

DILLARDS INC
Form DEF 14A
April 22, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Dillard s Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

Edgar Filing: DILLARDS INC - Form DEF 14A

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of the transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

DILLARD S, INC.
PROXY STATEMENT

DILLARD S, INC.

POST OFFICE BOX 486

LITTLE ROCK, ARKANSAS 72203

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 17, 2008

PROXY STATEMENT

DILLARD S, INC.

POST OFFICE BOX 486

LITTLE ROCK, ARKANSAS 72203

TO THE HOLDERS OF CLASS A AND
CLASS B COMMON STOCK:

Little Rock, Arkansas
April 22, 2008

Notice is hereby given that the annual meeting of Stockholders of Dillard s, Inc., will be held at the Dillard s, Inc. Corporate Office, 1600 Cantrell Road, Little Rock, Arkansas on Saturday, May 17, 2008, at 9:30 a.m. for the following purposes:

1. To elect 12 Directors of the Company (four of whom are to be elected by Class A stockholders and eight of whom are to be elected by Class B stockholders).
2. To ratify the appointment by the Audit Committee of Deloitte & Touche LLP as the independent public accountants of the Company for 2008.

3. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The stock transfer books of the Company will not be closed, but only stockholders of record at the close of business on March 31, 2008, will be entitled to notice of, and to vote at, the meeting. This Proxy Statement and the enclosed proxy are being first mailed to Dillard s, Inc. shareholders on or about April 22, 2008.

Your participation in the meeting is earnestly solicited. If you do not expect to be present in person at the meeting, please sign, date, and fill in the enclosed Proxy and return it by mail in the enclosed envelope to which no postage need be affixed if mailed in the United States of America.

By Order of the Board of Directors

PAUL J. SCHROEDER, JR.

Vice President,

General Counsel,

Secretary

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR

THE 2008 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 17, 2008

The accompanying proxy statement and the 2007 Annual Report on Form 10-K are available at

<http://investor.shareholder.com/dillards/annuals.cfm>

DILLARD S, INC.

POST OFFICE BOX 486

LITTLE ROCK, ARKANSAS 72203

Telephone (501) 376-5200

April 22, 2008

PROXY STATEMENT

The enclosed Proxy is solicited by and on behalf of the management of Dillard s, Inc. (the Company), a Delaware corporation, for use at the annual meeting of stockholders to be held on Saturday, May 17, 2008, at 9:30 a.m. at the Dillard s Corporate Office, 1600 Cantrell Road, Little Rock, Arkansas, or at any adjournment or adjournments thereof.

Any stockholder giving a Proxy has the power to revoke it, at any time before it is voted, by written revocation delivered to the Secretary of the Company. Proxies solicited herein will be voted in accordance with any directions contained therein, unless the Proxy is received in such form or at such time as to render it ineligible to vote, or unless properly revoked. If no choice is specified, the shares will be voted in accordance with the recommendations of the Board of Directors as described herein.

If matters of business other than those described in the Proxy properly come before the meeting, the persons named in the Proxy will vote in accordance with their best judgment on such matters. The Proxies solicited herein shall not confer any authority to vote at any meeting of stockholders other than the meeting to be held on May 17, 2008, or any adjournment or adjournments thereof.

The cost of soliciting Proxies will be borne by the Company. The Company will reimburse brokers, custodians, nominees and other fiduciaries for their charges and expenses in forwarding proxy material to beneficial owners of shares. In addition to solicitation by mail, certain officers and employees of the Company may solicit Proxies by telephone, fax, email or other electronic means, or in person. These persons will receive no compensation other than their regular salaries. The Company has retained Innisfree M&A Incorporated, a professional proxy solicitation firm, to assist in the solicitation of proxies. The fees of such firm are not expected to exceed \$15,000.

OUTSTANDING STOCK; VOTING RIGHTS;

VOTE REQUIRED FOR APPROVAL

The stock transfer books of the Company will not be closed, but only stockholders of record at the close of business on March 31, 2008, will be entitled to notice of, and to vote at, the meeting. At that date, there were 71,249,160 shares of Class A Common Stock outstanding and 4,010,929 shares of Class B Common Stock outstanding. The presence, in person or by proxy, of the holders of a majority of the shares of Common Stock issued and outstanding as of the record date is required to establish a quorum at the annual meeting.

If a quorum is established, each holder of Class A Common Stock and each holder of Class B Common Stock shall be entitled to one vote on the matters presented at the meeting for each share standing in his name except that the holders of Class A Common Stock are empowered as a class to elect one-third of the Directors and the holders of Class B Common Stock are empowered as a class to elect two-thirds of the Directors. Stockholders will not be allowed to vote for a greater number of nominees than those named in this proxy statement. Nominees for director of each class, to be elected, must receive the affirmative vote of a majority of the shares of that respective class outstanding and eligible to vote in the election. Cumulative voting for Directors is not permitted.

The vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy and having voting power is required for ratification of the appointment of Deloitte & Touche LLP as Dillard s independent auditors.

Under Delaware General Corporate Law, if shares are held by a broker that has indicated that it does not have discretionary authority to vote on a particular matter without instructions from you under the New York Stock Exchange listing standards (broker non-votes), those shares will not be considered as present and entitled to vote with respect to that matter, but such shares will be counted with respect to determining whether a quorum is present. Abstentions will not be counted as votes cast for election of directors and with respect to the ratification of the appointment of the independent public accountants, abstentions will have the effect of a vote against such proposals.

The last date for the acceptance of Proxies by management is the close of business on May 16, 2008, and no Proxy received after that date will be voted by management at the meeting.

PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth certain information regarding persons known to the Company to beneficially own five percent (5%) or more of a class of the Company's outstanding voting securities as of the close of business on February 2, 2008.

Name and Address	Class	No. of Shares Owned	Percent Of Class (1)
Dillard's, Inc. Retirement Trust 1600 Cantrell Road Little Rock, AR 72201	Class A	10,661,347 (2)	15.0%
Southeastern Capital Management, Inc. 6410 Poplar Avenue, Suite 900 Memphis, TN 38119	Class A	9,185,988 (2)	12.9%
Donald Smith & Co., Inc. 152 West 57 th Street New York, NY 10019	Class A	7,616,350 (2)	10.7%
Och-Ziff Capital Management Group LLC 9 West 57 th Street 39 th Floor New York, NY 10019	Class A	4,043,053 (2)	5.7%
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	Class A	3,711,809 (2)	5.2%
W.D. Company, Inc. (3) 1600 Cantrell Road Little Rock, Arkansas 72201	Class A	41,496	0.1%
	Class B	3,985,776	99.4%

(1) At February 2, 2008 there were a total of 71,155,347 shares of the Company's Class A Common Stock and 4,010,929 shares of the Company's Class B Common Stock outstanding.

(2) Based on information contained in a Schedule 13G filed with the Securities and Exchange Commission.

(3) William Dillard, II, Chief Executive Officer of the Company, Alex Dillard, President, and Mike Dillard, Executive Vice President, are officers and directors of W.D. Company, Inc. and own 27.4%, 27.9% and 26.3%, respectively, of the outstanding voting stock of W.D. Company, Inc.

SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth the number of shares of Class A and Class B Common Stock of the Company beneficially owned by each director, each nominee, each of the executive officers named under Executive Compensation and the directors and executive officers, as a group, as of March 31, 2008:

Name	Class A Shares		Class B Shares	
	Amount(1)	% of Class	Amount(1)	% of Class
Robert C. Connor	58,848(2)	0.1%		*
Drue Corbusier	783,765 (3)	1.1%		*
Will D. Davis	55,677(4)	0.1%		*
Alex Dillard (5)	1,995,489 (6)	2.8%	3,985,776 (6)	99.4%
Mike Dillard (5)	1,379,016 (6)	1.9%	3,985,776 (6)	99.4%
William Dillard, II (5)	1,766,627 (6)	2.4%	3,985,776 (6)	99.4%
James I. Freeman	669,163 (7)	0.9%		*
John Paul Hammerschmidt	51,820 (8)	0.1%		*
James A. Haslam, III		*		*
Peter R. Johnson	33,536 (9)	*		*
R. Brad Martin	47,500	0.1%		*
Frank R. Mori		*		*
Warren A. Stephens	141,536 (10)	0.2%		*
William H. Sutton	63,356 (11)	0.1%		*
J.C. Watts, Jr.	36,536 (12)	*		*
Nick White		*		*
All Nominees, Directors & Executive Officers as a Group (a total of 23 persons)	7,616,023 (13) (14)	10.1%	3,985,776 (13)	99.4%

* Denotes less than 0.1%

- (1) Based on information furnished by the respective individuals.
- (2) Includes nine shares owned by his wife. Robert C. Connor owns 29,120 shares of Class A Common Stock and has the right to acquire beneficial ownership of 29,719 shares pursuant to currently exercisable options granted under Company stock option plans.
- (3) Drue Corbusier owns 273,811 shares of Class A Common Stock, is a beneficiary of 6,029 shares held in trust, has the sole voting power with respect to 4,100 shares held in trust for a child, and has the right to acquire beneficial ownership of 499,825 shares pursuant to currently exercisable options granted under Company stock option plans. She owns 7.3% of the outstanding voting stock, of W.D. Company, Inc., but is not an officer or director. Therefore she is not deemed to have a beneficial interest in any Dillard's, Inc. shares owned by W.D. Company, Inc.
- (4) Will D. Davis owns 25,958 shares of Class A Common Stock and has the right to acquire beneficial ownership of 29,719 shares pursuant to currently exercisable options granted under Company stock option plans.
- (5) William Dillard, II, Alex Dillard and Mike Dillard are directors and officers of W. D. Company, Inc. and own 27.4%, 27.9% and 26.3%, respectively, of the outstanding voting stock of such company.
- (6) Includes 41,496 shares of Class A Common Stock and 3,985,776 of Class B Common Stock owned by W. D. Company, Inc., in which shares William Dillard, II, Alex Dillard and Mike Dillard are each deemed to have a beneficial interest due to their respective relationships with W. D. Company, Inc. See Principal Holders of Voting Securities. William Dillard, II individually owns 807,532 shares of Class A

Edgar Filing: DILLARDS INC - Form DEF 14A

Common Stock, is a beneficiary of 4,719 shares held in trust, and has the right to acquire beneficial ownership of 912,880 shares pursuant to currently exercisable options granted under Company stock option plans. Alex Dillard and his wife individually own 656,613 and 36,000 shares, respectively, of Class A Common Stock;

he has sole voting power with respect to 29,434 shares held in trust for two minor children, has shared voting power with respect to 321,229 shares held in trust and has the right to acquire beneficial ownership of 910,717 shares pursuant to currently exercisable options granted under Company stock option plans. Mike Dillard individually owns 456,677 shares of Class A Common Stock; his wife has sole voting power with respect to 610 shares held in trust for two minor children; he has sole voting power with respect to 54,705 shares held in trust for three minor children, has shared voting power with respect to 321,229 shares held in trust and has the right to acquire beneficial ownership of 504,299 shares pursuant to currently exercisable options granted under Company stock option plans.

- (7) James I. Freeman owns 198,242 shares of Class A Common Stock, has sole voting power with respect to 6,850 shares held in trust for a minor child, has sole voting power with respect to 34,933 shares held in a charitable trust and has the right to acquire beneficial ownership of 429,471 shares pursuant to currently exercisable options granted under Company stock option plans.
- (8) John Paul Hammerschmidt owns 14,943 shares of Class A Common Stock and has the right to acquire beneficial ownership of 36,877 shares pursuant to currently exercisable options granted under Company stock option plans.
- (9) Peter R. Johnson owns 8,536 shares of Class A Common Stock and has the right to acquire beneficial ownership of 25,000 shares pursuant to currently exercisable options granted under Company stock option plans.
- (10) Warren A. Stephens owns 11,536 shares of Class A Common Stock in trust, controls 100,000 shares held by Stephens Investment LLC and has the right to acquire beneficial ownership of 30,000 shares pursuant to currently exercisable options granted under Company stock option plans.
- (11) William H. Sutton owns 26,658 shares of Class A Common Stock and has the right to acquire beneficial ownership of 36,698 shares pursuant to currently exercisable options granted under Company stock option plans.
- (12) J.C. Watts, Jr. owns 11,536 shares of Class A Common Stock in trust and has the right to acquire beneficial ownership of 25,000 shares pursuant to currently exercisable options granted under Company stock option plans.
- (13) The shares in which William Dillard, II, Alex Dillard and Mike Dillard are deemed to have a beneficial interest due to their respective relationships with W. D. Company, Inc. and certain trusts have been included in this computation only once and were not aggregated for such purpose.
- (14) Includes the right to acquire beneficial ownership of 4,085,319 shares pursuant to currently exercisable options granted under Company stock option plans.

PROPOSAL 1. ELECTION OF DIRECTORS

Class A stockholders are entitled to vote for the election of four Directors and Class B Stockholders are entitled to vote for the election of eight Directors. Directors are to be elected at the annual meeting for a term of one year and until the election and qualification of their successors. Once elected, our Directors have no ongoing status as Class A or Class B Directors and have the same duties and responsibilities to all stockholders. The Proxies solicited hereby will be voted FOR the election as Directors of the 12 persons hereinafter identified under Nominees for Election as Directors if not specified otherwise. Management does not know of any nominee who will be unable to serve, but should any nominee be unable or decline to serve, the discretionary authority provided in the Proxy will be exercised to vote for a substitute or substitutes.

In 1998, the Company adopted a resolution amending its by-laws to provide that nominations to represent Class A stockholders shall be of independent persons only. For these purposes, independent shall mean a

person who: (i) has not been employed by the Company or an affiliate in any executive capacity within the last five years; (ii) was not, and is not a member of a corporation or firm that is one of the Company's paid advisers or consultants; (iii) is not employed by a significant customer, supplier or provider of professional services; (iv) has no personal services contract with the Company; (v) is not employed by a foundation or university that receives significant grants or endowments from the Company; (vi) is not a relative of the management of the Company; (vii) is not a shareholder who has signed shareholder agreements legally binding him to vote with management; and (viii) is not the chairman of a company on which Dillard's, Inc. Chairman or Chief Executive Officer is also a board member.

All of the nominees to represent Class A stockholders listed below qualify as independent persons as defined in the above resolution.

THE BOARD UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE ELECTION AS DIRECTORS OF THE 12 PERSONS HEREINAFTER IDENTIFIED.

NOMINEES FOR ELECTION AS DIRECTORS

The following table briefly indicates the name, principal occupation and age of each nominee, as well as the year each nominee first was elected as a Director. The table also indicates which class of common stock that each nominee will be representing.

Name	Age	Principal Occupation	Director Since	Class
Robert C. Connor	66	Investments, Dallas, Texas	1987	B
Drue Corbusier	61	Executive Vice President of the Company	1994	B
Alex Dillard	58	President of the Company	1975	B
Mike Dillard	56	Executive Vice President of the Company	1976	B
William Dillard, II	63	Chief Executive Officer of the Company	1967	B
James I. Freeman	58	Senior Vice President and Chief Financial Officer of the Company	1991	B
James A. Haslam, III	54	President and Chief Executive Officer of Pilot Travel Centers, LLC, Knoxville, TN		A
Peter R. Johnson	60	Chairman, PRJ Holdings, Inc., San Francisco, California	2004	B
R. Brad Martin	56	Chairman of RBM Venture Company, Memphis, TN		A
Frank R. Mori	67	Co-Chief Executive Officer and President of Takihyo, Inc., New York, NY		A
Warren A. Stephens	51	President and Chief Executive Officer of Stephens Inc. and Co-Chairman of SF Holding Corp., Little Rock, AR	2002	B
Nick White	63	President & Chief Executive Officer, White & Associates, Rogers, AR		A

The following nominees for director also hold directorships in the designated companies:

Name	Director of
William Dillard, II	Acxiom Corporation and Barnes & Noble, Inc.
James A. Haslam, III	Anderson Media Corporation, First Horizon National Corporation and Ruby Tuesday, Inc.
R. Brad Martin	First Horizon National Corporation, Gaylord Entertainment, Inc. and Lululemon Athletica
Warren A. Stephens	ACA Capital Holdings and Stephens Inc.
Nick White	Pep Boys-Manny, Moe & Jack

The business associations of the nominees as shown in the table under Nominees for Election as Directors have been continued for more than five years, except for the following: Mr. Martin retired as Chairman of the Board of Saks Incorporated in May 2007. Prior to January 2007, Mr. Martin was Chairman of the Board and

Chief Executive Officer of Saks. Each nominee for Director was elected to the Board of Directors at the annual meeting of stockholders held May 19, 2007, except for James A. Haslam, III, R. Brad Martin, Frank R. Mori and Nick White.

The Board of Directors met four times during the Company's last fiscal year, on February 24, May 19, August 25 and November 17, 2007.

Audit Committee members are Robert C. Connor, Chairman, John Paul Hammerschmidt, Peter R. Johnson and J.C. Watts, Jr. The Audit Committee held thirteen meetings during the year.

The Stock Option and Executive Compensation Committee members are Robert C. Connor, Will D. Davis, Chairman and Warren A. Stephens. The Stock Option and Executive Compensation Committee held three meetings during the year.

Dillard's, Inc. qualifies as a controlled company under the corporate governance rules of the New York Stock Exchange due to the ownership by W.D. Company of shares of Class B Common Stock allowing it to cast more than 50% of votes eligible to be cast for the election of two-thirds of the Directors of the Company that are elected by Class B Stockholders. In accordance with a provision in NYSE rules for controlled companies, the Company has elected not to comply with NYSE corporate governance rules that provide for (i) a majority of independent directors or (ii) a nominating/corporate governance committee comprised solely of independent directors. However, the Stock Option and Executive Compensation Committee has adopted a written charter and otherwise complies with the requirements of NYSE Rule 303A.05, Corporate Governance Standards for Compensation Committees.

Based on the foregoing exemption for controlled companies, the Company is not required to and does not have a nominating/corporate governance committee.

On March 17, 2008, an affiliate of Barington Capital Group, L.P. (Barington) delivered to the Company a notice of its intention to nominate certain persons for election as directors to the Board. This notice and related SEC filing indicated that Barington, Clinton Group, Inc. and RJG Capital Management, LLC, together with certain of their affiliates (collectively, the Investors), intended to nominate a slate of four individuals (James A. Mitarotonda, Charles M. Elson, Eric S. Salus and Mr. White) to stand for election as Directors by the Class A stockholders of the Company.

On April 1, 2008, the Company and the Investors entered into an agreement (the Agreement) with respect to the election of certain Directors for the 2008 Annual Meeting of Shareholders and certain other related matters. Pursuant to the terms of the Agreement, the Company has nominated Mr. Haslam, Mr. Martin, Mr. Mori and Mr. White (together, the Class A Nominees) for election as Directors by the Class A stockholders. In connection with discussions concerning the Agreement, Mr. Mori and Mr. White were recommended to the Company for nomination as Class A Nominees by the Investors and Mr. Haslam and Mr. Martin were recommended to the Company for nomination as Class A Nominees by Southeastern Asset Management Company. As part of the Agreement, each of the Investors agreed (i) to withdraw its notice of nominations and its demand to inspect certain of the Company's books and records and (ii) to vote in favor of the Class A Nominees at the 2008 Annual Meeting and against any stockholder nominations for director which are not approved and recommended by the Board (provided that the slate of directors nominated and recommended by the Board includes the Class A Nominees). The Company also agreed to propose and support the selection by the full board of at least one of these individuals to serve on the Company's Audit Committee and Stock Option and Executive Compensation Committee. In the event that either Mr. Mori or Mr. White is unable or unwilling to serve as Director, the Agreement provides that the Investors may nominate one or more substitute nominees, provided that such substitute nominee is approved by the Company (such approval not to be unreasonably withheld or delayed). In addition, pursuant to the Agreement, the Company agreed to reimburse the Investors for documented expenses in connection with their nominations, contemplated proxy solicitation and related filings, up to a maximum amount of \$200,000.

Will Davis, John Paul Hammerschmidt, William Sutton and J. C. Watts are not standing for re-election at the 2008 annual meeting.

All of the nominees for Director (except for the Class A Nominees, each of whom is being nominated to the Board of Directors for the first time) attended at least 75% of the aggregate of (1) the total number of meetings of the Board of Directors and (2) the total number of meetings held by all committees of the board on which they served. Dillard's, Inc. has a policy, which encourages each board member to attend the annual stockholders' meeting. Each member of the Board of Directors who was in office at such time was in attendance at the annual meeting of stockholders on May 19, 2007.

The Board has determined that each of the Class A Nominees, as well Robert C. Connor, Peter R. Johnson and Warren Stephens who serve as Class B Directors, qualify as independent directors in accordance with the NYSE corporate governance rules. In making its independence determinations, the Board considered the following relationship with the Company and determined such relationship was not material and would not affect the director's independence: Payments made by the Company for advertising to newspapers owned by Stephens Media Group. These payments were less than 5% of Stephens Media Group's annual revenue.

Inasmuch as 2007 presiding Non-Management Director Will Davis is not standing for election to the Board this year, the non-management directors will decide at their next meeting how they wish to comply with NYSE corporate governance standards relating to executive sessions held by non-management directors. You may contact any Board member, or the entire Board, at any time. Your communication should be sent to the Presiding Member of Non-Management Members of the Board of Directors or Non-Management Members of the Board of Directors at 1600 Cantrell Road, Little Rock, AR 72201.

The Board has adopted Corporate Governance Guidelines, and each of the Audit Committee and Compensation Committee has adopted a written charter. The Board has also adopted a Code of Conduct that applies to all Company employees including the Company's Directors, CEO and senior financial officers. The current version of these corporate governance documents is available free of charge on the Company's Web site at www.dillards.com and are available in print to any shareholder who requests copies by contacting Julie J. Bull, Director of Investor Relations, at 1600 Cantrell Road, Little Rock, AR 72201.

The following table summarizes the compensation paid by the Company to nonemployee Directors for the fiscal year ended February 2, 2008:

2007 DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
Robert C. Conner	\$ 91,000	\$ 74,400	\$	\$	\$	\$	\$ 165,400
Will D. Davis	78,000	74,400					152,400
John Paul Hammerschmidt	68,000	74,400					142,400
Peter R. Johnson	68,000	74,400					144,900
Warren A. Stephens	58,000	74,400					132,400
William H. Sutton	52,500	74,400					126,900
J.C. Watts, Jr.	67,000	74,400					143,900

Nonemployee Directors receive an annual cash retainer of \$45,000 as well as 2,000 shares of the Company's Class A Common Stock. Committee chairmen receive an additional annual retainer of \$20,000. Nonemployee

Directors receive \$2,500 for each board meeting or audit committee meeting attended in person; \$1,500 for other committee meetings attended in person and \$500 for each telephonic board or committee meeting. The amounts in the "Stock Awards" column represent the compensation expense recognized in fiscal 2007 for financial statement purposes under Financial Accounting Standards Board Statement on Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payments* (SFAS 123(R)), and is equal to the closing market price of 2,000 shares on the date of grant.

Dillard's, Inc.

COMPENSATION DISCUSSION AND ANALYSIS

Overview of Compensation Philosophy

The Stock Option and Executive Compensation Committee (the "Compensation Committee" or the "Committee") of our Board of Directors, which is composed of directors who are independent as defined under the listing standards of the New York Stock Exchange, has responsibility for establishing, implementing and monitoring adherence to our compensation philosophy. The Committee strives to ensure that the total compensation paid to executive officers is fair, reasonable and competitive.

The Committee evaluates both performance and compensation to ensure that we maintain the ability to attract and retain qualified management personnel and that compensation provided to those employees remains competitive relative to the compensation paid by our competitors. The Compensation Committee strives to achieve this objective by providing compensation packages that include a base salary, performance-based incentive bonuses and equity-based compensation.

The Committee annually reviews compensation packages and amounts paid by our primary competitors and other family-founded and family-managed companies in structuring elements to be included in our compensation packages and determining compensation amounts. This review, along with the independent judgment exercised by members of the Committee, guides the Committee's decisions regarding the allocation of compensation amounts between long-term and currently paid compensation, and the allocation between cash and non-cash amounts. The Compensation Committee attempts to devise these allocations along percentages generally comparable to our competitors while adhering to the underlying principles and objectives of our compensation policies.

In administering our compensation package, the Compensation Committee attempts to foster a pay-for-performance culture providing executives with the opportunity to increase their level of overall compensation based on the company's achievement of profitability. The specific aspects of corporate performance that are generally considered when determining our compensation policies include stock performance during the fiscal year, sales growth (both overall sales and same store sales), and growth in margins and pre-tax income. Specifically, the award of annual cash performance bonuses is based on a formula tied to the company's realization of pre-tax income and increases in pre-tax income over the past fiscal year. Performance bonuses were paid under this formula during each of our prior six fiscal years excluding only the 2003 fiscal year.

We believe that our compensation packages, and each individual element included, are competitive in our industry. Our programs are designed to allow our executives the opportunity to both increase their annual cash compensation through performance based bonuses and to capitalize on any increases in our stock price resulting from the company's success.

Our Compensation Committee's Charter is available on our website at www.dillards.com.

Role of Executive Officers in Compensation Decisions

Our chief executive officer, president and chief financial officer provide input to the Compensation Committee regarding Company performance. However, the Committee exercises complete discretion in making all compensation decisions regarding cash compensation and equity awards for all of our executive officers.

Objectives, Purposes and Rewards of Our Compensation Program

Our compensation program is designed to maintain our competitive position in our industry by providing benefits equivalent to those offered by our leading competitors. The program's objectives are to:

Provide compensation opportunities that are equivalent to those offered by comparable companies, thereby allowing the Company to compete for and retain talented executives who are critical to our long-term success;

Motivate executive officers by rewarding them for attainment of profitability of the Company; and

Align the interests of executives with the long-term interests of stockholders by awarding equity-based compensation in the form of stock option grants and participation in retirement, stock option and stock bonus plans encouraging stock ownership by our executives. We have designed our compensation programs to attract, retain and motivate talented individuals and encourage these individuals to engage in behaviors necessary to enable us to succeed in creating shareholder value in a highly competitive marketplace. We choose to pay each separate element of our compensation package with the intent of rewarding certain behaviors believed to be beneficial to the Company and to accomplishing specific purposes, as described below.

Base Salary is designed to:

Reward competencies of our executives relative to skills, position and contributions to the success of our Company; and

Provide a level of annual cash compensation competitive with the marketplace that recognizes contributions to the overall success of the Company and provides the potential to enjoy annual increases reflecting those contributions.

Annual Cash Performance Bonuses are designed to:

&