SFAS 157 is effective for financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2007. It is effective for non-financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2008. We expect that the adoption of SFAS 157 will not have a material impact on our consolidated financial statements.

Note 10. Revolving Credit Agreement

At November 3, 2007, the Company maintained a $1.2 billion revolving credit facility ("credit agreement") with JPMorgan Chase Bank ("JPMorgan") as agent for various banks. The credit agreement expires December 12, 2012. Borrowings under the credit agreement accrue interest at either JPMorgan's Base Rate minus 0.5% or LIBOR plus 1.0% (currently 5.68%) subject to certain availability thresholds as defined in the credit agreement. Availability for borrowings and letter of credit obligations under the credit agreement is limited to 85% of the inventory of certain Company subsidiaries (approximately $1.4 billion at November 3, 2007). At November 3, 2007, borrowings of $328.4 million were outstanding and letters of credit totaling $73.9 million were issued under this credit agreement leaving unutilized availability under the facility of $798 million. There are no financial covenant requirements under the credit agreement provided availability exceeds $100 million. The Company pays an annual commitment fee to the banks of 0.25% of the committed amount less outstanding borrowings and letters of credit.

Note 11. Share Repurchase Program

During the nine months ended October 28, 2006, the Company repurchased approximately 133,500 shares of Class A common stock for $3.3 million under its $200 million program, which was authorized by the Board of Directors in May of 2005 ("2005 plan"). During the three and nine months ended November 3, 2007, the Company repurchased approximately 5.2 million shares under the 2005 plan for $111.6 million which completed the authorization under this plan.

In November 2007, the Company's Board of Directors authorized a new share repurchase plan under which the Company may repurchase up to $200 million of its Class A common stock. The new open-ended authorization permits the Company to repurchase its Class A common stock in the open market or through privately negotiated transactions.

Index

Note 12. Other Revenue

During the three months ended November 3, 2007, the Company recorded a pretax gain of $11.1 relating to reimbursement for property damages incurred during the 2005 hurricane season as the Company completed the cleanup of the damaged location during the year. The gain was recorded in gain on disposal of assets.

During the nine months ended October 28, 2006, the Company sold its interest in an unconsolidated joint venture, Yuma Palms, for $20.0 million. The Company recorded a pretax gain of $13.5 million related to the sale in gain on disposal of assets.

Note 13. Income Taxes

The Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109* ("FIN 48") effective for fiscal years beginning after December 15, 2006. The Company adopted the new requirement as of February 4, 2007 with the cumulative effects recorded as an adjustment to retained earnings as of the beginning of the period. The Company classifies interest and penalties relating to income tax in the financial statements as income tax expense. The total amount of unrecognized tax benefits as of the date of adoption was $27.6 million, of which $17.8 million would, if recognized, affect the effective tax rate. The total amount of accrued interest and penalty as of the date of adoption was $13.7 million. The total amount of unrecognized tax benefits as of November 3, 2007 was $28.5 million, of which $18.8 million would, if recognized, affect the effective tax rate. The total amount of accrued interest and penalties as of November 3, 2007 was $15.3 million.

The Company is currently being examined by the Internal Revenue Service for the fiscal tax years 2003 through 2005. The Company is also under examination by various state and local taxing jurisdictions for various fiscal years. The tax years that remain subject to examination for major tax jurisdictions are fiscal tax years 2003 and forward, with the exception of fiscal 1997 through 2002 amended state and local tax returns related to the reporting of federal audit adjustments. With the exception of amounts that are under examination or subject to administrative proceedings by income tax authorities, for which an estimate cannot be made due to uncertainties, the Company does not believe it is reasonably possible that its unrecognized tax benefits will significantly change within the next twelve months.

The federal and state income tax rates were approximately 37.6% and 36.1% for the three months ended November 3, 2007 and October 28, 2006, respectively. During the three months ended November 3, 2007, income taxes included the net increase in FIN 48 liabilities of approximately $1.3 million and included recognition of tax benefits of approximately $1.6 million due to additional tax credits on the prior year tax return. During the three months ended October 28, 2006, income taxes included recognition of tax benefits of approximately $0.3 million for the change in a capital loss valuation allowance due to capital gain income.

The federal and state income tax rates were approximately 15.9% and 26.4% for the nine months ended November 3, 2007 and October 28, 2006, respectively. During the nine months ended November 3, 2007, income taxes included the net increase in FIN 48 liabilities of approximately $2.2 million and included recognition of tax benefits of approximately $0.3 million for the change in a capital loss valuation allowance due to capital gain income, approximately $1.3 million for a reduction in state tax liabilities due to a restructuring that occurred during this period and approximately $1.6 million due to additional tax credits on the prior year tax return. During the nine months ended October 28, 2006, income taxes included recognition of tax benefits of approximately $6.1 million for the change in a capital loss valuation allowance due to capital gain income and $7.5 million due to the release of tax reserves resulting from resolution of various federal and state income tax issues.

10

Index

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

EXECUTIVE OVERVIEW

Dillard's, Inc. (the "Company", "we", "us", or "our") operates 331 retail department stores in 29 states. Our stores are locate in suburban shopping malls and open-air lifestyle centers and offer a broad selection of fashion apparel and home furnishings.

Noteworthy items for the three months ended November 3, 2007 include:

- The Company repurchased $111.6 million of its Class A common stock.

- A pretax gain of $11.1 million was recognized relating to hurricane recovery regarding a store damaged by Hurricane Rita in 2005 as the Company completed the cleanup of the damaged location during the quarter.

- Asset impairment and store closing charges of $3.7 million were recorded in recognition of a $2.6 million write-off of goodwill for a store planned to close during the fourth quarter of 2007 and a $1.1 million future lease obligation on a store closed during the third quarter of 2007.

Trends and uncertainties

We have identified the following key uncertainties whose fluctuations may have a material effect on our operating results.

- Cash flow – Cash from operating activities is a primary source of liquidity that is adversely affected when the industry faces market driven challenges and new and existing competitors seek areas of growth to expand their businesses. If our customers do not purchase our merchandise offerings in sufficient quantities, we respond by taking markdowns. If we have to reduce our prices, the cost of goods sold on our condensed consolidated statement of operations will correspondingly rise, thus reducing our income.
- Success of brand – The success of our exclusive brand merchandise is dependent upon customer fashion preferences.
- Store growth – Our growth is dependent on a number of factors which could prevent the opening of new stores, such as identifying suitable markets and locations.
- Sourcing – Store merchandise is dependent upon adequate and stable availability of materials and production facilities from which we source our merchandise.

2007 Guidance

A summary of guidance on key financial measures for 2007, in conformity with accounting principles generally accepted in the United States of America ("GAAP"), is shown below. See "forward-looking information" below.

(in millions of dollars)	2007 Estimated	2006 Actual
Depreciation and amortization	$ 300	$ 301
Rental expense	60	55
Interest and debt expense, net	91	88
Capital expenditures	410	321

General

Net sales. Net sales include sales of comparable and non-comparable stores. Comparable store sales include sales for those stores which were in operation for a full period in both the current month and the corresponding month for the prior year. Non-comparable store sales include sales in the current fiscal year from stores opened during the previous fiscal year before they are considered comparable stores, sales from new stores opened in the current fiscal year and sales in the previous fiscal year for stores that were closed in the current fiscal year.

Index

Service charges and other income. Service charges and other income include income generated through the long-term marketing and servicing alliance between the Company and GE Consumer Finance ("GE"). Other income relates to rental income, shipping and handling fees and net lease income on leased departments.

Cost of sales. Cost of sales includes the cost of merchandise sold (net of purchase discounts), bankcard fees, freight to the distribution centers, employee and promotional discounts, non-specific vendor allowances and direct payroll for salon personnel.

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

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

Rentals. Rentals include expenses for store leases and data processing and equipment rentals.

Interest and debt expense, net. Interest and debt expense includes interest, net of interest income, relating to the Company's unsecured notes, mortgage notes, the guaranteed beneficial interests in the Company's subordinated debentures, gains and losses on note repurchases, amortization of financing costs, call premiums and interest on capital lease obligations.

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

Asset impairment and store closing charges. Asset impairment and store closing charges consists of write-downs to fair value of under-performing properties and exit costs associated with the closure of certain stores. Exit costs include future rent, taxes and common area maintenance expenses from the time the stores are closed.

Equity in earnings of joint ventures. Equity in earnings of joint ventures includes the Company's portion of the income or loss of the Company's unconsolidated joint ventures.

Critical Accounting Policies and Estimates

The Company's accounting policies are more fully described in Note 1 of Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007. As disclosed in this note, the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and accompanying notes. Since future events and their effects cannot be determined with absolute certainty, actual results will differ from those estimates. The Company evaluates its estimates and judgments on an ongoing basis and predicates those estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results will differ from these under different assumptions or conditions.

Management of the Company believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in preparation of the condensed consolidated financial statements.

Merchandise inventory. Approximately 98% of the inventories are valued at lower of cost or market using the retail last-in, first-out ("LIFO") inventory method. Under the retail inventory method ("RIM"), the valuation of inventories at cost and the resulting gross margins are calculated by applying a calculated cost to retail ratio to the retail value of inventories. RIM is an averaging method that is widely used in the retail industry due to its practicality. Additionally, it is recognized that the use of RIM will result in valuing inventories at the lower of cost or market if markdowns are currently taken as a reduction of the retail value of inventories. Inherent in the RIM calculation are certain significant management judgments including, among others, merchandise markon, markups, and markdowns, which significantly impact the ending inventory valuation at cost as well as the resulting gross margins. Management believes that the Company's RIM provides an inventory valuation which results in a carrying value at the lower of cost or market. The remaining 2% of the inventories are valued at lower of cost or market using the specific identified cost method.

Index

Revenue recognition. The Company recognizes revenue upon the sale of merchandise to its customers, net of anticipated returns. The provision for sales returns is based on historical evidence of our return rate. We recorded an allowance for sales returns of $7.4 million and $7.7 million as of November 3, 2007 and October 28, 2006, respectively. Adjustments to earnings resulting from revisions to estimates on our sales return provision have been insignificant for the three and nine months ended November 3, 2007 and October 28, 2006.

The Company's share of income earned under the long-term marketing and servicing alliance with GE is included as a component of service charges and other income. The Company received income of approximately $89.2 million and $94.6 million from GE during the nine months ended November 3, 2007 and October 28, 2006, respectively. Further pursuant to this agreement, the Company has no continuing involvement other than to honor the GE credit cards in its stores. Although not obligated to a specific level of marketing commitment, the Company participates in the marketing of the GE credit cards and accepts payments on the GE credit cards in its stores as a convenience to customers who prefer to pay in person rather than by mailing their payments to GE.

Merchandise vendor allowances. The Company receives concessions from its merchandise vendors through a variety of programs and arrangements, including cooperative advertising, payroll reimbursements and margin maintenance programs.

Cooperative advertising allowances are reported as a reduction of advertising expense in the period in which the advertising occurred. If vendor advertising allowances were substantially reduced or eliminated, the Company would likely consider other methods of advertising as well as the volume and frequency of our product advertising, which could increase or decrease our expenditures. Similarly, we are not able to assess the impact of vendor advertising allowances on creating additional revenue as such allowances do not directly generate revenue for our stores.

Payroll reimbursements are reported as a reduction of payroll expense in the period in which the reimbursement occurred. All other merchandise vendor allowances are recognized as a reduction of cost purchases when received. Accordingly, a reduction or increase in vendor concessions has an inverse impact on cost of sales and/or selling and administrative expenses. The amounts recognized as a reduction in cost of sales have not varied significantly during the three and nine months ended November 3, 2007 and October 28, 2006.

Insurance accruals. The Company's condensed consolidated balance sheets include liabilities with respect to self-insured workers' compensation (with a self-insured retention of $4 million per claim) and general liability (with a self-insured retention of $1 million per claim) claims. The Company estimates the required liability of such claims, utilizing an actuarial method, based upon various assumptions, which include, but are not limited to, our historical loss experience, projected loss development factors, actual payroll and other data. The required liability is also subject to adjustment in the future based upon the changes in claims experience, including changes in the number of incidents (frequency) and changes in the ultimate cost per incident (severity). As of November 3, 2007 and October 28, 2006, insurance accruals of $57.0 million and $51.6 million, respectively, were recorded in trade accounts payable and accrued expenses and other liabilities. Adjustments to earnings resulting from changes in historical loss trends have been insignificant for the three and nine months ended November 3, 2007 and October 28, 2006.

Finite-lived assets. The Company's judgment regarding the existence of impairment indicators is based on market and operational performance. We assess the impairment of long-lived assets, primarily fixed assets, annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- Significant changes in the manner of our use of assets or the strategy for the overall business;
- Significant negative industry or economic trends; or

- Store closings.

The Company performs an analysis of the anticipated undiscounted future net cash flows of the related finite-lived assets. If the carrying value of the related asset exceeds the undiscounted cash flows, the carrying value is reduced to its fair value. Various factors including future sales growth and profit margins are included in this analysis. To the extent these future projections or the Company's strategies change, the conclusion regarding impairment may differ from the current estimates.

Index

Goodwill. The Company evaluates goodwill annually as of the last day of the fourth quarter and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable from its estimated future cash flows. To the extent these future projections or our strategies change, the conclusion regarding impairment may differ from the current estimates.

Estimates of fair value are primarily determined using projected discounted cash flows and are based on our best estimate of future revenue and operating costs and general market conditions. These estimates are subject to review and approval by senior management. This approach uses significant assumptions, including projected future cash flows, the discount rate reflecting the risk inherent in future cash flows and a terminal growth rate.

Income taxes. Temporary differences arising from differing treatment of income and expense items for tax and financial reporting purposes result in deferred tax assets and liabilities that are recorded on the balance sheet. These balances, as well as income tax expense, are determined through management's estimations, interpretation of tax law for multiple jurisdictions and tax planning. If the Company's actual results differ from estimated results due to changes in tax laws, new store locations or tax planning, the Company's effective tax rate and tax balances could be affected. As such these estimates may require adjustment in the future as additional facts become known or as circumstances change.

The Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109* ("FIN 48") effective for fiscal years beginning after December 15, 2006. The Company adopted the new requirement as of February 4, 2007 with the cumulative effects recorded as an adjustment to retained earnings as of the beginning of the period. The Company classifies interest and penalties relating to income tax in the financial statements as income tax expense. The total amount of unrecognized tax benefits as of the date of adoption was $27.6 million, of which $17.8 million would, if recognized, affect the effective tax rate. The total amount of accrued interest and penalty as of the date of adoption was $13.7 million. The total amount of unrecognized tax benefits as of November 3, 2007 was $28.5 million, of which $18.8 million would, if recognized, affect the effective tax rate. The total amount of accrued interest and penalties as of November 3, 2007 was $15.3 million.

The Company is currently being examined by the Internal Revenue Service for the fiscal tax years 2003 through 2005. The Company is also under examination by various state and local taxing jurisdictions for various fiscal years. The tax years that remain subject to examination for major tax jurisdictions are fiscal tax years 2003 and forward, with the exception of fiscal 1997 through 2002 amended state and local tax returns related to the reporting of federal audit adjustments. With the exception of amounts that are under examination or subject to administrative proceedings by income tax authorities, for which an estimate cannot be made due to uncertainties, the Company does not believe it is reasonably possible that its unrecognized tax benefits will significantly change within the next twelve months.

Discount rate. The discount rate that the Company utilizes for determining future pension obligations is based on the Citigroup High Grade Corporate Yield Curve on its annual measurement date and is matched to the future expected cash flows of the benefit plans by annual periods. The discount rate had increased to 5.90% as of February 3, 2007 from 5.60% as of January 28, 2006. We believe that these assumptions have been appropriate and that, based on these assumptions, the pension liability of $105 million was appropriately stated as of February 3, 2007; however, actual results may differ materially from those estimated and could have a material impact on our consolidated financial statements. A further 50 basis point change in the discount rate would generate an experience gain or loss of approximately $6.3 million.

Seasonality and Inflation

Our business, like many other retailers, is subject to seasonal influences, with the major portion of sales and income typically realized during the last quarter of each 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.

Index

We do not believe that inflation has had a material effect on our results during the periods presented; however, there can be no assurance that our business will not be affected by this factor in the future.

RESULTS OF OPERATIONS

The following table sets forth the results of operations, expressed as a percentage of net sales, for the periods indicated.

	Three Months Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Net sales	100.0%	100.0%	100.0%	100.0%
Service charges and other income	2.5	2.3	2.3	2.5
	102.5	102.3	102.3	102.5
Cost of sales	65.5	65.0	65.9	65.3
Advertising, selling, administrative and general expenses	31.9	29.8	30.1	29.0
Depreciation and amortization	4.6	4.3	4.4	4.2
Rentals	0.9	0.8	0.8	0.7
Interest and debt expense, net	1.4	1.4	1.3	1.4
Gain on disposal of assets	(0.7)	(0.1)	(0.2)	(0.3)
Asset impairment and store closing charges	0.2	0.0	0.1	0.0
(Loss) income before income taxes and equity in earnings of joint ventures	(1.3)	1.1	(0.1)	2.2
Income taxes (benefit)	(0.4)	0.4	0.0	0.6
Equity in earnings of joint ventures	0.2	0.1	0.2	0.1
Net (loss) income	(0.7)%	0.8%	0.1%	1.7%

Net Sales

The percent change by category in the Company's sales for the three and nine months ended November 3, 2007 compared to the three and nine months ended October 28, 2006 is as follows:

	% Change 07-06	
	Three Months	Nine Months
Cosmetics	-1.5%	-2.5%
Ladies' apparel and accessories	-3.2%	-2.1%
Juniors' and children's apparel	-11.0%	-9.0%
	-7.1%	-5.2%

Men’s apparel and accessories		
Shoes	-3.3%	-0.4%
Home and other	-10.4%	-9.1%

Index

The percent change by region in the Company's total sales for the three and nine months ended November 3, 2007 compared to the three and nine months ended October 28, 2006 is as follows:

	% Change 07-06	
	Three Months	Nine Months
Eastern	-6.3%	-4.7%
Central	-3.8%	-3.1%
Western	-5.6%	-3.3%

Net sales decreased 5% on a total basis and 6% on a comparable store basis for the three months ended November 3, 2007 compared to the three months ended October 28, 2006. Net sales decreased 4% on a total basis and 5% on a comparable store basis for the nine months ended November 3, 2007 compared to the nine months ended October 28, 2006. During these periods, all product categories experienced declines in net sales, with significant declines noted in the juniors' and children's apparel category and the home and other category.

During the three months ended November 3, 2007, net sales in the Central region were slightly better than the Company's total performance trend compared to the three months ended October 28, 2006 while sales were slightly below trend in the Eastern and Western regions for the same period.

During the nine months ended November 3, 2007, net sales in the Central region were slightly better than the Company's total performance trend compared to the nine months ended October 28, 2006 while sales were in line with trend in the Western region and slightly below trend in the Eastern region for the same period.

Service Charges and Other Income

(in millions of dollars)	Three Months Ended		Nine Months Ended		Three Months $ Change	Nine Months $ Change
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006	07-06	07-06
Leased department income	$ 3.2	$ 2.2	$ 8.4	$ 6.6	$ 1.0	$ 1.8
Visa Check/Mastermoney Antitrust settlement proceeds	-	-	-	6.5	-	(6.5)
Income from GE marketing and servicing alliance	30.7	30.9	89.2	94.6	(0.2)	(5.4)
Other	6.8	6.9	20.2	21.6	(0.1)	(1.4)
Total	$ 40.7	$ 40.0	$ 117.8	$ 129.3	$ 0.7	$ (11.5)

Service charges and other income increased to $40.7 million during the three months ended November 3, 2007 compared to $40.0 million for the three months ended October 28, 2006. This increase of $0.7 million was primarily due to an increase in leased department income over the prior year.

Service charges and other income decreased to $117.8 million during the nine months ended November 3, 2007 compared to $129.3 million for the nine months ended October 28, 2006. This decrease of $11.5 million was due in part to the $6.5 million recorded during the period in the prior year from the Visa Check/Mastermoney Antitrust litigation settlement as well as a decrease of $5.4 million in the income from the marketing and servicing alliance with GE compared to the prior year.

Cost of Sales

Cost of sales increased to 65.5% of net sales for the three months ended November 3, 2007 from 65.0% for the three months ended October 28, 2006. The gross margin decline of 50 basis points of sales was primarily driven by higher markdowns. Juniors' and children's apparel, ladies' apparel and accessories and the home and other categories posted the weakest performances compared to the total decline for the period while gross margin performance improved in shoes and men's apparel and accessories categories during the period.

Index

Cost of sales increased to 65.9% of net sales for the nine months ended November 3, 2007 from 65.3% for the nine months ended October 28, 2006. The gross margin decline of 60 basis points of sales was primarily driven by higher markdowns. While all merchandise categories experienced declines in gross margin, the weakest performance was noted in the home and other category, which significantly exceeded the Company's average decline for the period.

Inventory levels decreased 1% and 2% on total and comparable store bases, respectively, as of November 3, 2007 compared to October 28, 2006.

Advertising, Selling, Administrative and General Expenses

Advertising, selling, administrative and general ("SG&A") expenses for the three months ended November 3, 2007 increased $7.8 million to 31.9% of net sales from 29.8% of net sales during the three months ended October 28, 2006. The increase was driven primarily by increases in payroll ($4.3 million), services purchased ($3.6 million) and pre-opening expenses ($1.8 million) partially offset by declines in advertising expense ($1.8 million).

SG&A expenses for the nine months ended November 3, 2007 decreased $2.3 million compared to the nine months ended October 28, 2006 while SG&A expenses increased to 30.1% of net sales from 29.0% for the same period. The Company recorded a pretax charge of $21.7 million during the nine months ended October 28, 2006 for a preliminary settlement agreement in a lawsuit filed on behalf of a putative class of former Mercantile Stores Pension Plan participants. Exclusive of this prior year settlement charge, SG&A expenses increased $19.4 million primarily as a result of increases in payroll ($14.4 million), services purchased ($9.0 million), pension expense ($1.5 million) and pre-opening expenses ($1.3 million) partially offset by a decrease in advertising expense ($8.0 million).

Depreciation and Amortization Expense

Depreciation and amortization expense as a percentage of net sales was 4.6% for the three months ended November 3, 2007 compared to 4.3% for the similar period of 2006. Depreciation and amortization expense as a percentage of net sales was 4.4% for the nine months ended November 3, 2007 compared to 4.2% for the similar period of 2006. Depreciation expense increased $1.5 million and $3.9 million for the three and nine months ended November 3, 2007, respectively, compared to the similar periods of 2006. This increase in depreciation and amortization expense is primarily related to capital expenditures incurred to continue to improve Dillard's stores as well as to add new stores.

Rentals

Rentals were 0.9% and 0.8% of sales for the three and nine months ended November 3, 2007, respectively, compared to 0.8% and 0.7% of sales for the three and nine months ended October 28, 2006, respectively. Rentals increased $1.1 million and $4.7 million for the three and nine months ended November 3, 2007, respectively, compared to the same periods in 2006. The increase in rentals is mainly due to an increase in leased equipment including upgrades of point-of-sale terminals at the stores.

Interest and Debt Expense, Net

Interest and debt expense decreased $0.3 million to $23.1 million during the three months ended November 3, 2007 from $23.4 million during the three months ended October 28, 2006. Average long-term debt levels decreased during the period due to normal maturities of various notes outstanding. Average short-term borrowings, however, increased

for the period.

Interest and debt expense decreased $5.0 million to $66.6 million during the nine months ended November 3, 2007 from $71.6 million during the nine months ended October 28, 2006. This decline in interest expense for the nine months ended November 3, 2007 was a result of lower debt levels. Average debt outstanding declined approximately $30.4 million during the nine months ended November 3, 2007 compared to the similar periods of 2006. The debt reduction was due to normal maturities of various outstanding notes.

Index

Gain on Disposal of Assets

Gain on disposal of assets increased $10.7 million during the three months ended November 3, 2007 compared to the same period of the prior year. This increase was primarily a result of a gain of $11.1 million that was recorded during the three months ended November 3, 2007 relating to reimbursement for property damages incurred during the 2005 hurricane season as the Company completed the cleanup of the damaged location during the current year.

Gain on disposal of assets decreased $4.1 million for the nine months ended November 3, 2007 to $12.3 million compared to $16.4 million for the same period of the prior year. During the nine months ended October 28, 2006, the Company sold its interest in the Yuma Palms joint venture for $20.0 million and recognized a pretax gain of $13.5 million related to the sale. The decrease between the periods was further enhanced by the Company's sale of properties in Longmont, Colorado and Richardson, Texas for $5.8 million, resulting in a net loss of $2.5 million on the sales. These decreases were partially offset by the $11.1 million insurance recovery gain recorded during the nine months ended November 3, 2007.

Asset Impairment and Store Closing Charges

During the three and nine months ended November 3, 2007, the Company recorded pretax expense of $3.7 million (0.2% of net sales) and $4.4 million (0.1% of net sales), respectively, for asset impairment and store closing costs. The expense includes a $1.1 million future lease obligation on a store closed during the third quarter of 2007 and a $2.6 million write-off of goodwill for a leased store planned to close during the fourth quarter of 2007 where the projected cash flows were unable to sustain the amount of goodwill.

There were no asset impairment and store closing charges recorded during the three and nine months ended October 28, 2006.

Income Taxes

The federal and state income tax rates were approximately 37.6% and 36.1% for the three months ended November 3, 2007 and October 28, 2006, respectively. During the three months ended November 3, 2007, income taxes included the net increase in FIN 48 liabilities of approximately $1.3 million and included recognition of tax benefits of approximately $1.6 million due to additional tax credits on the prior year tax return. During the three months ended October 28, 2006, income taxes included recognition of tax benefits of approximately $0.3 million for the change in a capital loss valuation allowance due to capital gain income.

The federal and state income tax rates were approximately 15.9% and 26.4% for the nine months ended November 3, 2007 and October 28, 2006, respectively. During the nine months ended November 3, 2007, income taxes included the net increase in FIN 48 liabilities of approximately $2.2 million and included recognition of tax benefits of approximately $0.3 million for the change in a capital loss valuation allowance due to capital gain income, approximately $1.3 million for a reduction in state tax liabilities due to a restructuring that occurred during this period and approximately $1.6 million due to additional tax credits on the prior year tax return. During the nine months ended October 28, 2006, income taxes included recognition of tax benefits of approximately $6.1 million for the change in a capital loss valuation allowance due to capital gain income and $7.5 million due to the release of tax reserves resulting from resolution of various federal and state income tax issues.

Our income tax rate for the remainder of fiscal 2007 is dependent upon results of operations and may change if the results for fiscal 2007 are different from current expectations. We currently estimate that our effective rate for the

remainder of fiscal 2007 will approximate 37.1%.

Index

FINANCIAL CONDITION

Financial Position Summary

(in thousands of dollars)	November 3, 2007	February 3, 2007	$ Change	% Change
Cash and cash equivalents	$ 73,038	$ 193,994	(120,956)	-62.4%
Other short-term borrowings	340,000	-	340,000	-
Current portion of long-term debt	96,430	100,635	(4,205)	-4.2%
Long-term debt	860,345	956,611	(96,266)	-10.1%
Guaranteed preferred beneficial interests	200,000	200,000	-	-
Stockholders' equity	2,479,440	2,586,953	(107,513)	-4.2%
Current ratio	1.43	2.10		
Debt to capitalization	37.6%	32.7%		

(in thousands of dollars)	November 3, 2007	October 28, 2006	$ Change	% Change
Cash and cash equivalents	$ 73,038	$ 95,039	(22,001)	-23.1%
Other short-term borrowings	340,000	-	340,000	-
Current portion of long-term debt	96,430	200,620	(104,190)	-51.9%
Long-term debt	860,345	956,775	(96,430)	-10.1%
Guaranteed preferred beneficial interests	200,000	200,000	-	-
Stockholders' equity	2,479,440	2,432,040	47,400	1.9%
Current ratio	1.43	1.59		
Debt to capitalization	37.6%	35.8%		

Cash flows from operations decreased from 2006 levels largely due to a decrease in net income of $70.4 million (as adjusted for non-cash items) partially offset by an increase of $22.3 million related to trade accounts payable and accrued expenses, other liabilities and income taxes compared with the prior year.

The Company entered into a long-term marketing and servicing alliance with GE Consumer Finance ("GE") following the sale of the Company's assets of its private label credit card business in 2004. The alliance provides for certain payments to be made by GE to the Company, including revenue sharing and marketing reimbursements. The cash flows that the Company receives under this alliance have been greater than the net cash flows provided by the Company's credit business prior to its sale to GE due to quicker cash receipts. The Company received income of approximately $30.7 million and $30.9 million from GE during the three months ended November 3, 2007 and October 28, 2006, respectively. While the Company does not expect future cash flows under this alliance to vary significantly from historical levels, future amounts are difficult to predict. The amount the Company receives is dependent on the level of sales on GE accounts, the level of balances carried on the GE accounts by GE customers, payment rates on GE accounts, finance charge rates and other fees on GE accounts, the level of credit losses for the GE accounts as well as GE's funding costs.

For the nine months ended October 28, 2006, the Company recorded a gain from the sale of a joint venture of $13.5 million with proceeds of $20.0 million.

The Company received insurance proceeds of $22.0 million and $25.3 million during the nine months ended November 3, 2007 and October 28, 2006, respectively, related to reimbursement for inventory and property damages incurred during the 2005 hurricane season. A gain of $18.2 million was recognized during the nine months ended November 3, 2007 related to these proceeds.

During the nine months ended November 3, 2007, the Company received proceeds of $5.8 million relative to the sale of properties located in Longmont, Colorado and Richardson, Texas. A net loss of $2.5 million was recognized in conjunction with these sales.

Index

Capital expenditures were $326.9 million for the nine months ended November 3, 2007 compared to $258.9 million for the nine months ended October 28, 2006. These expenditures consist primarily of the construction of new stores, remodeling of existing stores and investments in technology. During the nine months ended November 3, 2007, the Company opened new locations at: Eastland Mall in Evansville, Indiana; Alamance Crossing in Burlington, North Carolina; Stonebriar Centre in Frisco, Texas; Ashley Park in Newnan, Georgia; Hill Country Galleria in West Austin, Texas; Santan Village in Gilbert, Arizona and the Promenade at Casa Grande in Casa Grande, Arizona. The Company also opened two replacement stores: Stones River Mall in Murfreesboro, Tennessee and Fallen Timbers in Maumee, Ohio. These nine locations totaled approximately 1,069,000 square feet net of replaced square footage. The Company closed five locations during the nine-month period including: (1) a 156,000 square foot location in Louisville, Kentucky, (2) a 158,000 square foot location in Elyria, Ohio, (3) a 170,000 square foot location in St. Louis, Missouri, (4) a 160,000 square foot clearance center in Tulsa, Oklahoma and (5) a 160,000 square foot location in Dallas, Texas. The Company plans to close four more locations in the fourth quarter of 2007. These locations include: (1) a 170,000 square foot location in Nashville, Tennessee, (2) a 115,000 square foot location in Augusta, Georgia, (3) a 170,000 square foot location in Tallahassee, Florida and (4) a 70,000 square foot location in Ashtabula, Ohio. Capital expenditures for fiscal 2007 are expected to be approximately $410 million compared to actual expenditures of $321 million during fiscal 2006.

Cash provided by financing activities for the nine months ended November 3, 2007 totaled $121.6 million compared to cash used of $105.0 million for the nine months ended October 28, 2006. During the nine months ended November 3, 2007, the Company made principal payments of long-term debt and capital leases of $103.4 at their normal maturities. During the nine months ended October 28, 2006, the Company reduced its total level of outstanding debt and capital lease obligations by $104.3 million, including debt repurchases and repayments of $1.7 million. No debt was repurchased during the nine months ended November 3, 2007.

During the nine months ended October 28, 2006, the Company repurchased approximately 133,500 shares of Class A common stock for $3.3 million under our $200 million program, which was authorized by our Board of Directors in May of 2005 (“2005 plan”). During the nine months ended November 3, 2007, the Company repurchased approximately 5.2 million shares for $111.6 million, completing the authorization under the 2005 plan. In November 2007, the Board of Directors authorized the Company to repurchase up to an additional $200 million of the Company’s Class A common stock. This new plan has no expiration date.

The Company had cash on hand of $73.0 million as of November 3, 2007. As part of its overall liquidity management strategy and for peak working capital requirements, the Company has a $1.2 billion credit facility. The Company expects peak funding requirements of approximately $430 million during fiscal 2007. At November 3, 2007, borrowings of $328.4 million were outstanding and letters of credit totaling $73.9 million were issued under the $1.2 billion revolving credit agreement. Availability for borrowings and letter of credit obligations under the credit agreement is limited to 85% of the inventory of certain Company subsidiaries (approximately $1.4 billion at November 3, 2007) leaving unutilized availability under the facility of $798 million. During fiscal 2007, the Company expects to finance its capital expenditures and its working capital requirements including required debt repayments and stock repurchases, if any, 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 will from time to time consider possible financing transactions, the proceeds of which could be used to refinance current indebtedness or other corporate purposes.

There have been no material changes in the information set forth under the caption “Contractual Obligations and Commercial Commitments” in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

Hurricane Update

One store remains closed as a result of Hurricane Katrina. This store is located in Biloxi, Mississippi and is expected to re-open in early fiscal 2008.

The Company has approximately 95 stores along the Gulf and Atlantic coasts that are covered by third party insurance but are self-insured for property and merchandise losses related to “named storms” in fiscal 2007. Therefore, repair and replacement costs will be borne by the Company for damage to any of these stores from “named storms” in fiscal 2007. The Company has created early response teams to assess and coordinate clean up efforts should some stores be impacted by storms. The Company has also redesigned certain store features to lessen the impact of storms and has equipment available to assist in the efforts to ready the stores for normal operations.

Index

OFF-BALANCE-SHEET ARRANGEMENTS

The Company does not have any arrangements or relationships with entities that are not consolidated into the financial statements that are reasonably likely to materially affect the Company's liquidity or the availability of capital resources.

NEW ACCOUNTING STANDARDS

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* ("SFAS 159"). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective at the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company expects that the adoption of SFAS 159 will not have a material impact on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having concluded in those other accounting pronouncements that fair value is the relevant measurement attribute. SFAS 157 is effective for financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2007. It is effective for non-financial assets and liabilities in financial statements issued for fiscal years beginning after November 15, 2008. The Company expects that the adoption of SFAS 157 will not have a material impact on its consolidated financial statements.

FORWARD-LOOKING INFORMATION

This report contains certain "forward-looking statements" within the definition of federal securities laws. Statements in the Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this document include certain "forward-looking statements," including (without limitation) statements with respect to anticipated future operating and financial performance, growth and acquisition opportunities, financing requirements and other similar forecasts and statements of expectation. Words such as "expects," "anticipates," "plans" and "believes," and variations of these words and similar expressions, are intended to identify these forward-looking statements. Statements made in this report regarding expected funding of cyclical working capital needs, expected contributions to the defined benefit plan, expected disposition of legal proceedings, expected impact of recently issued accounting standards, income tax rate projections, expectation of cash flows under the alliance with GE Consumer Finance and information included herein under the heading "2007 Guidance" are examples of forward-looking statements. The Company cautions that forward-looking statements, as such term is defined in the Private Securities Litigation Reform Act of 1995, contained in this report are based on estimates, projections, beliefs and assumptions of management at the time of such statements and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise.

Forward-looking statements of the Company involve risks and uncertainties and are subject to change based on various important factors. Actual future performance, outcomes and results may differ materially from those expressed or implied in forward-looking statements made by the Company and its management as a result of a number of risks, uncertainties and assumptions, including the matters described under the caption "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007. Representative examples of those factors (without limitation) include 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; the impact of competitive pressures in the department store industry and other retail channels including specialty, off-price, discount, internet, and mail-order retailers; changes in consumer spending patterns and debt levels; adequate and stable availability of materials and production facilities from which the Company sources its merchandise; changes in operating expenses, including employee wages, commission structures and related benefits; possible future acquisitions of store properties from other department store operators and 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; 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.

Index

Item 3. Quantitative and Qualitative Disclosure 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 February 3, 2007.

Item 4. Controls and Procedures

The Company maintains "disclosure controls and procedures", as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed in the Company's reports, pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of November 3, 2007, the Company carried out an evaluation, with the participation of Company's management, including William Dillard, II, Chairman of the Board of Directors and Chief Executive Officer (principal executive officer), and James I. Freeman, Senior Vice-President and Chief Financial Officer (principal financial officer), of the effectiveness of the Company's "disclosure controls and procedures" pursuant to Securities Exchange Act Rule 13a-15. Based on their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level. There were no significant changes in the Company's internal controls over financial reporting that occurred during the quarter ended November 3, 2007 to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Index

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On July 29, 2002, a Class Action Complaint (followed on December 13, 2004 by a Second Amended Class Action Complaint) was filed in the United States District Court for the Southern District of Ohio against the Company, the Mercantile Stores Pension Plan (the "Plan") and the Mercantile Stores Pension Committee (the "Committee") on behalf of a putative class of former Plan participants. The complaint alleged that certain actions by the Plan and the Committee violated the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), as a result of amendments made to the Plan that allegedly were either improper and/or ineffective and as a result of certain payments made to certain beneficiaries of the Plan that allegedly were improperly calculated and/or discriminatory on account of age. The Second Amended Complaint did not specify any liquidated amount of damages sought and sought recalculation of certain benefits paid to putative class members.

During the year ended February 3, 2007, the Company signed a memorandum of understanding and accrued $35.0 million to settle the case. The settlement became final in early April 2007. The litigation continues between the Company and the Plan's actuarial firm over the Company's cross claim against the actuarial firm seeking reimbursement for the settlement and additional damages.

From time to time, we are involved in other litigation relating to claims arising out of our operations in the normal course of business. Such issues may relate to litigation with customers, employment related lawsuits, class action lawsuits, purported class action lawsuits and actions brought by governmental authorities. As of December 5, 2007, we are not a party to any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our business, results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our 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 February 3, 2007.

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

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c)Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs
August 5, 2007 through September 1, 2007	-	$-	-	$111,590,819
September 2, 2007 through October 6, 2007	-	$-	-	111,590,819
October 7, 2007 through November 3,	5,202,699	$21.45	5,202,699	-

2007				
Total	5,202,699	$21.45	5,202,699	$-

In May 2005, the Board of Directors authorized the Company to repurchase up to $200 million of the Company's Class A common stock. In November 2007, the Board of Directors authorized the Company to repurchase up to an additional $200 million of the Company's Class A common stock. This new plan has no expiration date.

Index

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

Ratio of Earnings to Fixed Charges:

The Company has calculated the ratio of earnings to fixed charges pursuant to Item 503 of Regulation S-K of the Securities and Exchange Act as follows:

Nine Months Ended			Fiscal Years Ended			
November 3, 2007	October 28, 2006	February 3, 2007*	January 28, 2006	January 29, 2005	January 31, 2004	February 1, 2003
1.01	2.33	3.34	2.01	2.12	1.05	1.88

*53 Weeks

Item 6. Exhibits

Number	**Description**
12	Statement re: Computation of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

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: December 5, 2007

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