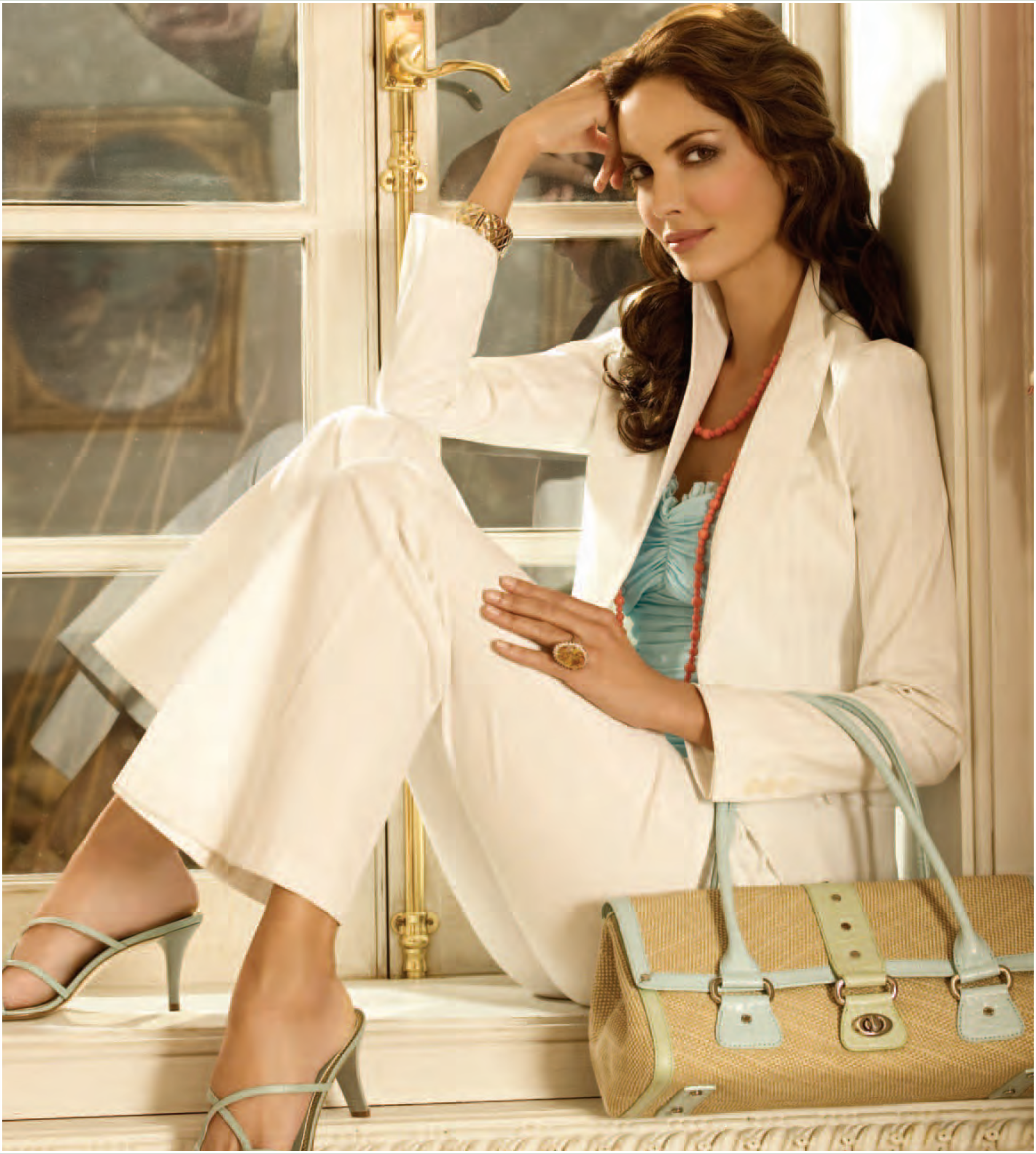

Dillard's

DILLARD'S, INC. 2004 ANNUAL REPORT

TO OUR SHAREHOLDERS

Reflection on 2004 and our performance at Dillard's brings to mind both exciting accomplishments and disappointments. During the year, we dramatically improved our merchandise mix and this progress was evident in a 140 basis point gross margin increase for the year (based upon sales). This improvement combined with a gain on the sale of our private label credit card business and declining interest expense contributed to a substantial increase in net income to $117.7 million from $9.3 million for the prior year. However, we were disappointed with a 1% sales decline for the year. We can do better. Merchandise differentiation with special emphasis on becoming a more upscale retailer is crucial to our success. Accordingly, we are driving change in every area of the store in order to strengthen our competitive position.

People buy fashion because they want to feel good about themselves. In 2004, we gave them even more reasons to choose Dillard's as their partner to make this desire a reality. We increased our emphasis on nationally known contemporary and better lines, reflective of America's renewed excitement over trend-right better fashions. Additionally, we expanded our better exclusive brand lines like Antonio Melani, Gianni Bini, and Daniel Cremieux.

There is room in America's marketplace for a national retailer focused on more upscale and more fashion forward assortments. We are well positioned to become the premier retailer in this niche. We will continue on our path to offer selections edited to our customers' multi-faceted lifestyles, and we recognize it's not about age – it's about attitude. In this effort, we are de-emphasizing or replacing under-performing lines of product, from both national and exclusive brand sources, with more promising brands. Furthermore, utilizing our existing information technology capabilities, we are tailoring these assortments to the local demographics, reflecting not only each specific market's culture and fashion attitude but also each store's specific sizing and style needs.

On November 1, 2004, we sold substantially all the assets of our credit card business to G.E. Consumer Finance. Our credit card portfolio was strong and we are tremendously pleased with this transaction, not only from the proceeds received but also by the ongoing possibilities and opportunities it presents to Dillard's. G.E. Consumer Finance is a solid, established leader in consumer finance. Their expertise in credit marketing is well known and we are excited about the innovative products and services they will bring to Dillard's shoppers. They are a valued partner in our continuing drive for excellence in customer service.

In 2004, we greatly strengthened our financial position. We reduced our debt to $1.64 billion from $2.62 billion (including Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures). Proceeds from the transaction with G.E. Consumer Finance and our strong operating cash flow during the year made this accomplishment possible. We reduced our interest expense for the year by $42 million as a result of dramatically lower debt levels. At year end, our cash and cash equivalents were $498.2 million.

In 2004, we opened eight new Dillard's stores in excellent locations, five of which were replacement stores. As we continued to focus on store productivity, we closed four under-performing locations and redirected the associated resources to more promising projects. As a result of our store opening and closing activity in 2004, we increased our percentage of store ownership to an industry leading 80%.

We are truly energized by the changes occurring in retail development. We find the progressive 'lifestyle centers' particularly compelling and we believe they are an ideal complement to our more upscale approach to retailing. These centers feature not only great shopping, but also fine dining and entertainment choices, often in beautiful open air or village-themed settings. Our new Dillard's locations at Yuma Palms in Yuma, Arizona and The Shoppes at East Chase in Montgomery, Alabama are located in these remarkable new venues. In 2005, we will open nine new Dillard's stores in promising new locations. Of these, six will be in innovative lifestyle venues such as St. Johns Town Center in Jacksonville, Florida and The Shops at La Cantera in Garland, Texas. The remaining three new stores will be in exceptional centers including Perimeter Mall in Atlanta, Georgia, one of Atlanta's premier shopping destinations.

The landscape of fashion apparel retailing is rapidly changing and commentary regarding the future of our sector abounds. At Dillard's, we are embracing change and we are excited about our future. In the midst of all that changes, one thing remains constant – the customer's desire to feel good about themselves. With the continued support of our associates and our shareholders, Dillard's will be their preferred destination retailer for fashions to meet their desires time and time again.

William Dillard II

William Dillard, II
Chairman of the Board and Chief Executive Officer

Alex Dillard

Alex Dillard
President

CORPORATE ORGANIZATION

William Dillard, II
Chief Executive Officer

Drue Corbusier
Executive Vice President

Alex Dillard
President

James I. Freeman
Chief Financial Officer

Mike Dillard
Executive Vice President

Paul J. Schroeder, Jr.
General Counsel

VICE PRESIDENTS

Michael Bowen
James W. Cherry, Jr.
Karl G. Ederer
Randal L. Hankins
William L. Holder, Jr.
Gaston Lemoine
Denise Mahaffy
Steven K. Nelson
Michael E. Price
Sidney A. Sanders
Burt Squires
Ralph Stuart
Phillip R. Watts
Kent Wiley
Richard B. Willey
Sherrill E. Wise

REGIONAL MERCHANDISING DIVISIONS

Ft. Worth Division

Drue Corbusier
President

Jeff Menn
Vice President,
Merchandising

Anthony Menzie
Vice President,
Merchandising

Christine Rowell
Director of Sales
Promotion

Little Rock Division

Mike Dillard
President

David Terry
Vice President,
Merchandising

Keith White
Vice President,
Merchandising

Ken Eaton
Director of Sales
Promotion

Phoenix Division

Kent Burnett
President

Tom Sullivan
Vice President,
Merchandising

Julie A. Taylor
Vice President,
Merchandising

James Benson
Director of Sales
Promotion

St. Louis Division

Joseph P. Brennan
President

Mark Killingsworth
Vice President,
Merchandising

Ronald Wiggins
Vice President,
Merchandising

Paul E. McLynch
Director of Sales
Promotion

Tampa Division

Robin Sanderford
President

Sandra Steinberg
Vice President,
Merchandising

James D. Stockman
Vice President,
Merchandising

Louise Platt
Director of Sales
Promotion

CORPORATE MERCHANDISING DIVISIONS

Corporate Merchandising / Product Development

Denise Mahaffy
Vice President, Merchandising

Mike McNiff
Vice President, Merchandising

Vice Presidents:
Les Chandler
Neil Christensen
William T. Dillard, III
Gianni Duarte
Christine A. Ferrari
Colleen Kirk
Terry Smith
Kay White

Cosmetic Merchandising

Ann Franzke
Vice President, Merchandising

Home Merchandising

Richard Moore
Vice President, Merchandising

REGIONAL VICE PRESIDENTS - STORES

W.R. Appleby, II
Donald A. Bogart
Tom Bolin
Larry Cailteux
Mark Gastman
Walter C. Grammer
Marva Harrell
Gene D. Heil
William H. Hite
Dan W. Jensen
Cindy Myers-Ray
Tom C. Patterson
Grizelda Reeder
Linda Sholtis-Tucker
Alan Steinberg
Lloyd Keith Tidmore

BOARD OF DIRECTORS

Robert C. Connor
Investments
Dallas, Texas

Drue Corbusier
Executive Vice President
of Dillard's, Inc.

Will D. Davis
Partner with Heath, Davis, &
McCalla, Attorneys
Austin, Texas

Alex Dillard
President
of Dillard's, Inc.

Mike Dillard
Executive Vice President
of Dillard's, Inc.

William Dillard, II
Chairman of the Board and Chief
Executive Officer of Dillard's, Inc.

James I. Freeman
Senior Vice President and Chief
Financial Officer of Dillard's, Inc.

John Paul Hammerschmidt
Retired Member of Congress
Harrison, Arkansas

Peter R. Johnson
Chairman and Chief Executive
Officer of PRJ Holdings, Inc.
San Francisco, CA

Warren A. Stephens
President and Chief Executive
Officer of Stephens Group, Inc. and
Stephens, Inc.
Little Rock, Arkansas

William H. Sutton
Managing Partner of Friday,
Eldredge and Clark, Attorneys
Little Rock, Arkansas

J.C. Watts, Jr.
Former Member of Congress and
Chairman of J.C. Watts Companies
Washington, D.C.

Dillard's

Dillard's, Inc. ranks among the nation's largest fashion apparel and home furnishings retailers with annual revenues exceeding $7.8 billion. The Company focuses on delivering maximum fashion and value to its shoppers by offering compelling apparel and home selections complemented by exceptional customer care. Dillard's stores offer a broad selection of merchandise and feature products from both national and exclusive brand sources. The Company operates 329 Dillard's locations spanning 29 states, all with one nameplate – Dillard's.

Annual Meeting

Saturday, May 21, 2005, at 9:30 a.m.
Dillard's Corporate Office
1600 Cantrell Road
Little Rock, Arkansas 72201

Financial and Other Information

Copies of financial documents and other company information such as Dillard's, Inc. reports on Form 10-K and 10-Q and other reports filed with the Securities and Exchange Commission are available by contacting:

Dillard's, Inc.
Investor Relations
1600 Cantrell Road
Little Rock, Arkansas 72201
501-376-5544

E-mail: investor.relations@dillards.com

Financial reports, press releases and other Company information are available on the Dillard's, Inc. Web site: www.dillards.com

Individuals or securities analysts with questions regarding Dillard's, Inc. may contact:

Julie J. Bull
Director of Investor Relations
1600 Cantrell Road
Little Rock, Arkansas 72201
Telephone: 501-376-5965
Fax: 501-376-5917
E-mail: julie.bull@dillards.com

Transfer Agent and Registrar

Registered shareholders should address communications regarding address changes, lost certificates and other administrative matters to the Company's Transfer Agent and Registrar.

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016-3572
Telephone: 800-368-5948
E-Mail: info@rtco.com
Web page: www.rtco.com

Please refer to Dillard's, Inc. on all correspondence and have available your name as printed on your stock certificate, your Social Security number, your address and phone number.

Corporate Headquarters

1600 Cantrell Road
Little Rock, Arkansas 72201

Mailing Address

Post Office Box 486
Little Rock, Arkansas 72203
Telephone: 501-376-5200
Fax: 501-376-5917

Listing

New York Stock Exchange, Ticker Symbol "DDS"

STORE OPENINGS - 2004

Dillard's at:	City	Open Month	Sq. Feet
The Shoppes at East Chase**	Montgomery, Alabama	March	155,000
Coastal Grand	Myrtle Beach, South Carolina	March	155,000
Colonial University Village**	Auburn, Alabama	April	126,000
Greenbrier Mall**	Chesapeake, Virgina	April	160,000
Jordan Creek Town Center	West Des Moines, Iowa	August	200,000
Yuma Palms**	Yuma, Arizona	October	98,000
South Park Mall	Moline, Illinois	October	127,000
Eastern Shore**	Spanish Fort, Alabama	October	126,000

**Replacement Store

On the cover:

Exclusively at Dillard's, Antonio Melani reflects the elements of European styling and design. This signature line is tailored to meet every woman's lifestyle – taking her from dress to casual and classic to fashion forward.

1600 Cantrell Road
Little Rock, Arkansas 72201
www.dillards.com

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended **January 29, 2005**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITES 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)

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

Title of each Class	Name of each exchange on which registered
Class A Common Stock	New York Stock Exchange

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

None

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

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. ☐

Indicated by checkmark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of July 31, 2004: $1,771,477,069.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of February 26, 2005:

CLASS A COMMON STOCK, $.01 par value	79,194,675
CLASS B COMMON STOCK, $.01 par value	4,010,929

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held May 21, 2005 (the "Proxy Statement") are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS.

General

Dillard's, Inc. (the "Company", “we”, “us”, “our” or "Registrant") is an outgrowth of a department store originally founded in 1938 by William Dillard. The Company was incorporated in Delaware in 1964. The Company operates retail department stores located primarily in the Southwest, Southeast and Midwest.

We conduct our retail merchandise business under highly competitive conditions. Although we are a large regional department store, we have numerous competitors at the national and local level that compete with our individual stores, including specialty, off-price, discount, internet, and mail-order retailers. Competition is characterized by many factors including location, reputation, assortment, advertising, price, quality, service and credit availability. We believe that our stores are in a strong competitive position with regard to each of these factors. The Company's earnings depend to a significant extent on the results of operations for the last quarter of its fiscal year. Due to holiday buying patterns, sales for that period average approximately one-third of annual sales.

The Company’s fiscal year ends on the Saturday nearest January 31 of each year. Fiscal years 2004, 2003 and 2002 ended on January 29, 2005, January 31, 2004 and February 1, 2003, respectively. Fiscal years 2004, 2003 and 2002 included 52 weeks.

For additional information with respect to our business, reference is made to information contained under the headings “Net sales,” “Net income,” “Total assets” and “Number of employees-average,” under item 6 hereof.

The Company’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available free of charge on the Dillard’s, Inc. web site:

www.dillards.com

The information contained on the Company’s web site is not incorporated by reference into this Form 10-K and should not be considered to be a part of this Form 10-K. These reports are available on the Company’s web site as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

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

ITEM 2. PROPERTIES.

All of our stores are owned or leased from third parties. Our third-party store leases typically provide for rental payments based on a percentage of net sales with a guaranteed minimum annual rent. In general, the Company pays the cost of insurance, maintenance and any increase in real estate taxes related to the leases. At January 29, 2005, there were 329 stores in operation with gross square footage approximating 56.3 million feet. The Company owned a total of 264 stores with 45.0 million square feet. The Company leased 65 stores from third parties, which totaled 11.3 million square feet. In addition, we have seven regional distribution facilities of which we own six and lease one from a third party. Our principal executive offices are approximately 300,000 square feet located in Little Rock, Arkansas. Additional information is contained in Notes 1, 3, 13 and 14 of “Notes to Consolidated Financial Statements,” in Item 8 hereof, and reference is made to information contained under the heading “Number of stores,” under item 6 hereof.

ITEM 3. 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 alleges 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 does not specify any liquidated amount of damages sought and seeks recalculation of certain benefits paid to putative class members. No trial date has been set.

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 April 2, 2005, 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted to a vote of security holders during the fourth quarter of the year ended January 29, 2005.

Executive Officers of the Company

The following table lists the names and ages of all Executive Officers of the Registrant, the nature of any family relationship between them and all positions and offices with the Registrant presently held by each person named. All of the Executive Officers listed below have been in managerial positions with the registrant for more than five years.

Name	Age	Position & Office	Family Relationship
William Dillard, II	60	Director; Chief Executive Officer	None
Alex Dillard	55	Director; President	Brother of William Dillard, II
Mike Dillard	53	Director; Executive Vice President	Brother of William Dillard, II
Joseph P. Brennan	60	Vice President	None
G. Kent Burnett	60	Vice President	None
Drue Corbusier	58	Director; Executive Vice President	Sister of William Dillard, II
James I. Freeman	55	Director; Senior Vice President; Chief Financial Officer	None
Gaston Lemoine	61	Vice President	None
Steven K. Nelson	47	Vice President	None
Robin Sanderford	58	Vice President	None
Paul J. Schroeder	56	Vice President	None
Burt Squires	55	Vice President	None

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, AND RELATED MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's Class A Common Stock trades on the New York Stock Exchange under the Ticker Symbol "DDS". No public market currently exists for the Class B Common Stock.

The high and low sales prices of the Company's Class A Common Stock, and dividends declared on each class of common stock, for each quarter of fiscal 2004 and 2003 are presented in the table below:

	2004		2003		Dividends per Share	
	High	Low	High	Low	2004	2003
First	$19.16	$16.57	$15.10	$12.49	$0.04	$0.04
Second	23.76	15.54	15.08	12.77	0.04	0.04
Third	23.14	18.64	16.92	13.98	0.04	0.04
Fourth	27.54	20.13	17.86	14.46	0.04	0.04

While the Company expects to continue its cash dividend policy during fiscal 2005, all subsequent dividends will be reviewed quarterly and declared by the board of directors.

As of February 26, 2005, there were 4,567 record holders of the Company's Class A Common Stock and 8 record holders of the Company's Class B Common Stock.

In May 2000, the Company announced that the Board of Directors authorized the repurchase of up to $200 million of its Class A Common Stock. The plan has no expiration date and remaining availability pursuant to our share repurchase program is $16.1 million as of January 29, 2005. There were no issuer purchases of equity securities during the fourth quarter of 2004.

ITEM 6. SELECTED FINANCIAL DATA.

The selected financial data set forth should be read in conjunction with the Company's consolidated audited financial statements and notes thereto and the other information contained elsewhere in this report.

(Dollars in thousands of dollars, except per share data)

	2004	2003	2002	2001	2000*
Net sales	$7,528,572	$7,598,934	$7,910,996	$8,154,911	$8,566,560
Percent change	-1%	-4%	-3%	-5%	-1%
Cost of sales	5,017,765	5,170,173	5,254,134	5,507,702	5,802,147
Percent of sales	66.6%	68.0%	66.4%	67.5%	67.8%
Interest and debt expense	139,056	181,065	189,779	192,344	169,609
Income before taxes	184,551	15,994	204,261	120,963	183,531
Income taxes	66,885	6,650	72,335	49,165	59,390
Income before cumulative effect of accounting change	117,666	9,344	131,926	71,798	124,141
Cumulative effect of accounting change	-	-	(530,331) (1)	-	(129,991) (2)
Net income (loss)	117,666	9,344	(398,405)	71,798	(5,850)
Per Diluted Common Share					
Income before cumulative effect of accounting change	1.41	0.11	1.55	0.85	1.36
Cumulative effect of accounting change	-	-	(6.22)	-	(1.42)
Net income (loss)	1.41	0.11	(4.67)	0.85	(0.06)
Dividends	0.16	0.16	0.16	0.16	0.16
Book value	27.94	26.79	26.71	31.81	30.94
Average number of shares outstanding	83,739,431	83,899,974	85,316,200	84,486,747	91,199,184
Accounts receivable (3) (4)	9,651	1,232,456	1,387,835	1,112,325	1,011,481
Merchandise inventories	1,733,033	1,632,377	1,594,308	1,561,863	1,616,186
Property and equipment	3,180,756	3,197,469	3,370,502	3,455,715	3,508,331
Total assets	5,691,581	6,411,097	6,675,932	7,074,559	7,199,309
Long-term debt (3) (4)	1,322,824	1,855,065	2,193,006	2,124,577	2,374,124
Capitalized lease obligations	20,182	17,711	18,600	20,459	22,453
Deferred income taxes	509,589	617,236	645,020	643,965	638,648
Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures	200,000	200,000	531,579	531,579	531,579
Stockholders' equity	2,324,697	2,237,097	2,264,196	2,668,397	2,629,820
Number of employees - average	53,035	53,598	55,208	57,257	58,796
Gross square footage (in thousands)	56,300	56,000	56,700	56,800	56,500
Number of stores					
Opened	8	5	4	6	4
Acquired	0	0	0	4	0
Closed	7	10	9	9	9
Total - end of year	329	328	333	338	337

* 53 Weeks

(1) During fiscal 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets". See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 3 to the Consolidated Financial Statements.

(2) During fiscal 2000, the Company changed its method of accounting for inventories under the retail method.

(3) The Company had $300 million in off-balance-sheet debt and accounts receivable for the fiscal years ended 2001, and 2000, respectively. See Note 16 to the Consolidated Financial Statements.

(4) During fiscal 2004, the Company sold its private label credit card business to GE Consumer Finance for $1.1 billion, which includes the assumption of $400 million of long-term securitization liabilities.

The items below are included in the Selected Financial Data.

2004

The items below amount to a net $64.5 million pretax gain ($42.1 million after tax or $0.50 per diluted share).

- a pretax gain of $83.9 million ($53.7 million after tax or $0.64 per diluted share) pertaining to the Company's sale of it private label credit card business to GE Consumer Finance (see Note 2 of the Notes to Consolidated Financial Statements).

- a $19.4 million pretax charge ($11.6 million after tax or $0.14 per diluted share) for asset impairment and store closing charges related to certain stores (see Note 14 of the Notes to Consolidated Financial Statements).

2003

The items below amount to a net $18.6 million pretax charge ($12.8 million after tax or $0.15 per diluted share).

- a $43.7 million pretax charge ($28.9 million after tax or $0.34 per diluted share) for asset impairment and store closing charges related to certain stores (see Note 14 of the Notes to Consolidated Financial Statements).

- a call premium resulting in additional interest expense of $15.6 million ($10.0 million after tax or $0.12 per diluted share) associated with a $125.9 million call of debt.

- a pretax gain of $15.6 million ($10.0 million after tax or $0.12 per diluted share) pertaining to the Company's sale of its interest in Sunrise Mall and its associated center in Brownsville, Texas (see Note 1 of the Notes to Consolidated Financial Statements).

- a pretax gain of $12.3 million ($7.9 million after tax or $0.09 per diluted share) recorded due to the resolution of certain liabilities originally recorded in conjunction with the purchase of Mercantile Stores Company, Inc.

- an $8.7 million pretax gain ($5.6 million after tax or $0.07 per diluted share) related to the sale of certain store properties.

- $4.1 million ($2.6 million after tax or $0.03 per diluted share) received from the Internal Revenue Service as a result of the Company's filing of an interest-netting claim related to previously settled tax years.

2002

The items below amount to a net $3.0 million pretax gain ($1.8 million after tax or $0.02 per diluted share).

- a pretax gain of $64.3 million ($41.1 million after tax or $0.48 per diluted share) pertaining to the Company's sale of its interest in FlatIron Crossing, a Broomfield, Colorado shopping center (see Note 1 of the Notes to Consolidated Financial Statements).

- a pretax asset impairment and store closing charge of $52.2 million ($33.4 million after tax or $0.39 per diluted share) related to certain stores (see Note 14 of the Notes to Consolidated Financial Statements).

- a call premium resulting in additional interest expense of $11.6 million ($7.4 million after tax or $0.09 per diluted share) associated with a $143.0 million call of debt.

- a pretax charge of $5.4 million ($3.5 million after tax or $0.04 per diluted share) on the amortization of off-balance-sheet accounts receivable securitization (see Note 16 of the Notes to Consolidated Financial Statements).

- a pretax gain of $4.8 million ($3.0 million after tax or $0.04 per diluted share) on the early extinguishment of debt.

- a pretax gain of $3.1 million ($2.0 million after tax or $0.02 per diluted share) from an investee partnership of the Company who received an unusual distribution in the settlement of a receivable.

2001

The items below amount to a net $5.6 million pretax gain ($3.6 million after tax or $0.04 per diluted share).

- a pretax asset impairment and store closing charge of $3.8 million ($2.4 million after tax or $0.03 per diluted share) related to certain stores.

- a pretax gain of $9.4 million ($6.0 million after tax or $0.07 per diluted share) on the early extinguishment of debt.

2000

The items below amount to a net $38.2 million pretax gain ($21.3 million after tax or $0.23 per diluted share).

- a pretax asset impairment and store closing charge of $51.4 million ($36.0 million after tax or $0.40 per diluted share) related to certain stores.

- a pretax gain of $42.7 million ($27.3 million after tax or $0.30 per diluted share) on the early extinguishment of debt.

- a pretax gain of $46.9 million ($30.0 million after tax or $0.33 per diluted share) on the Company's change in its method of accounting for inventories under the retail inventory method.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

EXECUTIVE OVERVIEW

Dillard’s, Inc. operates 329 retail department stores in 29 states. Our stores are located in suburban shopping malls and offer a broad selection of fashion apparel and home furnishings. We offer an appealing and attractive assortment of merchandise to our customers at a fair price. We offer national brand merchandise as well as our exclusive brand merchandise. We seek to enhance our income by maximizing the sale of this merchandise to our customers. We do this by promoting and advertising our merchandise and by making our stores an attractive and convenient place for our customers to shop.

Fundamentally, our business model is to offer the customer a compelling price/value relationship through the combination of high quality products and services at a competitive price. We seek to deliver a high level of profitability and cash flow by:

- maximizing the effectiveness of our pricing and brand awareness;
- minimizing costs through leveraging our centralized overhead expense structure;
- sourcing;
- reinvesting operating cash flows into store growth, and distribution initiatives, and improving product quality in our exclusive brands;
- returning profits to shareholders through dividends, share repurchases and increased share price; and
- continuing to offer access to credit services and financial products to our customers through our long-term marketing and servicing alliance with GE Consumer Finance (“GE”).

The consumer retail sector is extremely competitive. Many different retail establishments compete for our customers’ business. These include other department stores, specialty retailers, discounters, internet and mail order retailers. We also attempt to enhance our income by managing our operating costs without sacrificing service to our customers.

Items of note for the year ended January 29, 2005 include the following:

- The sale of substantially all of the assets of our private label credit card business and the establishment of a long-term marketing and servicing alliance with GE. The sale generated total proceeds of $1.1 billion, consisting of the assumption by GE of $400 million of securitized debt and net cash proceeds of approximately $688 million and resulted in significantly strengthened financial position and liquidity. The financial impact of the transaction on Dillard’s ongoing financial results will be determined by the effects of the Company’s use of proceeds as well as the effect of income generated under the long-term marketing and servicing alliance. Dillard’s expects to use net proceeds to reduce debt outstanding, to repurchase its common stock and for general corporate purposes.
- The elimination of debt of $988 million, partially in conjunction with the sale of the credit card business.
- Gross profit improvement of 140 basis points of sales compared to the year ended January 31, 2004.
- Decrease in interest and debt expense of $42 million compared to the year ended January 31, 2004.
- Cash and cash equivalents of $498 million as of January 29, 2005.

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 income statement 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 the Company sources its merchandise.

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 alleges 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 does not specify any liquidated amount of damages sought and seeks recalculation of certain benefits paid to putative class members. No trial date has been set.

The Company is defending the litigation vigorously and has named the Plan's actuarial firm as a cross defendant. While it is not feasible to predict or determine the ultimate outcome of the pending litigation, management believes after consultation with counsel, that its outcome, after consideration of the provisions recorded in the Company's consolidated financial statements, would not have a material adverse effect upon its consolidated cash flow or financial position. However, it is possible that an adverse outcome could have an adverse effect on the Company's consolidated net income in a particular quarterly or annual period.

2005 Estimates

A summary of estimates on key financial measures for fiscal 2005, on a generally accepted accounting principles ("GAAP") basis, is shown below. There have been no changes in the estimates for 2005 since the Company released its fourth quarter earnings on March 10, 2005.

(In millions of dollars)	2005 Estimated	2004 Actual
Depreciation and amortization	$ 310	$ 302
Rental expense	55	55
Interest and debt expense	103	139
Capital expenditures	335	285

General

Net Sales. Net sales include sales of comparable stores, non-comparable stores and lease income on leased departments. 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.

Service Charges, Interest and Other Income. Service Charges, Interest and Other Income include interest and service charges, net of service charge write-offs, related to the Company's proprietary credit card sales. Other income relates to joint ventures accounted for by the equity method, rental income, shipping and handling fees and gains (losses) on the sale of property and equipment and joint ventures. Other income also includes income generated through the long-term marketing and servicing alliance between the Company and GE and the resulting gain on the sale of its credit card business to GE.

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, bad debt costs 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 equipment rentals.

Interest and debt expense. Interest and debt expense includes interest relating to the Company's unsecured notes, mortgage notes, credit card receivables financing, 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.

Asset impairment and store closing charges. Asset impairment and store closing charges consist 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.

Cumulative effect of accounting change. Effective February 3, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 changes the accounting for goodwill from an amortization method to an "impairment only" approach. Under SFAS No. 142, goodwill is no longer amortized but reviewed for impairment annually or more frequently if certain indicators arise. The Company tested goodwill for impairment as of the adoption date using the two-step process prescribed in SFAS No. 142. The Company identified its reporting units under SFAS No. 142 at the store unit level. The fair value of these reporting units was estimated using the expected discounted future cash flows and market values of related businesses, where appropriate. The cumulative effect of the accounting change as of February 3, 2002 was to decrease net income for fiscal year 2002 by $530 million or $6.22 per diluted share.

Critical Accounting Policies and Estimates

The Company's accounting policies are more fully described in Note 1 of Notes to Consolidated Financial Statements. As disclosed in Note 1 of Notes to Consolidated Financial Statements, 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 Consolidated Financial Statements.

Merchandise inventory. Approximately 97% 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 3% of the inventories are valued at lower of cost or market using the specific identified cost method.

Allowance for doubtful accounts. In 2004, the Company sold substantially all of its accounts receivable to GE and no longer maintains an allowance for doubtful accounts.

Prior to the sale, the accounts receivable from the Company's private label credit card sales were subject to credit losses. The Company maintained allowances for uncollectible accounts for estimated losses resulting from the inability of its customers to make required payments. The adequacy of the allowance was based on historical experience with similar customers including write-off trends, current aging information and year-end balances. Bankruptcies and recoveries used in the allowance calculation were projected based on qualitative factors such as current and expected consumer and economic trends.

Merchandise vendor allowances. The Company receives concessions from its merchandise vendors through a variety of programs and arrangements, including co-operative advertising, payroll reimbursements and markdown reimbursement programs. Co-operative advertising allowances are reported as a reduction of advertising expense in the period in which the advertising occurred. 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.

Insurance accruals. The Company's consolidated balance sheets include liabilities with respect to self-insured workers' compensation and general liability 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).

Finite-lived assets. The Company evaluates the fair value and future benefits of finite-lived assets whenever events and changes in circumstances suggest. 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.

Goodwill. The Company evaluates goodwill annually 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.

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 Company's income tax returns are periodically audited by various state and local jurisdictions. Additionally, the Internal Revenue Service audits the Company's federal income tax return annually. The Company reserves for tax contingencies when it is probable that a liability has been incurred and the contingent amount is reasonably estimable. These reserves are based upon the Company's best estimation of the potential exposures associated with the timing and amount of deductions as well as various tax filing positions. Due to the complexity of these examination issues, for which reserves have been recorded, it may be several years before the final resolution is achieved.

Discount rate. The discount rate that the Company utilizes for determining future pension obligations is based on the Moody's AA corporate bond index. The indices selected reflect the weighted average remaining period of benefit payments. The discount rate had decreased to 5.5% as of January 29, 2005 from 6.00% as of January 31, 2004. A further 50 basis point change in the discount rate would generate an experience gain or loss of approximately $9 million.

Results of Operations

The following table sets forth the results of operations and percentage of net sales, for the periods indicated:

(in millions of dollars)	For the years ended					
	January 29, 2005		**January 31, 2004**		**February 1, 2003**	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	$7,528.6	100.0%	$7,598.9	100.0%	$7,911.0	100.0%
Cost of sales	5,017.8	66.6	5,170.2	68.0	5,254.1	66.4
Gross profit	2,510.8	33.4	2,428.7	32.0	2,656.9	33.6
Advertising, selling, administrative and general expenses	2,098.8	27.9	2,097.9	27.6	2164.0	27.3
Depreciation and amortization	301.9	4.0	290.7	3.8	301.4	3.8
Rentals	54.8	0.7	64.1	0.8	68.1	0.9
Interest and debt expense	139.1	1.8	181.1	2.4	189.8	2.4
Asset impairment and store closing charges	19.4	0.3	43.7	0.6	52.2	0.7
Total operating expenses	2,614.0	34.7	2,677.5	35.2	2,775.5	35.1
Service charges, interest and other income	287.7	3.8	264.8	3.4	322.9	4.1
Income before income taxes	184.5	2.5	16.0	0.2	204.3	2.6
Income taxes	66.9	0.9	6.7	0.1	72.4	0.9
Income before cumulative effect of accounting change	117.6	1.6	9.3	0.1	131.9	1.7
Cumulative effect of accounting change	-	-	-	-	(530.3)	(6.7)
Net income (loss)	$ 117.6	1.6%	$ 9.3	0.1%	$(398.4)	(5.0)%

Sales
The percent change by category in the Company's sales for the past two years is as follows:

	Percent Change	
	Fiscal 2004-2003	Fiscal 2003-2002
Cosmetics	1.3	(1.1)
Women's and Juniors' Clothing	(2.4)	(4.8)
Children's Clothing	(2.7)	(8.9)
Men's Clothing and Accessories	(3.2)	(5.8)
Shoes, Accessories and Lingerie	4.0	(0.8)
Home	(2.0)	(4.3)

The percent change by region in the Company's sales for the past two years is as follows:

	Percent Change	
	Fiscal 2004-2003	Fiscal 2003-2002
Southeastern	0.2	(4.2)
Midwestern	(2.1)	(4.6)
Southwestern	1.5	(0.7)

Sales decreased 1% for the 52-week period ended January 29, 2005 compared to the 52-week period ended January 31, 2004 on both a total and comparable store basis. Sales were strongest and increased in cosmetics and shoes, accessories and lingerie while sales declined in the remaining merchandising categories. Sales in the Western and Eastern regions increased in fiscal 2004 while sales declined in the Central region. Dillard's continues to focus on improvement in its merchandise mix. The Company's efforts to drive differentiation by offering more upscale, more fashion-forward and younger-focused product choices are key strategies in this process. The Company seeks to provide such merchandise from both national and exclusive brand sources. Under-performing lines of product from both national and exclusive sources will continue to be eliminated and replaced with more promising brands in the Company's ongoing efforts to improve its merchandise mix. In addition, utilizing the Company's existing information technology capabilities, the Company will continue to tailor these assortments to the local demographics. During the fiscal years 2004, 2003 and 2002, sales of exclusive brand merchandise as a percent of total sales were 23.1%, 20.9% and 18.2%, respectively.

Sales decreased 4% for the 52-week period ended January 31, 2004 compared to the 52-week period ended February 1, 2003 on both a total and comparable store basis. Sales declined in all merchandising categories with the largest declines in children's, men's clothing and accessories and women and juniors' clothing. Sales in the home categories were in line with the average sales performance while sales in accessories, shoes, lingerie and cosmetics were strongest and exceeded the Company's average sales performance for the period.

Cost of Sales
Cost of sales as a percentage of sales decreased to 66.6% during 2004 compared with 68.0% for 2003. The increase of 140 basis points in gross margin during fiscal 2004 was due to the Company's successful efforts to improve its merchandise mix and reduce markdown activity. The lower level of markdown activity decreased cost of sales by 50 basis points of sales. Improved levels of markups were responsible for a decrease in cost of sales of 90 basis points of sales. All product categories had increased gross margins during 2004 except for the home category. Gross margins were notably higher in men's and children's categories with margin improvement well above the average margin improvement for the year.

Inventory in comparable stores at January 29, 2005 increased 1% compared to January 31, 2004. Overall inventory increased 6% due primarily to an increase of $86 million relating to inventory in-transit.

Cost of sales as a percentage of sales increased to 68.0% during 2003 compared with 66.4% for 2002. The decline of 160 basis points in gross margin during fiscal 2003 was due to competitive pressures in the Company's retail sector and the resulting effort to maintain a competitive position with increased markdown activity. The higher level of markdown activity increased cost of sales by 3.7% of sales. Improved levels of markups partially offset this promotional activity during fiscal 2003. The increased markup percentage was responsible for a decrease in cost of sales of 2.1% of sales. All product categories had decreased gross margins during 2003 except cosmetics, which increased 10 basis points from 2002.

Expenses

2004 Compared to 2003

Advertising, selling, administrative and general ("SG&A") expenses increased to 27.9% of sales for fiscal 2004 compared to 27.6% for fiscal 2003. On a dollar basis, SG&A expenses were up slightly over the prior year. SG&A expenses in fiscal 2003 include a $12.3 million pretax credit recorded due to the resolution of certain liabilities originally recorded in conjunction with the purchase of Mercantile Stores Company, Inc. that were deemed not necessary based upon current information. For fiscal 2004, savings in bad debts of $25.9 million (as a result of the sale of the Company's credit card business in November 2004 and decreased bad debt write-offs throughout the year), services purchased of $11.3 million and communications of $4.0 million were offset by increases in incentive payroll of $8.6 million, insurance of $8.6 million and advertising of $16.9 million. The reduction in services purchased and communications was partially due to the sale of the credit card business in November 2004 and costs reductions throughout the year. Services purchased includes marketing, collection fees and merchandise handling costs. Communications includes telephone, postage and data line expenses. As a result of the Company's improved performance, incentive compensation to store managers, merchants and management significantly increased during the year ended January 29, 2005. Also during the year, Dillard's increased its provision for workers' compensation self-insurance to reflect an expected increase in future medical costs. Dillard's increased its advertising expenditures during the year as it continued to evaluate new media outlets better suited to meet its customers' lifestyles than those outlets traditionally employed. Due to the sale of the credit card business, bad debt expense will be non-recurring in fiscal 2005.

Depreciation and amortization as a percentage of sales increased to 4.0% for fiscal 2004 compared to 3.8% for fiscal 2003. This increase is due to higher capital expenditures in 2004 and the addition of capital leases for data processing equipment in 2004 which have shorter useful lives.

Rental expenses experienced a decline due to a lower number of leased stores in fiscal 2004 compared to the prior year and lower data processing equipment rent. Leased stores declined from 71 stores at January 31, 2004 to 65 stores at January 29, 2005 resulting in lower rent expense of $6.6 million. Lower data processing equipment rent of $2.7 million was due to a certain number of 2004 leases qualifying for capital lease treatment. A review of the Company's lease accounting policies resulted in a charge of $821,000 for straight-line rent during fiscal 2004.

Interest and debt expense as a percentage of sales decreased to 1.8% for fiscal 2004 compared to 2.4% for fiscal 2003 primarily as a result of lower debt levels. Interest expense declined $42.0 million in fiscal 2004. Average debt outstanding declined approximately $602 million in fiscal 2004. The debt reduction was due primarily to the assumption by GE of $400 million in accounts receivable securitization debt and the payoff of seasonal borrowings in conjunction with the sale of the Company's private label credit card business to GE. The Company also redeemed the $331.6 million Preferred Securities and had maturities of outstanding notes of $163.4 million during fiscal 2004. Interest expense for fiscal 2003 includes a credit of $4.1 million received from the Internal Revenue Service as a result of the Company's filing of an interest netting claim related to previously settled tax years. A call premium of $15.6 million related to the early retirement of debt is also included in interest expense for fiscal 2003.

During fiscal 2004, the Company recorded a pre tax charge of $19.4 million for asset impairment and store closing costs. The charge includes a write down to fair value for certain under-performing properties. The charge consists of a write down for a joint venture in the amount of $7.6 million, a write down of goodwill on one store to be closed of $1.2 million, an accrual for future rent, property tax and utility payments on three stores to be closed of $3.1 million and a write down of property and equipment in the amount of $7.5 million. The Company does not expect to incur significant additional exit costs upon the closing of these properties during fiscal 2005. A breakdown of the asset impairment and store closing charges for fiscal 2004 is as follows:

(in thousands of dollars)	Number of Locations	Impairment Amount
Stores closed during fiscal 2004	3	$ 2,928
Stores to close during fiscal 2005	4	4,052
Store impaired based on cash flows	1	703
Non-operating facilities	2	4,170
Joint Venture	1	7,564
Total	9	$19,417

2003 Compared to 2002

Advertising, selling, administrative and general ("SG&A") expenses increased to 27.6% of sales for fiscal 2003 compared to 27.3% for fiscal 2002. The percentage increase is primarily due to a lack of sales leverage as SG&A expenses decreased $66.1 million in 2003 compared to 2002. On a dollar basis significant decreases were noted in payroll, advertising and bad debt expense. Payroll, advertising and bad debt expense declined $37.0 million, $8.6 million and $9.5 million, respectively. The decrease in payroll was caused primarily by a reduction in incentive based sales payroll which is directly tied to the decrease in sales during 2003. The decline in advertising expense resulted primarily from a reduction in newspaper advertising as the Company considers which media more appropriately matches its customers' lifestyles. Improvement in the quality of accounts receivable through lower delinquencies as well as a reduction in outstanding accounts receivable contributed to the lower bad debt expense. SG&A expenses in fiscal 2003 include a $12.3 million pretax credit recorded due to the resolution of certain liabilities originally recorded in conjunction with the purchase of Mercantile Stores Company, Inc.

Depreciation and amortization as a percentage of sales remained flat during fiscal 2003 principally due to lower capital expenditures in fiscal 2003 combined with a lack of sales leverage from the 4% decline in comparable store sales during the year.

Interest and debt expense as a percentage of sales was unchanged from fiscal 2002 as a result of the Company's lack of sales leverage. Interest expense declined $9.0 million due to the Company's continuing focus on reducing its outstanding debt levels. Average debt outstanding declined approximately $226 million in fiscal 2003. Interest expense for fiscal 2003 includes a credit of $4.1 million received from the Internal Revenue Service as a result of the Company's filing of an interest netting claim related to previously settled tax years. A call premium of $15.6 million related to the early retirement of debt is included in interest expense for fiscal 2003 compared to a call premium of $11.6 million related to the early retirement of debt for fiscal 2002. The Company has retired all the remaining debt associated with the call premiums in fiscal 2003 and 2002 and did not have any similar call premiums in fiscal 2004. Also included in interest expense for the fiscal 2002 is a pretax gain of $4.8 million related to the early extinguishment of debt. The Company retired $272 million in long-term debt and issued $50 million in new short-term borrowings during 2003.

During fiscal 2003, the Company recorded a pre tax charge of $44 million for asset impairment and store closing costs. The charge includes a write down to fair value for certain under-performing properties. The charge consists of a write down for a joint venture in the amount of $5.5 million, a write down of goodwill on two stores to be closed of $2.5 million and a write down of property and equipment in the amount of $35.7 million. A breakdown of the asset impairment and store closing charges for fiscal 2003 is as follows:

(in thousands of dollars)	Number of Locations	Impairment Amount
Stores closed during fiscal 2003	3	$ 3,809
Stores to close during fiscal 2004	4	17,115
Store impaired based on cash flows	1	1,293
Non-operating facilities	7	16,030
Joint Venture	1	5,480
Total	16	$43,727

Service Charges, Interest and Other Income

(in millions of dollars)				Dollar Change		Percent Change	
	2004	2003	2002	2004-2003	2003-2002	2004-2003	2003-2002
Joint venture income	$ 8.7	$ 8.1	$ 19.5	$ 0.6	$(11.4)	7.4%	-58.5%
Gain on sale of joint venture and property and equipment	2.9	24.3	65.4	(21.4)	(41.1)	-88.1	-62.8
Gain on sale of credit card business	83.9	-	-	83.9	-	-	-
Service charge income	141.2	207.9	225.7	(66.7)	(17.8)	-32.1	-7.9
Income from GE marketing and servicing alliance	14.2	-	-	14.2	-	-	-
Other	36.8	24.4	12.3	12.4	12.1	50.8	98.4
Total	$ 287.7	$ 264.7	$ 322.9	$ 23.0	$(58.2)	8.7%	-18.0%
Average accounts receivable (1)	$1,101.2	$1,231.4	$1,330.9	$(130.2)	$(99.5)	-10.6%	-7.5%

(1) Average receivables for 2004 includes only the first nine months prior to the sale

2004 Compared to 2003

The Company completed its sale of its credit card business to GE and entered into a ten year marketing and servicing alliance. GE will own the accounts and balances generated during the term of the alliance and will provide all key customer service functions supported by ongoing credit marketing efforts. Included in other income in fiscal 2004 is a gain of $83.9 million relating to this sale. Also included is the income from the marketing and servicing alliance since the inception of the agreement of $14.2 million offset by a reduction in service charge income due to the sale of the credit card business during the fourth quarter of 2004. Service charge income decreased $66.7 million due to the decrease noted above and an average decrease of $135 million in the amount of outstanding accounts receivable during 2004, prior to the sale, compared to 2003. Included in the gain on sale of joint ventures and property and equipment in fiscal 2003 is a gain of $15.6 million relating to the sale of the Company's interest in Sunrise Mall and its associated center in Brownsville, Texas. Due to the sale of the credit card business, service charge income will be non-recurring in fiscal 2005; however, income from the marketing and servicing alliance will be expected for the full fiscal year.

2003 Compared to 2002

Included in other income in fiscal 2003 is a gain of $15.6 million relating to the sale of the Company's interest in Sunrise Mall and its associated center in Brownsville, Texas. Included in other income in fiscal 2002 is a $64.3 million gain pertaining to the Company's sale of its interest in the FlatIron Crossing joint venture located in Broomfield, Colorado. Service charge income decreased due to a $99 million decrease in the average amount of outstanding accounts receivable during 2003 compared to 2002. The decrease in accounts receivable was due to a 140 basis point decline in sales penetration on the Company's proprietary credit card coupled with a 4% decline in overall retail sales during fiscal 2003 compared to the prior year. Sales on the Company's proprietary credit cards as a percent of total sales were 26.8%, 28.2% and 28.8% for fiscal 2003, 2002 and 2001, respectively. Also included in other income are realized gains on the sale of property and equipment of $8.7 million and $1.1 million for fiscal 2003 and fiscal 2002, respectively. Earnings from joint ventures declined due to the Company's sale of FlatIron Crossing in fiscal 2002 and the sale of Sunrise Mall in the first quarter of fiscal 2003.

Income Taxes

The Company's actual federal and state income tax rate (exclusive of the effect of nondeductible goodwill write off) was 36% in fiscal 2004, 2003 and 2002.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position Summary

(in thousands of dollars)	2004	2003	Dollar Change	Percent Change
Cash and cash equivalents	$ 498,248	$ 160,873	337,375	209.7
Short-term debt	-	50,000	(50,000)	-
Current portion of long-term debt	91,629	166,041	(74,412)	-44.8
Current portion of Guaranteed Beneficial Interests	-	331,579	(331,579)	-
Long-term debt	1,322,824	1,855,065	(532,241)	-28.7
Guaranteed Beneficial Interests	200,000	200,000	-	-
Stockholders' equity	2,324,697	2,237,097	87,600	3.9
Current ratio	2.19%	2.26%		
Debt to capitalization	41.0%	53.8%		

The Company's current priorities for its use of cash are:

- Investment in high-return capital projects, in particular in investments in technology to improve merchandising and distribution, reduce costs, to improve efficiencies or to help the Company better serve its customers;
- Strategic investments to enhance the value of existing properties;
- Construction of new stores;
- Dividend payments to shareholders;
- Debt reduction; and
- Stock repurchase plan.

Cash flows for the three fiscal years ended were as follows:

(in thousands of dollars)				Percent Change	
	2004	2003	2002	2004-2003	2003-2002
Operating Activities	$ 554,061	$ 432,106	$ 356,942	28.2	21.1
Investing Activities	414,212	(161,076)	(164,973)	*	(2.4)
Financing Activities	(630,898)	(252,513)	(202,573)	149.8	24.7
Total Cash Provided (Used)	$ 337,375	$ 18,517	$ (10,604)		

* percent change calculation is not meaningful

Operating Activities

The primary source of the Company's liquidity is cash flows from operations. Retail sales are the key operating cash component providing 96.3% and 96.6% of total revenues over the past two years. Operating cash inflows also include finance charges paid on Company receivables prior to the sale, revenue and reimbursements from the long-term marketing and servicing alliance with GE subsequent to the sale and cash distributions from joint ventures. Operating cash outflows include payments to vendors for inventory, services and supplies, payments to employees, and payments of interest and taxes.

Net cash flows from operations were $554.1 million for 2004 and were adequate to fund the Company's operations for the year. During 2004, the operating cash flows of the Company increased due to increased net income and a reduction in accounts receivable balances prior to the sale of the credit card business. Adding to the increased cash flow, accounts payable and accrued expenses increased $295 million in fiscal 2004 compared to a $5 million increase in accounts payable and accrued expenses in the prior year. Partially offsetting this increase were increases in inventory, other current assets, decreases in deferred income taxes and the gain on the sale of the credit card business.

Investing Activities

Cash inflows from investing activities generally include proceeds from sales of property and equipment and joint ventures. Investment cash outflows generally include payments for capital expenditures such as property and equipment.

Capital expenditures were $285 million for 2004. These expenditures consist primarily of the construction of new stores, remodeling of existing stores and investments in technology. During 2004, the Company opened three new stores: Coastal Grand in Myrtle Beach, South Carolina; Jordan Creek Town Center in West Des Moines, Iowa; and South Park Mall in Moline, Illinois and five replacement stores: Colonial University Village in Auburn, Alabama; The Shoppes at East Chase in Montgomery, Alabama; Eastern Shore in Spanish Fort, Alabama; Greenbrier Mall in Chesapeake, Virginia and Yuma Palms in Yuma, Arizona. These eight stores totaled approximately 1.1 million square feet of retail space. In addition, the Company completed a major expansion on one store totaling 26,000 square feet of retail space. The Company closed seven store locations, including five for the replacement stores, during the year totaling approximately 819,000 square feet of retail space. Capital expenditures for 2005 are expected to be approximately $335 million. The Company plans to open nine new stores in fiscal 2005 totaling 1,085,000 square feet, net of replaced square footage. Historically, the Company has financed such capital expenditures with cash flow from operations. The Company expects that it will continue to finance capital expenditures in this manner during fiscal 2005.

During 2004, the company recorded a gain on the sale of property and equipment of $2.9 million and received proceeds of $11.3 million.

During 2004, investing cash flows were positively impacted by the net proceeds of $688 million received from the sale of the credit card business to GE (see Note 2 of the Notes to Consolidated Financial Statements).

During 2003, the Company recorded a gain of $15.6 million and received proceeds of $34.6 million from the sale of its interest in Sunrise Mall and its associated center in Brownsville, Texas. During 2003, the company recorded a gain on the sale of property and equipment of $8.7 million and received proceeds of $31.8 million.

Financing Activities

Historically, cash inflows from financing activities generally included borrowing under the Company's accounts receivable conduit facilities, the issuance of new mortgage notes or long-term debt and funds from stock option exercises. As a result of the sale of its credit card business, the Company's need for liquidity has been reduced and the Company's accounts receivable conduit facilities were terminated. The Company's primary source of available borrowings is its $1 billion revolving credit facility. Financing cash outflows generally include the repayment of borrowings under the Company's accounts receivable conduit facilities (prior to the sale and termination), the repayment of mortgage notes or long-term debt, the payment of dividends and the purchase of treasury stock.

During fiscal 2004, the Company repurchased $40.6 million of its outstanding unsecured notes prior to their related maturity dates. Interest rates on the repurchased securities ranged from 6.30% to 8.20%. Maturity dates ranged from 2008 to 2028. The Company also redeemed the $331.6 million Preferred Securities. Notes in the amount of $163.4 million matured and were repaid during fiscal 2004.

During 2004, the Company reduced its net level of outstanding debt and capital leases by $983 million. The decrease in total debt is due to the sale of the Company's private label credit card business to GE and through scheduled debt maturities and repurchases of notes prior to their related maturity dates. GE assumed $400 million of the Company's securitized public debt as part of the sale. Concurrent with the sale of the credit card business, the Company repaid all of its short-term securitized borrowings and terminated its short-term borrowing facilities. Maturities of long-term debt over the next five years are $92 million, $98 million, $201 million, $198 million and $25 million, respectively.

Revolving Credit Agreement

The Company's primary source of liquidity is the availability of funds under its $1 billion revolving credit facility ("credit facility"). Borrowings under the credit facility accrue interest at JPMorgan's Base Rate or LIBOR plus 1.50% (currently 4.09%) subject to certain availability thresholds as defined in the credit facility. Availability for borrowings and letter of credit obligations under the credit facility is limited to 75% of the inventory of certain Company subsidiaries (approximately $878 million at January 29, 2005). There are no financial covenant requirements under the credit facility provided availability exceeds $100 million. The credit facility expires on December 12, 2008. At January 29, 2005, letters of credit totaling $69.7 million were issued under this facility leaving unutilized availability under the facility of $808 million. The Company borrowed $100 million on its revolving credit facility during 2004 in connection with the redemption of the $331.6 million Preferred Securities on February 2, 2004. The Company had no outstanding borrowings at January 29, 2005.

Long-term Debt
At January 29, 2005, the Company had $1.4 billion of unsecured notes and mortgage notes outstanding. The unsecured notes bear interest at rates ranging from 6.30% to 9.50% with due dates from 2005 through 2028. The mortgage notes bear interest at rates ranging from 7.25% to 10.12% with due dates through 2013.

Stock Repurchase
In May 2000, the Company announced that the Board of Directors authorized the repurchase of up to $200 million of its Class A Common Stock. During fiscal 2004, the Company repurchased approximately $40.4 million of Class A Common Stock, representing 2.0 million shares at an average price of $20.19 per share. Approximately $16 million in share repurchase authorization remained under this open-ended plan at January 29, 2005.

Guaranteed Beneficial Interests in the Company's Subordinated Debentures
Prior to February 2, 2004, Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures included $331.6 million liquidation amount of LIBOR plus 1.56% Preferred Securities, due January 29, 2009 (the "Preferred Securities") by Horatio Finance V.O.F., a wholly owned subsidiary of the Company. The Company redeemed the $331.6 million Preferred Securities on February 2, 2004.

The Company has $200 million liquidation amount of 7.5% Capital Securities, due August 1, 2038 representing the beneficial ownership interest in the assets of Dillard's Capital Trust I, a consolidated entity of the Company.

Fiscal 2005
The sale of the Company's credit card business significantly strengthened its liquidity and financial position. The Company had cash on hand of $498 million as of January 29, 2005 and reduced outstanding debt by $988 million during fiscal 2004. During fiscal 2005, the Company expects to finance its capital expenditures and its working capital requirements including required debt repayments and stock repurchases, if any, from cash flows generated from operations. As a result of the Company's sale of its credit card business, the Company does not currently expect to utilize funds through its $1 billion revolving credit agreement. Management believes that cash on hand and cash generated from operations will be sufficient to cover its reasonably foreseeable working capital, capital expenditures, debt service requirements and stock repurchase. Depending on conditions in the capital markets and other factors, the Company will from time to time consider possible capital market transactions, the proceeds of which could be used to refinance current indebtedness or other corporate purposes.

Off-Balance-Sheet Arrangements

The Company has not created, and is not party to, any special-purpose or off-balance-sheet entities for the purpose of raising capital, incurring debt or operating the Company's business. The Company is a guarantor on a $54.3 million loan for a joint venture as of January 29, 2005. At January 29, 2005, the joint venture had $36.5 million outstanding on the loan. The Company does not have any additional 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.

Contractual Obligations and Commercial Commitments

To facilitate an understanding of the Company's contractual obligations and commercial commitments, the following data is provided:

		PAYMENTS DUE BY PERIOD			
(in thousands of dollars)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations					
Long-term debt (1)	$1,414,453	$ 91,629	$299,114	$222,799	$ 800,911
Guaranteed beneficial interests in the Company's subordinated debentures	200,000	-	-	-	200,000
Capital lease obligations	25,108	4,926	7,324	2,225	10,633
Defined benefit plan payments	55,657	3,604	9,572	10,167	32,314
Purchase Obligations (2)	1,803,730	1,803,730	-	-	-
Operating leases	222,069	47,399	78,328	41,538	54,804
Total contractual cash obligations	$3,721,017	$1,951,288	$394,338	$276,729	$1,098,662

(1) Does not include an estimate of future interest payments having a weighted average rate of 7.2%.

(2) The Company's purchase obligations principally consist of purchase orders for merchandise and store construction commitments. Amounts committed under open purchase order for merchandise inventory represent $1.7 billion of the purchase obligations, of which a significant portion are cancelable without penalty prior to a date that precedes the vendor's scheduled shipment date.

	AMOUNT OF COMMITMENT EXPIRATION PER PERIOD				
(in thousands of dollars)	Total Amounts Committed	Within 1 year	2-3 years	4-5 years	After 5 years
Other commercial commitments					
$1 billion line of credit, none outstanding (1)	$-	$-	$-	$-	$-
Standby letters of credit	59,425	59,425	-	-	-
Import letters of credit	10,244	10,244	-	-	-
Total commercial commitments	$69,669	$69,669	$-	$-	$-

(1) Availability under the credit facility is limited to 75% of the inventory of certain Company subsidiaries (approximately $878 million at January 29, 2005) and has been reduced by outstanding letters of credit of $69.7 million.

Other long-term commitments consist of liabilities incurred relating to the Company's defined benefit plans. The Company expects pension expense to be approximately $8.9 million in fiscal 2005 with a liability of $91 million. The Company expects to make a contribution to the pension plan of approximately $3.6 million in fiscal 2005.

The Company is a guarantor on a $54.3 million loan for a joint venture as of January 29, 2005. At January 29, 2005, the joint venture had $36.5 million outstanding on the loan. The loan is collateralized by a mall in Yuma, Arizona with a book value of $55 million at January 29, 2005. The timing and amount of payments under the guarantee, if any, cannot be reasonably predicted and are therefore excluded from the tables above.

New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs an amendment of ARB No. 43, Chapter 4" ("SFAS No. 151"). SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of the of SFAS No. 151 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" ("SFAS No. 153"). SFAS No. 153 eliminates from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21 (b) of APB Opinion No. 29, and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 is effective for fiscal periods beginning after June 15, 2005. The Company does not expect SFAS No. 153 to have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued Statement No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123-R"). SFAS No. 123-R requires all forms of share-based payment to employees, including employee stock options, be treated as compensation and recognized in the income statement based on their estimated fair values. This statement will be effective for fiscal periods beginning after June 15, 2005 which will be the Company's third quarter of fiscal 2005.

The Company currently accounts for stock options under APB No. 25 using the intrinsic value method in accounting for its employee stock options. No stock-based compensation costs were reflected in net income, as no options under those plans had an exercise price less than the market value of the underlying common stock on the date of grant.

Under the adoption of SFAS No. 123-R, the Company will be required to expense stock options over the vesting period in its statement of operations. In addition, the Company will need to recognize expense over the remaining vesting period associated with unvested options outstanding as of June 15, 2005. Based on the stock options outstanding as of January 29, 2005, the stock-based employee compensation expense, net of related tax effects, will be approximately $0.7 million in fiscal 2005. The Company has not yet determined the method of adoption or the effect of adopting SFAS 123-R, and it has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

Forward-Looking Information

The foregoing 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 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 regarding the Company's merchandise strategies, funding of cyclical working capital needs, store opening schedule and estimates of depreciation and amortization, rental expense, interest and debt expense and capital expenditures for fiscal year 2005 are 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 in forward-looking statements made by the Company and its management as a result of a number of risks, uncertainties and assumptions. Representative examples of those factors (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; trends in personal bankruptcies and charge-off trends in the credit card receivables portfolio; 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The table below provides information about the Company's obligations that are sensitive to changes in interest rates. The table presents maturities of the Company's long-term debt and Guaranteed Beneficial Interests in the Company's Subordinated Debentures along with the related weighted-average interest rates by expected maturity dates.

(in thousands of dollars)

Expected Maturity Date (fiscal year)	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value
Long-term debt (including receivables financing facilities)	$91,629	$98,479	$200,635	$198,146	$24,653	$800,911	$1,414,453	$1,467,024
Average interest rate	6.9%	7.4%	6.9%	6.5%	9.4%	7.4%	7.2%	
Guaranteed Beneficial Interests in the Company's Subordinated Debentures	$-	$-	$-	$-	$-	$200,000	$ 200,000	$ 199,120
Average interest rate	-%	-%	-%	-%	-%	7.5%	7.5%	

During the year ended January 29, 2005, the Company repurchased $40.6 million of its outstanding unsecured notes prior to their related maturity dates. Interest rates on the repurchased securities ranged from 6.3% to 8.2%. Maturity dates ranged from 2008 to 2028.

The Company is exposed to market risk from changes in the interest rates under its $1 billion revolving credit facility. Outstanding balances under this facility bear interest at a variable rate based on JPMorgan's Base Rate or LIBOR plus 1.50%. The Company borrowed $100 million on its revolving credit facility during 2004 in connection with the redemption of the $331.6 million Preferred Securities on February 2, 2004. The Company had no outstanding borrowings at January 29, 2005 other than the utilization for unfunded letters of credit.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements of the Company and notes thereto are included in this report beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

The Company maintains "disclosure controls and procedures," as such term is defined in Rules 13a-15e and 15d-15e 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 January 29, 2005, 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. There were no significant changes in the Company's internal controls over financial reporting that occurred during the year ended January 29, 2005 to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's report on internal control over financial reporting and the attestation report of Deloitte & Touche LLP, the Company's independent registered public accounting firm, on management's assessment of internal control over financial reporting is incorporated herein by reference from pages F-2 and F-3 of this report.

William Dillard, II, Chairman of the Board of Directors and Chief Executive Officer, has certified to the New York Stock Exchange that he is not aware of any violations by the Company of the exchange's corporate governance listing standards. Attached as an exhibit to this annual report is the certification of Mr. Dillard required under Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of the Company's public disclosures.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

A. Directors of the Registrant

Information regarding directors of the Registrant is incorporated herein by reference under the heading "Nominees for Election as Directors" and under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

B. Executive Officers of the Registrant

Information regarding executive officers of the Registrant is incorporated herein by reference to Part 1 of this report under the heading "Executive Officers of the Company." Reference additionally is made to the information under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement, which information is incorporated herein by reference.

The Company's Board of Directors has adopted a Company Code of Conduct that applies to all Company employees including the Company's Directors, CEO and senior financial officers. The current version of such Code of Conduct is available free of charge on Dillard's, Inc. web site, www.dillards.com , and is available in print to any shareholder who requests copies by contacting Julie J. Bull, Director of Investor Relations, at the Company's principal executive offices set forth above.

ITEM 11. EXECUTIVE COMPENSATION.

Information regarding executive compensation and compensation of directors is incorporated herein by reference to the information beginning under the heading "Compensation of Directors and Executive Officers" and concluding under the heading "Compensation of Directors" in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise prices of outstanding options	Number of securities available for future issuance under equity compensation plans
Equity compensation plans approved by shareholders	3,845,009	$24.91	11,141,656
Total	3,845,009	$24.91	11,141,656

Additional Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the information under the heading "Principal Holders of Voting Securities" and under the heading "Security Ownership of Management" and continuing through footnote 12 in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information regarding certain relationships and related transactions is incorporated herein by reference to the information under the heading "Certain Relationships and Transactions" in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information regarding principal accountant fees and services is incorporated herein by reference to the information under the heading “Independent Accountant Fees” in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE.

(a)(1) and (2) Financial Statements and Financial Statement Schedule

An “Index to Financial Statements” and “Financial Statement Schedule” has been filed as a part of this Report beginning on page F-1 hereof.

(a)(3) Exhibits and Management Compensatory Plans

An “Exhibit Index” has been filed as a part of this Report beginning on page E-1 hereof and is herein incorporated by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.	/s/ James I. Freeman
Registrant	James I. Freeman, Senior Vice President and
	Chief Financial Officer
Date: April 14, 2005	(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the date indicated.

/s/ Robert C. Connor Robert C. Connor Director	/s/ Drue Corbusier Drue Corbusier Executive Vice President and Director
/s/ Will D. Davis Will D. Davis Director	/s/ William Dillard, II William Dillard, II Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ Alex Dillard Alex Dillard President and Director	/s/ Mike Dillard Mike Dillard Executive Vice President and Director
/s/ James I. Freeman James I. Freeman Senior Vice President and Chief Financial Officer and Director	/s/ John Paul Hammerschmidt John Paul Hammerschmidt Director
/s/ Peter R. Johnson Peter R. Johnson Director	/s/ Warren A. Stephens Warren A. Stephens Director
/s/ William H. Sutton William H. Sutton Director	/s/ J.C. Watts, Jr. J.C. Watts, Jr. Director

Date: April 14, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Dillard's, Inc.
Little Rock, Arkansas

We have audited the accompanying consolidated balance sheets of Dillard's, Inc. and subsidiaries (the "Company") as of January 29, 2005 and January 31, 2004, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended January 29, 2005. Our audits also included the financial statement schedule of Dillard's, Inc. and subsidiaries, listed in item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Dillard's, Inc. and subsidiaries as of January 29, 2005 and January 31, 2004, and the results of their operations and their cash flows for each of the three years in the period ended January 29, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of January 29, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 13, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Notes 1 and 3 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets in 2002 to conform to Statement of Financial Accounting Standards No. 142.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Dallas, Texas
April 13, 2005

Management's Report on Internal Control over Financial Reporting

The financial statements, financial analysis and all other information in this Annual Report on Form 10-K were prepared by management, who is responsible for their integrity and objectivity and for establishing and maintaining adequate internal controls over financial reporting.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company;

ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

iii. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or dispositions of the Company's assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the design and effectiveness of the Company's internal control over financial reporting as of January 29, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on management's assessment using those criteria, it believes that, as of January 29, 2005, the Company's internal control over financial reporting is effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited the financial statements of the Company for the fiscal years ended January 29, 2005, January 31, 2004 and February 1, 2003 and has attested to management's assertion regarding the effectiveness of the Company's internal control over financial reporting as of January 29, 2005. Their report is presented on the following page. The independent registered public accountants and internal auditors advise management of the results of their audits and make recommendations to improve the system of internal controls. Management evaluates the audit recommendations and takes appropriate action.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Dillard's, Inc.
Little Rock, Arkansas

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Dillard's, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of January 29, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of January 29, 2005, is fairly stated, in all material respects, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 29, 2005, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended January 29, 2005 of the Company and our report dated April 13, 2005 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph relating to the Company's change in accounting for goodwill and intangible assets in 2002 to conform to Statement of Financial Accounting Standards No. 142.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Dallas, Texas
April 13, 2005

Consolidated Balance Sheets
Dollars in Thousands

Assets	January 29, 2005	January 31, 2004
Current Assets:		
Cash and cash equivalents	$ 498,248	$ 160,873
Accounts receivable (net of allowance for doubtful accounts of $0 and $40,967)	9,651	1,191,489
Merchandise inventories	1,733,033	1,632,377
Other current assets	52,559	38,952
Total current assets	2,293,491	3,023,691
Property and Equipment:		
Land and land improvements	102,098	100,726
Buildings and leasehold improvements	2,755,565	2,685,628
Furniture, fixtures and equipment	2,143,464	2,192,029
Buildings under construction	96,767	40,636
Buildings and equipment under capital leases	60,724	51,493
Less accumulated depreciation and amortization	(1,977,862)	(1,873,043)
	3,180,756	3,197,469
Goodwill	35,495	36,731
Other Assets	181,839	153,206
Total Assets	$ 5,691,581	$ 6,411,097
Liabilities and Stockholders' Equity		
Current Liabilities:		
Trade accounts payable and accrued expenses	$ 820,242	$ 679,854
Current portion of long-term debt	91,629	166,041
Current portion of capital lease obligations	4,926	2,126
Federal and state income taxes including current deferred taxes	128,436	106,487
Current portion of Guaranteed Beneficial Interest in the Company's Subordinated Debentures	-	331,579
Other short-term borrowings	-	50,000
Total current liabilities	1,045,233	1,336,087
Long-term Debt	1,322,824	1,855,065
Capital Lease Obligations	20,182	17,711
Other Liabilities	269,056	147,901
Deferred Income Taxes	509,589	617,236
Operating Leases and Commitments		
Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures	200,000	200,000
Stockholders' Equity:		
Common stock, Class A – 114,581,524 and 112,866,918 shares issued; 79,194,675 and 79,480,069 shares outstanding	1,146	1,129
Common stock, Class B (convertible) — 4,010,929 shares issued and outstanding	40	40
Additional paid-in capital	739,620	713,974
Accumulated other comprehensive loss	(13,333)	(11,281)
Retained earnings	2,305,993	2,201,623
Less treasury stock, at cost, Class A —35,386,849 and 33,386,849 shares	(708,769)	(668,388)
Total stockholders' equity	2,324,697	2,237,097
Total Liabilities and Stockholders' Equity	$ 5,691,581	$ 6,411,097

See notes to consolidated financial statements.

Consolidated Statements of Operations
Dollars in Thousands, Except Per Share Data

	Years Ended		
	January 29, 2005	January 31, 2004	February 1, 2003
Net Sales	$7,528,572	$7,598,934	$7,910,996
Service Charges, Interest and Other Income	287,699	264,734	322,943
	7,816,271	7,863,668	8,233,939
Costs and Expenses:			
Cost of sales	5,017,765	5,170,173	5,254,134
Advertising, selling, administrative and general expenses	2,098,791	2,097,947	2,164,033
Depreciation and amortization	301,917	290,661	301,407
Rentals	54,774	64,101	68,101
Interest and debt expense	139,056	181,065	189,779
Asset impairment and store closing charges	19,417	43,727	52,224
Total costs and expenses	7,631,720	7,847,674	8,029,678
Income Before Income Taxes	184,551	15,994	204,261
Income Taxes	66,885	6,650	72,335
Income before cumulative effect of accounting change	117,666	9,344	131,926
Cumulative effect of accounting change, net of tax benefit of $0	—	—	(530,331)
Net Income (Loss)	$ 117,666	$ 9,344	$(398,405)
Basic Earnings Per Common Share:			
Income before cumulative effect of accounting change	$1.41	$0.11	$ 1.56
Cumulative effect of accounting change	—	—	(6.27)
Net Income (Loss)	$1.41	$0.11	$ (4.71)
Diluted Earnings Per Common Share:			
Income before cumulative effect of accounting change	$1.41	$0.11	$ 1.55
Cumulative effect of accounting change	—	—	(6.22)
Net Income (Loss)	$1.41	$0.11	$ (4.67)

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)
Dollars in Thousands, Except Per Share Data

	Common Stock ClassA	Common Stock Class B	Additional Paid-in Capital	Accumulated Other Comprehen-sive Loss	Retained Earnings	Treasury Stock	Total
Balance, February 2, 2002	$1,118	$40	$699,104	$ —	$2,617,608	$(649,473)	$2,668,397
Net loss	—	—	—	—	(398,405)	—	(398,405)
Minimum pension liability adjustment, net of tax of $2,529	—	—	—	(4,496)	—	—	(4,496)
Total comprehensive loss							(402,901)
Issuance of 869,985 shares under stock option, employee savings and stock bonus plans	9	—	12,220	—	—	—	12,229
Cash dividends declared: Common stock, $.16 per share	—	—	—	—	(13,529)	—	(13,529)
Balance, February 1, 2003	1,127	40	711,324	(4,496)	2,205,674	(649,473)	2,264,196
Net income	—	—	—	—	9,344	—	9,344
Minimum pension liability adjustment, net of tax of $3,817	—	—	—	(6,785)	—	—	(6,785)
Total comprehensive income							2,559
Issuance of 189,413 shares under stock option, employee savings and stock bonus plans	2	—	2,650	—	—	—	2,652
Purchase of 1,456,076 shares of treasury stock	—	—	—	—	—	(18,915)	(18,915)
Cash dividends declared: Common stock, $.16 per share	—	—	—	—	(13,395)	—	(13,395)
Balance, January 31, 2004	1,129	40	713,974	(11,281)	2,201,623	(668,388)	2,237,097
Net income	—	—	—		117,666	—	117,666
Minimum pension liability adjustment, net of tax of $1,154	—	—	—	(2,052)	—	—	(2,052)
Total comprehensive income							115,614
Issuance of 1,714,606 shares under stock option, employee savings and stock bonus plans	17	—	25,646	—	—	—	25,663
Purchase of 2,000,000 shares of treasury stock	—	—	—	—	—	(40,381)	(40,381)
Cash dividends declared: Common stock, $.16 per share	—	—	—	—	(13,296)	—	(13,296)
Balance, January 29, 2005	$1,146	$40	$739,620	$(13,333)	$2,305,993	$(708,769)	$2,324,697

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Dollars in Thousands

	Years Ended		
	January 29, 2005	January 31, 2004	February 1, 2003
Operating Activities:			
Net income (loss)	$117,666	$9,344	$(398,405)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of property and deferred financing	305,536	297,201	305,545
Deferred income taxes	(122,036)	13,623	24,878
Loss on early extinguishments of debt	—	—	6,834
Asset impairment and store closing charges	19,417	43,727	52,224
Gain on sale of credit card business	(83,867)	—	—
Gain on sale of joint venture	—	(15,624)	(64,295)
Gain on sale of property and equipment	(2,933)	(8,699)	(1,103)
Provision for loan losses	12,835	35,244	36,574
Cumulative effect of accounting change, net of taxes	—	—	530,331
Changes in operating assets and liabilities:			
Decrease in accounts receivable	166,899	110,936	286
Increase in merchandise inventories	(100,656)	(38,069)	(32,445)
(Increase) decrease in other current assets	(13,607)	16,121	(30,760)
(Increase) decrease in other assets	(39,816)	(37,048)	31,559
Increase (decrease) in trade accounts payable and accrued expenses, other liabilities and income taxes	294,623	5,350	(104,281)
Net cash provided by operating activities	554,061	432,106	356,942
Investing Activities:			
Purchase of property and equipment	(285,331)	(227,421)	(233,268)
Proceeds from sale of property and equipment	11,330	31,766	—
Net cash from sale of credit card business	688,213	—	—
Proceeds from sale of joint venture	—	34,579	68,295
Net cash provided by (used in) investing activities	414,212	(161,076)	(164,973)
Financing Activities:			
Principal payments on long-term debt and capital lease obligations	(212,163)	(272,702)	(340,081)
(Decrease) increase in short-term borrowings and capital lease obligations	(50,000)	51,369	—
Cash dividends paid	(13,296)	(13,395)	(13,529)
Proceeds from issuance of common stock	16,521	1,130	11,037
Purchase of treasury stock	(40,381)	(18,915)	—
Retirement of Guaranteed Beneficial Interest in the Company's Debentures	(331,579)	—	—
Proceeds from receivable financing, net	—	—	100,000
Proceeds from long-term borrowings	—	—	40,000
Net cash used in financing activities	(630,898)	(252,513)	(202,573)
Increase (decrease) in Cash and Cash Equivalents	337,375	18,517	(10,604)
Cash and Cash Equivalents, Beginning of Year	160,873	142,356	152,960
Cash and Cash Equivalents, End of Year	$498,248	$160,873	$142,356

Non-cash transactions:			
Tax benefit from exercise of stock options	$9,142	$256	$4,985
Capital lease transactions	10,781	—	—

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Description of Business – Dillard's, Inc. (the "Company") operates retail department stores located primarily in the Southeastern, Southwestern and Midwestern areas of the United States. The Company's fiscal year ends on the Saturday nearest January 31 of each year. Fiscal years 2004, 2003 and 2002 ended on January 29, 2005, January 31, 2004 and February 1, 2003, respectively. Fiscal years 2004, 2003 and 2002 included 52 weeks.

Consolidation – The accompanying consolidated financial statements include the accounts of Dillard's, Inc. and its wholly owned subsidiaries. Intercompany accounts and transactions are eliminated in consolidation. Investments in and advances to joint ventures in which the Company has a 50% ownership interest are accounted for by the equity method.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include inventories, sales return, allowance for doubtful accounts prior to November 1, 2004, self-insured accruals, future cash flows for impairment analysis, pension discount rate and lives of long-lived assets. Actual results could differ from those estimates.

Cash Equivalents – The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Company considers receivables from charge card companies as cash equivalents.

Accounts Receivable – In November 2004, the Company sold substantially all of its accounts receivable to GE Consumer Finance ("GE") and no longer maintains an allowance for doubtful accounts.

Prior to November 2004, customer accounts receivable on the Company's proprietary credit card were classified as current assets and include some which are due after one year, consistent with industry practice. Proprietary credit card receivables were shown net of an allowance for uncollectible accounts. The Company calculated the allowance for uncollectible accounts using a model that analyzes factors such as bankruptcy filings, delinquency rates, historical charge-off patterns, recovery rates and other portfolio data. The calculation was then reviewed by management to assess whether, based on recent economic events, additional analyses were required to appropriately estimate losses inherent in the portfolio. The Company charged off an account automatically when a customer has failed to make a required payment in each of the six billing cycles following a missed payment. The Company also provided for the estimated uncollectible portion of the finance charge revenue based upon our historical collection experience as part of the allowance for doubtful accounts. This allowance represented amounts of credit card receivable balances (including billed but uncollected finance charges) which management estimated will ultimately not be collected. Finance charge revenue was recorded until an account is charged off, at which time uncollected finance charge revenue was recorded as a reduction of credit revenues.

Historically, the Company utilized credit card securitizations as part of its overall funding strategy. The transfers were accounted for under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfer and Servicing of Financial Assets and Liabilities". All financing through these facilities are recorded on the balance sheet as of January 31, 2004 (see Note 16).

In November 2004, the Company either repaid or transferred to GE all of its debt securitized by credit card receivables.

Significant Group Concentrations of Credit Risk – The Company granted credit to customers throughout North America. There were no Metropolitan Statistical Areas that comprised 10% of the Company's managed credit card receivables at January 29, 2005 and January 31, 2004. As of November 1, 2004, GE owns all accounts and balances generated through sales on the Company's private label card.

Merchandise Inventories – The retail last-in, first-out ("LIFO") inventory method is used to value merchandise inventories. At January 29, 2005 and January 31, 2004, the LIFO cost of merchandise was approximately equal to the first-in, first-out ("FIFO") cost of merchandise.

Property and Equipment – Property and equipment owned by the Company is stated at cost, which includes related interest costs incurred during periods of construction, less accumulated depreciation and amortization. Capitalized interest was $4.5 million, $2.6 million and $2.5 million in fiscal 2004, 2003 and 2002, respectively. For financial reporting purposes, depreciation is computed by the straight-line method over estimated useful lives:

Buildings and leasehold improvements	20 - 40 years
Furniture, fixtures and equipment	3 - 10 years

Properties leased by the Company under lease agreements which are determined to be capital leases are stated at an amount equal to the present value of the minimum lease payments during the lease term, less accumulated amortization. The properties under capital leases and leasehold improvements under operating leases are amortized on the straight-line method over the shorter of their useful lives or the related lease terms. The provision for amortization of leased properties is included in depreciation and amortization expense.

Included in property and equipment as of January 29, 2005 are assets held for sale in the amount of $7.7 million. During fiscal 2004, 2003 and 2002, the Company realized gains on the sale of property and equipment of $2.9 million, $8.7 million and $1.1 million, respectively.

Depreciation expense on property and equipment was $302 million, $291 million and $301 million for fiscal 2004, 2003 and 2002, respectively.

Long-Lived Assets Excluding Goodwill – The Company follows SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. In the evaluation of the fair value and future benefits of long-lived assets, the Company performs an analysis of the anticipated undiscounted future net cash flows of the related long-lived assets. This analysis is performed at the store unit level. If the carrying value of the related asset exceeds the undiscounted cash flows, the carrying value is reduced to its fair value which is based on expected discounted future cash flows. Various factors including future sales growth and profit margins are included in this analysis. Management believes at this time that the carrying value and useful lives continue to be appropriate, after recognizing the impairment charges recorded in 2004, 2003 and 2002, as disclosed in Note 14.

Goodwill – The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," effective February 3, 2002. It changes the accounting for goodwill from an amortization method to an "impairment only" approach. Under SFAS No. 142, goodwill is no longer amortized but reviewed for impairment annually or more frequently if certain indicators arise. The Company tested goodwill for impairment as of the adoption date using the two-step process prescribed in SFAS No. 142. The Company identified its reporting units under SFAS No. 142 at the store unit level. The fair value of these reporting units was estimated using the expected discounted future cash flows and market values of related businesses, where appropriate. Prior to the adoption of SFAS No. 142, goodwill, which represents the cost in excess of fair value of net assets acquired, was amortized on the straight-line basis over 40 years. Accumulated goodwill amortization was $55.6 million at February 2, 2002. Management believes at this time that the carrying value continues to be appropriate, recognizing the impairment charge recorded in fiscal 2004, 2003 and 2002, as disclosed in Note 3.

Other Assets – Other assets include investments in joint ventures accounted for by the equity method. These joint ventures, which consist of malls and a general contracting company that constructs Dillard's stores and other commercial buildings, had carrying values of $116 million and $97 million at January 29, 2005 and January 31, 2004, respectively. The malls are located in Yuma, Arizona; Toledo, Ohio; Denver, Colorado and one currently under construction in Bonita Springs, Florida. Earnings from joint ventures were $8.7 million, $8.1 million and $19.5 million for fiscal 2004, 2003 and 2002, respectively. The Company also recorded a $15.6 million pretax gain for the year ended January 31, 2004 from the sale of its interest in Sunrise Mall and its associated center in Brownsville, Texas for $80.7 million including the assumption of the $40.0 million mortgage note. The Company recorded a pretax gain of $64.3 million pertaining to the Company's sale of its interest in FlatIron Crossing, a Broomfield, Colorado shopping center, for the year ended February 1, 2003. The gains on the sale were recorded in Service Charges, Interest and Other Income.

Vendor Allowances – The Company receives concessions from its vendors through a variety of programs and arrangements, including co-operative advertising and markdown reimbursement programs. Co-operative advertising allowances are reported as a reduction of advertising expense in the period in which the advertising occurred. Payroll reimbursements are reported as a reduction of payroll expense in the period in which the reimbursement occurred. All other vendor allowances are recognized as a reduction of cost purchases. Accordingly, a reduction or increase in vendor concessions has an inverse impact on cost of sales and/or selling and administrative expenses.

Insurance Accruals – The Company's consolidated balance sheets include liabilities with respect to self-insured workers' compensation and general liability 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).

Operating Leases – The Company leases retail stores and office space under operating leases. Most leases contain construction allowance reimbursements by landlords, rent holidays, rent escalation clauses and/or contingent rent provisions. The Company recognizes the related rental expense on a straight-line basis over the lease term and records the difference between the amounts charged to expense and the rent paid as a deferred rent liability.

To account for construction allowance reimbursements from landlords and rent holidays, the Company records a deferred rent liability included in trade accounts payable and accrued expenses and other liabilities on the consolidated balance sheets and amortizes the deferred rent over the lease term, as a reduction to rent expense on the consolidated income statements. For leases containing rent escalation clauses, the Company records minimum rent expense on a straight-line basis over the lease term on the consolidated income statement. The lease term used for lease evaluation includes renewal option periods only in instances in which the exercise of the option period can be reasonably assured and failure to exercise such options would result in an economic penalty.

Revenue Recognition – The Company recognizes revenue at the "point of sale." Revenue associated with gift cards is recognized upon redemption of the gift card. Prior to the sale of its credit card business to GE, finance charge revenue earned on customer accounts, serviced by the Company under its proprietary credit card program, was recognized in the period in which it was earned. Beginning November 1, 2004, the Company's share of income earned under the long-term marketing and servicing alliance is included as a component of Service Charges, Interest and Other Income. Allowance for sales returns are recorded as a component of net sales in the period in which the related sales are recorded.

Advertising – Advertising and promotional costs, which include newspaper, television, radio and other media advertising, are expensed as incurred and were $246 million, $229 million and $253 million for fiscal years 2004, 2003 and 2002, respectively.

Income Taxes – In accordance with SFAS No. 109, "Accounting for Income Taxes," deferred income taxes reflect the future tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts at year-end.

Shipping and Handling – In accordance with Emerging Issues Task Force ("EITF") 00-10, "Accounting for Shipping and Handling Fees and Costs," the Company records shipping and handling reimbursements in Service Charges, Interest and Other Income. The Company records shipping and handling costs in Advertising, Selling, Administrative and General Expenses.

Comprehensive Income (Loss) – Accumulated other comprehensive loss consists only of the minimum pension liability, which is calculated annually in the fourth quarter.

Stock-Based Compensation – The Company periodically grants stock options to employees. Pursuant to Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," the Company accounts for stock-based employee compensation arrangements using the intrinsic value method. No compensation expense has been recorded in the consolidated financial statements with respect to option grants. The Company has adopted the disclosure only provisions of Financial Accounting Standards Board Statement No. 123, "Accounting for Stock Based Compensation," as amended by Financial Accounting Standards Board Statement No. 148, "Accounting for Stock Based Compensation – Transition and Disclosure, an Amendment of FASB Statement No. 123". If compensation cost for the Company's stock option plans had been determined in accordance with the fair value method prescribed by SFAS No. 123, the Company's income before accounting change would have been:

(in thousands of dollars, except per share data)	Fiscal 2004	Fiscal 2003	Fiscal 2002
Income before cumulative effect of accounting change			
As reported	$117,666	$ 9,344	$131,926
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of taxes	(1,825)	(2,732)	(9,261)
Pro forma	$115,841	$ 6,612	$122,665
Basic earnings per share:			
As reported	$1.41	$0.11	$1.56
Pro forma	1.39	0.08	1.45
Diluted earnings per share:			
As reported	$1.41	$0.11	$1.55
Pro forma	1.38	0.08	1.44

Segment Reporting – The Company operates in a single operating segment — the operation of retail department stores. Revenues from customers are derived from merchandise sales and service charges and interest on the Company's proprietary credit card prior to November 1, 2004.

The Company does not rely on any major customers as a source of revenue.

New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4" ("SFAS No. 151"). SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of the of SFAS No. 151 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" ("SFAS No. 153"). SFAS No. 153 eliminates from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21 (b) of APB Opinion No. 29, and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 is effective for fiscal periods beginning after June 15, 2005. The Company does not expect SFAS No. 153 to have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued Statement No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123-R"). SFAS No. 123-R requires all forms of share-based payments to employees, including employee stock options, be treated as compensation and recognized in the income statement based on their estimated fair values. This statement will be effective for fiscal periods beginning after June 15, 2005 which will be the Company's third quarter of fiscal 2005.

The Company currently accounts for stock options under APB No. 25 using the intrinsic value method in accounting for its employee stock options. No stock-based compensation costs were reflected in net income, as no options under those plans had an exercise price less than the market value of the underlying common stock on the date of grant.

Under the adoption of SFAS No. 123-R, the Company will be required to expense stock options over the vesting period in its statement of operations. In addition, the Company will need to recognize expense over the remaining vesting period associated with unvested options outstanding as of June 15, 2005.

2. Disposition of Credit Card Receivables

On November 1, 2004, the Company completed the sale of substantially all of the assets of its private label credit card business to GE. The purchase price of approximately $1.1 billion includes the assumption of $400 million of securitization liabilities, the purchase of owned accounts receivable and other assets. Net cash proceeds received by the Company were $688 million. The Company recorded a pretax gain of $83.9 million as a result of the sale. The gain is recorded in Service Charges, Interest and Other Income on the Consolidated Statement of Operations.

As part of the transaction, the Company and GE have entered into a long-term marketing and servicing alliance with an initial term of 10 years, with an option to renew. GE will own the accounts and balances generated during the term of the alliance and will provide all key customer service functions supported by ongoing credit marketing efforts.

3. Goodwill

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," effective February 3, 2002. It changes the accounting for goodwill from an amortization method to an "impairment only" approach. Under SFAS No. 142, goodwill is no longer amortized but reviewed for impairment annually or more frequently if certain indicators arise. The Company tested goodwill for impairment as of the adoption date using the two-step process prescribed in SFAS No. 142. The Company identified its reporting units under SFAS No. 142 at the store unit level. The fair value of these reporting units was estimated using the expected discounted future cash flows and market values of related businesses, where appropriate.

Related to the 1998 acquisition of Mercantile Stores Company Inc., the Company had $570 million in goodwill recorded in its consolidated balance sheet at the beginning of 2002. The Company completed the required impairment tests of goodwill in the second quarter of 2002 and determined that $530 million of goodwill was impaired under the fair value test. This impairment was the result of sequential periods of declining profits in certain of these reporting units. In accordance with SFAS No. 142, the impairment loss for goodwill was reflected as a cumulative effect of a change in accounting principle in fiscal 2002. The Company tests the realizability of goodwill as of the end of each fiscal year or when circumstances deem necessary.

The changes in the carrying amount of goodwill for the years ended January 29, 2005 and January 31, 2004 are as follows (in thousands):

Goodwill balance at February 1, 2003	$39,214
Goodwill written off in fiscal 2003	(2,483)
Goodwill balance at January 31, 2004	36,731
Goodwill written off in fiscal 2004	(1,236)
Goodwill balance at January 29, 2005	$35,495

4. Revolving Credit Agreement

At January 29, 2005, the Company maintained a $1 billion revolving credit facility with JPMorgan Chase Bank ("JPMorgan"). Borrowings under the credit agreement accrue interest at JPMorgan's Base Rate or LIBOR plus 1.50% (currently 4.09%) 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 75% of the inventory of certain Company subsidiaries (approximately $878 million at January 29, 2005). There are no financial covenant requirements under the credit agreement provided availability exceeds $100 million. The credit agreement expires on December 12, 2008. The Company pays an annual commitment fee of 0.375% of the committed amount less outstanding borrowings and letters of credit to the banks. The Company borrowed $100 million on its revolving credit facility during 2004 in connection with the redemption of the $331.6 million Preferred Securities on February 2, 2004. There were no funds borrowed under the revolving credit facility during fiscal 2003.

5. Long-term Debt

Long-term debt consists of the following:

(in thousands of dollars)	January 29, 2005	January 31, 2004
Unsecured notes at rates ranging from 6.30% to 9.50%, due 2005 through 2028	$1,357,391	$1,561,353
Receivable financing facilities at rates ranging from 1.4% to 3.8%	-	400,000
Mortgage notes, payable monthly or quarterly (some with balloon payments) through 2013 and bearing interest at rates ranging from 7.25% to 10.12%	57,062	59,753
	1,414,453	2,021,106
Current portion	(91,629)	(166,041)
	$1,322,824	$1,855,065

Building, land, and land improvements with a carrying value of $50.5 million at January 29, 2005 were pledged as collateral on the mortgage notes. Maturities of long-term debt over the next five years are $92 million, $98 million, $201 million, $198 million and $25 million. Outstanding letters of credit aggregated $69.7 million at January 29, 2005.

Interest and debt expense consists of the following:

(in thousands of dollars)	Fiscal 2004	Fiscal 2003	Fiscal 2002
Long-term debt:			
Interest	$121,648	$144,276	$154,698
Call premium	-	15,568	11,395
Loss on early retirement of long-term debt	-	-	6,839
Amortization of debt expense	4,027	6,985	4,088
	125,675	166,829	177,020
Interest on capital lease obligations	2,372	2,202	2,354
Interest on receivable financing	11,009	12,034	10,405
	$139,056	$181,065	$189,779

Interest paid during fiscal 2004, 2003 and 2002 was approximately $145.4 million, $186.9 million and $158.6 million, respectively.

6. Trade Accounts Payable and Accrued Expenses

Trade accounts payable and accrued expenses consist of the following:

(in thousands of dollars)	January 29, 2005	January 31, 2004
Trade accounts payable	$597,046	$457,485
Accrued expenses:		
Taxes, other than income	70,290	76,263
Salaries, wages, and employee benefits	55,099	44,661
Liability to customers	51,974	47,340
Interest	31,877	39,789
Rent	9,563	9,949
Other	4,393	4,367
	$820,242	$679,854

7. Income Taxes

The provision for federal and state income taxes is summarized as follows:

(in thousands of dollars)	Fiscal 2004	Fiscal 2003	Fiscal 2002
Current:			
Federal	$ 156,137	$(5,293)	$45,428
State	32,784	(1,680)	2,029
	188,921	(6,973)	47,457
Deferred:			
Federal	(92,359)	12,046	23,570
State	(29,677)	1,577	1,308
	(122,036)	13,623	24,878
	$ 66,885	$ 6,650	$72,335

A reconciliation between the Company's income tax provision and income taxes using the federal statutory income tax rate is presented below:

(in thousands of dollars)	Fiscal 2004	Fiscal 2003	Fiscal 2002
Income tax at the statutory federal rate	$64,593	$5,598	$71,493
State income taxes, net of federal benefit	1,834	122	2,008
Nondeductible goodwill write off	433	869	-
Other	25	61	(1,166)
	$66,885	$6,650	$72,335

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's actual federal and state income tax rate (exclusive of the effect of non-deductible goodwill write-off) was 36% in fiscal 2004, 2003 and 2002. Significant components of the Company's deferred tax assets and liabilities as of January 29, 2005 and January 31, 2004 are as follows:

(in thousands of dollars)	January 29, 2005	January 31, 2004
Property and equipment bases and depreciation differences	$ 504,253	$ 505,581
State income taxes	64,903	68,021
Joint venture basis differences	23,997	24,849
Differences between book and tax bases of inventory	46,001	49,095
Other	12,604	112,550
Total deferred tax liabilities	651,758	760,096
Accruals not currently deductible	(63,410)	(45,813)
NOL carryforwards	(82,058)	(79,324)
State income taxes	(12,625)	(12,558)
Total deferred tax assets	(158,093)	(137,695)
State NOL valuation allowance	53,148	47,603
Net deferred tax assets	(104,945)	(90,092)
Net deferred tax liabilities	$ 546,813	$ 670,004

At January 29, 2005, the Company had $1.8 million of federal rehabilitation credit carryovers that could be utilized to reduce the tax liabilities of future years. These credit carryovers will expire between 2005 and 2007.

At January 29, 2005, the Company had a deferred tax asset related to state net operating loss carryovers of $82 million that could be utilized to reduce the tax liabilities of future years. These carryovers will expire between 2005 and 2025. A portion of the deferred asset attributable to state net operating loss carryovers was reduced by a valuation allowance of $53 million for the losses of various members of the affiliated group in states that require separate company filings.

Deferred tax assets and liabilities are presented as follows in the accompanying consolidated balance sheets:

(in thousands of dollars)	January 29, 2005	January 31, 2004
Net deferred tax liabilities-noncurrent	$509,589	$617,236
Net deferred tax liabilities-current	37,224	52,768
Net deferred tax liabilities	$546,813	$670,004

The Company's income tax returns are periodically audited by various state and local jurisdictions. Additionally, the Internal Revenue Service audits the Company's federal income tax return annually. The Company reserves for tax contingencies when it is probable that a liability has been incurred and the contingent amount is reasonably estimable. These reserves are based upon the Company's best estimates of the potential exposures associated with the timing and amount of deductions as well as various tax filing positions. Due to the complexity of these examination issues, for which reserves have been recorded, it may be several years before the final resolution is achieved.

Income taxes paid during fiscal 2004, 2003 and 2002 were approximately $36.2, $0 and $0 million, respectively.

8. Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures

Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures are comprised of $200 million liquidation amount of 7.5% Capital Securities, due August 1, 2038 (the "Capital Securities") representing beneficial ownership interest in the assets of Dillard's Capital Trust I, a consolidated entity of the Company.

Holders of the Capital Securities are entitled to receive cumulative cash distributions, payable quarterly, at the annual rate of 7.5% of the liquidation amount of $25 per Capital Security. The subordinated debentures are the sole assets of the Trust, and the Capital Securities are subject to mandatory redemption upon repayment of the subordinated debentures. The Company's obligations under the debentures and related agreements, taken together, provides a full and unconditional guarantee of payments due on the Capital Securities.

Prior to February 2, 2004, Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures also included $331.6 million liquidation amount of LIBOR plus 1.56% Preferred Securities, due January 29, 2009 (the "Preferred Securities") by Horatio Finance V.O.F., a wholly owned subsidiary of the Company. Holders of the Preferred Securities were entitled to receive quarterly dividends at LIBOR plus 1.56%. The Company redeemed the $331.6 million Preferred Securities on February 2, 2004.

9. Benefit Plans

The Company has a retirement plan with a 401(k)-salary deferral feature for eligible employees. Under the terms of the plan, eligible employees may contribute up to 20% of eligible pay. Eligible employees with one year of service may elect to make a contribution of up to 5% of eligible pay which will be matched 100% only if invested in the Company's common stock. The Company contributions are used to purchase Class A Common Stock of the Company for the account of the employee. The terms of the plan provide a six-year graduated-vesting schedule for the Company contribution portion of the plan. The Company incurred expense of $11 million, $12 million and $14 million for fiscal 2004, 2003 and 2002, respectively, for the plan.

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 and allocates this cost to service periods. The pension plan is unfunded. The actuarial assumptions used to calculate pension costs are reviewed annually. The Company expects to make a contribution to the pension plan of approximately $3.6 million in fiscal 2005. The Company uses January 31 as the measurement date for determining pension plan obligations.

The accumulated benefit obligations ("ABO"), change in projected benefit obligation ("PBO"), change in plan assets, funded status, and reconciliation to amounts recognized in the consolidated balance sheets are as follows:

(in thousands of dollars)	January 29, 2005	January 31, 2004
Change in projected benefit obligation:		
PBO at beginning of year	$77,983	$64,360
Service cost	1,770	993
Interest cost	4,578	4,235
Actuarial loss	7,300	11,674
Benefits paid	(3,369)	(3,279)
PBO at end of year	$88,262	$77,983
ABO at end of year	$85,682	$75,286

	January 29, 2005	January 31, 2004
Change in plan assets:		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contribution	3,369	3,279
Benefits paid	(3,369)	(3,279)
Fair value of plan assets at end of year	$ -	$ -
Funded status (PBO less plan assets)	$88,262	$77,983
Unamortized prior service costs	(5,108)	(5,734)
Unrecognized net actuarial loss	(23,413)	(17,259)
Intangible asset	5,108	5,734
Unrecognized net loss	20,833	15,056
Accrued benefit cost	$85,682	$75,780
ABO in excess of plan assets	$85,682	$75,286
Amounts recognized in the balance sheets:		
Accrued benefit liability	$59,741	$54,990
Intangible asset	5,108	5,734
Accumulated other comprehensive loss	20,833	15,056
Net amount recognized	$85,682	$75,780

Accrued benefit liability is included in other liabilities. Intangible asset is included in other assets. Accumulated other comprehensive loss, net of tax benefit, is included in stockholders' equity.

The discount rate that the Company utilizes for determining future pension obligations is based on the Moody's AA corporate bond index. The indices selected reflect the weighted average remaining period of benefit payments. The discount rate determined on this basis had decreased to 5.5% as of January 29, 2005 from 6.00% as of January 31, 2004. Weighted average assumptions are as follows:

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Discount rate-net periodic pension cost	6.00%	6.75%	7.25%
Discount rate-benefit obligations	5.50%	6.00%	6.75%
Rate of compensation increases	2.50%	2.50%	2.50%

The components of net periodic benefit costs are as follows:

(in thousands of dollars)	Fiscal 2004	Fiscal 2003	Fiscal 2002
Components of net periodic benefit costs:			
Service cost	$1,770	$ 993	$1,416
Interest cost	4,578	4,235	3,592
Net actuarial gain (loss)	1,146	130	(156)
Amortization of prior service cost	627	627	-
Net periodic benefit costs	$8,121	$5,985	$4,852

The estimated future benefits payments for the nonqualified benefit plan are as follows:

(in thousands of dollars)	
Fiscal Year	
2005	$ 3,604
2006	4,731
2007	4,841
2008	4,804
2009	5,363
2010-2014	32,314
Total payments for next ten fiscal years	$55,657

10. Stockholders' Equity

Capital stock is comprised of the following:

Type	Par Value	Shares Authorized
Preferred (5% cumulative)	$100	5,000
Additional preferred	$ .01	10,000,000
Class A, common	$ .01	289,000,000
Class B, common	$ .01	11,000,000

Holders of Class A are empowered as a class to elect one-third of the members of the Board of Directors and the holders of Class B are empowered as a class to elect two-thirds of the members of the Board of Directors. Shares of Class B are convertible at the option of any holder thereof into shares of Class A at the rate of one share of Class B for one share of Class A.

On March 2, 2002, the Company adopted a shareholder rights plan under which the Board of Directors declared a dividend of one preferred share purchase right for each outstanding share of the Company's Common Stock, which includes both the Company's Class A and Class B Common Stock, payable on March 18, 2002 to the shareholders of record on that date. Each right, which is not presently exercisable, entitles the holder to purchase one one-thousandth of a share of Series A Junior Participating Preferred Stock for $70 per one one-thousandth of a share of Preferred Stock, subject to adjustment. In the event that any person acquires 15% or more of the outstanding shares of common stock, each holder of a right (other than the acquiring person or group) will be entitled to receive, upon payment of the exercise price, shares of Class A common stock having a market value of two times the exercise price. The rights will expire, unless extended, redeemed or exchanged by the Company, on March 2, 2012.

Share Repurchase Program

In May 2000, the Company announced that the Board of Directors authorized the repurchase of up to $200 million of its Class A Common Stock. During fiscal 2004 and fiscal 2003, the Company repurchased approximately $40.4 million and $18.9 million of Class A Common Stock, representing 2.0 million and 1.5 million shares at an average price of $20.19 and $12.99 per share, respectively. Approximately $16 million in share repurchase authorization remained under this open-ended plan at January 29, 2005.

11. Earnings per Share

In accordance with SFAS No. 128, "Earnings Per Share," basic earnings per share has been computed based upon the weighted average of Class A and Class B common shares outstanding. Diluted earnings per share gives effect to outstanding stock options.

Earnings per common share has been computed as follows:

	Fiscal 2004		Fiscal 2003		Fiscal 2002	
(in thousands of dollars, except per share data)	Basic	Diluted	Basic	Diluted	Basic	Diluted
Earnings before cumulative effect of accounting change	$117,666	$117,666	$9,344	$9,344	$ 131,926	$ 131,926
Cumulative effect of accounting change		-		-	(530,331)	(530,331)
Net earnings (loss) available for per-share calculation	$117,666	$117,666	$9,344	$9,344	$(398,405)	$(398,405)
Average shares of common stock outstanding	83,205	83,205	83,643	83,643	84,513	84,513
Stock options	-	534	-	257	-	803
Total average equivalent shares	83,205	83,739	83,643	83,900	84,513	85,316
Per Share of Common Stock:						
Earnings before cumulative effect of accounting change	$1.41	$1.41	$0.11	$0.11	$ 1.56	$ 1.55
Cumulative effect of accounting change	-	-	-	-	(6.27)	(6.22)
Net income (loss)	$1.41	$1.41	$0.11	$0.11	$(4.71)	$(4.67)

Total stock options outstanding were 3,845,009, 7,870,739 and 9,669,755 at January 29, 2005, January 31, 2004 and February 1, 2003, respectively. Of these, options to purchase 1,438,271, 7,343,073 and 8,974,174 shares of Class A Common Stock at prices ranging from $29.99 to $40.22, $18.13 to $40.22, $18.13 to $40.22 per share were outstanding in fiscal 2004, 2003 and 2002, respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options exceeds the average market price and would have been antidilutive.

12. Stock Options

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. All options were granted at not less than fair market value at dates of grant. At the end of fiscal 2004, 11,141,656 shares were available for grant under the plans and 14,986,665 shares of Class A Common Stock were reserved for issuance under the stock option plans. Stock option transactions are summarized as follows:

	Fiscal 2004		Fiscal 2003		Fiscal 2002	
Fixed Options	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	7,870,739	$22.45	9,669,755	$24.72	10,708,646	$24.58
Granted	-	-	-	-	2,312,375	24.02
Exercised	(2,657,215)	16.00	(122,375)	10.44	(2,150,111)	20.62
Forfeited	(1,368,515)	28.09	(1,676,641)	35.27	(1,201,155)	31.53
Outstanding, end of year	3,845,009	$24.91	7,870,739	$22.45	9,669,755	$24.72
Options exercisable at year-end	2,486,134	$27.24	5,823,459	$23.56	6,793,960	$26.63
Weighted-average fair value of options granted during the year	$-		$-		$6.91	

The following table summarizes information about stock options outstanding at January 29, 2005:

	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
$10.44 - $15.74	606,141	1.04	$10.63	267,866	$10.83
$18.13 - $25.13	2,537,868	2.84	24.11	1,517,268	24.17
$28.19 - $40.22	701,000	0.32	40.15	701,000	40.15
	3,845,009	2.10	$24.91	2,486,134	$27.24

SFAS No. 123, “Accounting for Stock-Based Compensation,” permits compensation expense to be measured based on the fair value of the equity instrument awarded. In accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” the Company uses the intrinsic value method of accounting for stock options. No compensation cost has been recognized in the consolidated statements of operations for the Company’s stock option plans.

The fair value of each option grant is estimated on the date of each grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Risk-free interest rate	-	-	1.96%
Expected option life (years)	-	-	3.1
Expected volatility	-	-	41.6%
Expected dividend yield	-	-	0.67%

The fair values generated by the Black-Scholes model may not be indicative of the future benefit, if any, that may be received by the option holder.

13. Leases and Commitments
Rental expense consists of the following:

(in thousands of dollars)	Fiscal 2004	Fiscal 2003	Fiscal 2002
Operating leases:			
Buildings:			
Minimum rentals	$33,266	$38,087	$40,862
Contingent rentals	6,941	8,732	10,433
Equipment	14,567	17,282	16,806
	$54,774	$64,101	$68,101

Contingent rentals on certain leases are based on a percentage of annual sales in excess of specified amounts. Other contingent rentals are based entirely on a percentage of sales.

The future minimum rental commitments as of January 29, 2005 for all noncancelable leases for buildings and equipment are as follows:

(in thousands of dollars) Fiscal Year	Operating Leases	Capital Leases
2005	$ 47,399	$ 6,809
2006	45,083	6,425
2007	33,245	4,046
2008	24,058	2,798
2009	17,480	1,801
After 2009	54,804	17,451
Total minimum lease payments	$222,069	39,330
Less amount representing interest		(14,222)
Present value of net minimum lease payments (of which $4,926 is currently payable)		$25,108

Renewal options from three to 25 years exist on the majority of leased properties. At January 29, 2005, the Company is committed to incur costs of approximately $106 million to acquire, complete and furnish certain stores and equipment.

The Company is a guarantor on a $54.3 million loan for a joint venture as of January 29, 2005. At January 29, 2005, the joint venture had $36.5 million outstanding on the loan. The loan is collateralized by a mall in Yuma, Arizona with a book value of $55 million at January 29, 2005.

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 alleges 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 does not specify any liquidated amount of damages sought and seeks recalculation of certain benefits paid to putative class members. No trial date has been set.

The Company is defending the litigation vigorously and has named the Plan's actuarial firm as a cross defendant. While it is not feasible to predict or determine the ultimate outcome of the pending litigation, management believes after consultation with counsel, that its outcome, after consideration of the provisions recorded in the Company's consolidated financial statements, would not have a material adverse effect upon its consolidated cash flow or financial position. However, it is possible that an adverse outcome could have an adverse effect on the Company's consolidated net income in a particular quarterly or annual period.

Various other 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.

14. Asset Impairment and Store Closing Charges

In the evaluation of the fair value and future benefits of long-lived assets, the Company performs an analysis of the anticipated undiscounted future net cash flows of the related long-lived assets. If the carrying value of the related asset exceeds the undiscounted cash flows, the Company reduces the carrying value to its fair value, which is generally calculated using discounted cash flows. During fiscal 2004, the Company recorded a pretax charge of $19.4 million for asset impairment and store closing costs. The charge includes a write down to fair value for certain under-performing properties. The charge consists of a write down for a joint venture in the amount of $7.6 million, a write down of goodwill on one store to be closed in fiscal 2005 of $1.2 million, an accrual for future rent, property tax and utility payments on three stores (two closed in fiscal 2004 and one to be closed in fiscal 2005) of $3.1 million and a write down of property and equipment in the amount of $7.5 million. The Company does not expect to incur significant additional exit costs upon the closing of these properties during fiscal 2005. During fiscal 2003, the Company recorded a pre-tax charge of $43.7 million for asset impairment and store closing costs. The charge includes a write down to fair value for certain under-performing properties. The charge consists of a write down to a joint venture in the amount of $5.5 million, a write down of goodwill on two stores closed in fiscal 2004 of $2.5 million and a write down of property and equipment in the amount of $35.7 million. During fiscal 2002, the Company recorded a pre-tax charge of $52.2 million for asset impairment and store closing costs. The charge includes a write down to fair value for certain under-performing properties in the amount of $55.8 million and exit costs to close four such properties in the amount of $4.4 million, all of which were closed during fiscal 2003, partially offset by the forgiveness of a lease obligation of $8.0 million in connection with the sale of a closed owned store in Memphis, Tennessee in satisfaction of that obligation.

Following is a summary of the activity in the 2004 reserve established for asset impairment and store closing charges:

(in thousands)	Balance, beginning of year	Charges	Cash Payments	Balance, end of year
Rent, property taxes and utilities	$-	$3,080	$175	$2,905

15. Fair Value Disclosures

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

The fair value of trade accounts receivable is determined by discounting the estimated future cash flows at current market rates, after consideration of credit risks and servicing costs using historical rates. The fair value of the Company's long-term debt and Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures is based on market prices or dealer quotes (for publicly traded unsecured notes) and on discounted future cash flows using current interest rates for financial instruments with similar characteristics and maturity (for bank notes and mortgage notes).

The fair value of the Company's cash and cash equivalents and trade accounts receivable approximates their carrying values at January 29, 2005 and January 31, 2004 due to the short-term maturities of these instruments. The fair value of the Company's long-term debt at January 29, 2005 and January 31, 2004 was $1.47 billion and $2.06 billion, respectively. The carrying value of the Company's long-term debt at January 29, 2005 and January 31, 2004 was $1.41 billion and $2.02 billion, respectively. The fair value of the Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures at January 29, 2005 and January 31, 2004 was $199 million and $526 million, respectively. The carrying value of the Guaranteed Preferred Beneficial Interests in the Company's Subordinated Debentures at January 29, 2005 and January 31, 2004 was $200 million and $532 million, respectively.

16. Securitizations of Assets

Prior to November 1, 2004, the Company transferred credit card receivable balances to Dillards Credit Card Master Trust ("Trust") in exchange for certificates representing undivided interests in such receivables. The Trust securitized balances by issuing certificates representing undivided interests in the Trust's receivables to outside investors. In each securitization, the Company retained certain subordinated interests that serve as a credit enhancement to outside investors and exposed the Trust assets to possible credit losses on receivables sold to outside investors. The investors and the Trust had no recourse against the Company beyond Trust assets. In order to maintain the committed level of securitized assets, the Trust reinvested cash collections on securitized accounts in additional balances. The Company also received annual servicing fees as compensation for servicing the outstanding balances.

All borrowings under the Company's receivable financing conduit were recorded on the balance sheet. The Company had $400 million of long-term debt outstanding under this agreement on the consolidated balance sheet as of January 31, 2004. Prior to May 2002, the Company accounted for securitizations of credit card receivables as sales of receivables, thus off balance sheet. Since May 2002, future transfers no longer meet sale treatment, and interest paid to outside investors is recorded in interest expense instead of other revenue. Accordingly, as a result of this decision, the Company recorded an income statement charge of $5.4 million related to the amortization of the beneficial interests recognized up front on the off-balance-sheet financing for the twelve months ended February 1, 2003. This charge was included in Service Charges, Interest and Other Income.

At January 31, 2004 the Company had $50.0 million outstanding in short-term borrowings under its accounts receivable conduit facilities related to seasonal financing needs.

The Company's receivable financing conduits were terminated and amounts outstanding were repaid concurrent with the sale of the Company's private label credit card business to GE on November 1, 2004.

17. Quarterly Results of Operations (unaudited)

	Fiscal 2004, Three Months Ended			
(in thousands of dollars, except per share data)	May 1	July 31	October 30	January 29
Net sales	$1,854,395	$1,671,380	$1,698,897	$2,303,900
Gross profit	666,895	525,534	557,999	760,379
Net income (loss)	53,762	(26,029)	(18,688)	108,621
Diluted earnings per share:				
Net income (loss)	0.64	(0.31)	(0.23)	1.30

	Fiscal 2003, Three Months Ended			
(in thousands of dollars, except per share data)	May 3	August 2	November 1	January 31
Net sales	$1,813,911	$1,721,485	$1,764,484	$2,299,054
Gross profit	601,939	535,067	564,431	727,324
Net income (loss)	24,349	(50,346)	(15,835)	51,176
Diluted earnings per share:				
Net income (loss)	0.29	(0.60)	(0.19)	0.61

Total of quarterly earnings per common share may not equal the annual amount because net income per common share is calculated independently for each quarter.

Quarterly information for fiscal 2004 and fiscal 2003 includes the following items:

First Quarter
2004

- a $4.7 million pretax charge ($3.0 million after tax or $0.04 per diluted share) for asset impairment and store closing charges related to certain stores.

2003

- a pretax gain of $15.6 million ($10.0 million after tax or $0.12 per diluted share) pertaining to the Company's sale of its interest in Sunrise Mall and its associated center in Brownsville, Texas.

- a pretax gain of $12.3 million ($7.9 million after tax or $0.09 per diluted share) recorded due to the resolution of certain liabilities originally recorded in conjunction with the purchase of Mercantile Stores Company, Inc.

Second Quarter
2003

- a call premium resulting in additional interest expense of $15.6 million ($10.0 million after tax or $0.12 per diluted share) associated with a $125.9 million call of debt.

- a $17.1 million pretax charge ($10.9 million after tax, or $0.13 per diluted share) for asset impairment and store closing charges related to certain stores.

Third Quarter
2003

- a $1.7 million charge ($1.1 million after tax or $0.01 per diluted share) for asset impairment and store closing charges related to certain stores.

- $4.1 million ($2.6 million after tax or $0.03 per diluted share) received from the Internal Revenue Service as a result of the Company's filing of an interest-netting claim related to previously settled tax years.

Fourth Quarter
2004

- a pretax gain of $83.9 million ($53.7 million after tax or $0.64 per diluted share) related to the sale of the Company's credit card business to GE Consumer Finance (see Note 2 of the Notes to Consolidated Financial Statements).

- a $14.7 million pretax charge ($8.6 million after tax or $0.10 per diluted share) for asset impairment and store closing charges related to certain stores (see Note 14 of the Notes to Consolidated Financial Statements).

2003

- a pretax asset impairment and store closing charge of $25.0 million ($16.8 million after tax or $0.20 per diluted share) related to certain stores.

- an $8.5 million gain ($5.5 million after tax or $0.07 per diluted share) related to the sale of three store properties.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
DILLARD'S, INC. AND SUBSIDIARIES
(DOLLAR AMOUNTS IN THOUSANDS)

Column A	**Column B**	**Column C**	**Column D**	**Column E**	**Column F**
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions (1)	Balance at End of Period (2)
Allowance for losses on accounts receivable:					
Year Ended January 29, 2005	$40,967	$14,704	$ -	$55,671	$ -
Year Ended January 31, 2004	49,755	83,030	-	91,818	40,967
Year Ended February 1, 2003	37,385	98,787	-	86,417	49,755

(1) Accounts written off and charged to allowance for losses on accounts receivable (net of recoveries).
(2) On November 1, 2004, the Company sold substantially all the assets of its private label credit card business. As a result, the Company no longer maintains an allowance for doubtful accounts.

Exhibit Index

Number	Description
*3(a)	Restated Certificate of Incorporation (Exhibit 3 to Form 10-Q for the quarter ended August 1, 1992 in 1-6140).
*3(b)	By-Laws as currently in effect (Exhibit 3.1 to Form 8-K dated as of March 2, 2002 in 1-6140).
*4(a)	Indenture between the Registrant and Chemical Bank, Trustee, dated as of October 1, 1985 (Exhibit (4) in 2-85556).
*4(b)	Indenture between the Registrant and Chemical Bank, Trustee, dated as of October 1, 1986 (Exhibit (4) in 33-8859).
*4(c)	Indenture between Registrant and Chemical bank, dated as of April 15, 1987 (Exhibit 4.3 in 33-13534).
*4(d)	Indenture between Registrant and Chemical bank, Trustee, dated as of May 15, 1988, as supplemented (Exhibit 4 in 33-21671, Exhibit 4.2 in 33-25114 and Exhibit 4(c) to Current Report on Form 8-K dated September 26, 1990 in 1-6140).
*4(e)	Rights Agreement between Dillard's, Inc. and Registrar and Transfer Company, as Rights Agent (Exhibit 4.1 to Form 8-K dated as of March 2, 2002 in 1-6140).
**10(a)	Retirement Contract of William Dillard dated March 8, 1997 (Exhibit 10(a) to Form 10-K for the fiscal year ended February 1, 1997 in 1-6140).
**10(b)	1998 Incentive and Nonqualified Stock Option Plan (Exhibit 10(b) to Form 10-K for the fiscal year ended January 30, 1999 in 1-6140).
**10(c)	Amended and Restated Corporate Officers Non-Qualified Pension Plan (Exhibit 10 to Form 10-Q for the quarter ended May 2, 2003 in 1-6140).
**10(d)	Senior Management Cash Bonus Plan (Exhibit 10(d) to Form 10-K for the fiscal year ended January 28, 1995 in 1-6140).
**10(e)	2000 Incentive and Nonqualified Stock Option Plan (Exhibit 10(e) to Form 10-K for the fiscal year ended February 3, 2001 in 1-6140).
*10(f)	Amended and Restated Credit Agreement among Dillard's, Inc. and JPMorgan Chase Bank and Fleet Retail Group, Inc. (Exhibit 10 to Form 10-Q for the quarter ended November 1, 2003 in 1-6140).
*10(g)	Purchase, Sale and Servicing Transfer Agreement among GE Capital Consumer Card Co., General Electric Capital Corporation, Dillards, Inc. and Dillard National Bank (Exhibit 2.1 to Form 8-K dated as of August 12, 2004 in 1-6140).
*10(h)	Private Label Credit Card Program Agreement between Dillards, Inc. and GE Capital Consumer Card Co. (Exhibit 10.1 to Form 8-K dated as of August 12, 2004 in 1-6140).
12	Statement re: Computation of Ratio of Earnings to Fixed Charges.
*18	Letter re: Change in Accounting Principles (Exhibit 18 to Form 10-K for the fiscal year ended February 3, 2001 in 1-6140).

21	Subsidiaries of Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31(a)	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32(a)	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32(b)	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

*Incorporated by reference as indicated.
**A management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c) of Form 10-K.