DILLARDS INC
Form 10-Q/A
December 19, 2003

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 1, 2003

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)

Indicate by checkmark whether the Registrant (1) has filed all reports required to be
or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or fo
that the registrant was required to file such reports), and (2) has been subje
requirements for the past 90 days. Yes x No_

Indicate by check mark whether the Registrant is an accelerated filer (as defined i
12-b-2). Yes x No _

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

CLASS A COMMON STOCK as of November 1, 2003	79,308,643
CLASS B COMMON STOCK as of November 1, 2003	4,010,929

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DILLARD'S, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	November 1, 2003	February 1, 2003
Assets		
Current Assets:		
Cash and cash equivalents	$ 110,368	$ 142,356
Accounts receivable, net	1,119,926	1,338,080
Merchandise inventories	2,287,665	1,594,308

Other current assets	85,570	55,507
Total current assets	**3,603,529**	**3,130,251**
Property and equipment, net	3,241,622	3,370,502
Goodwill	39,214	39,214
Other assets	130,855	135,965
Total Assets	**$7,015,220**	**$ 6,675,932**
Liabilities and Stockholders' Equity		
Current Liabilities:		
Trade accounts payable and accrued expenses	$ 1,278,793	$ 675,962
Other short-term borrowings	20,500	-
Current portion of long-term debt	297,899	138,814
Current portion of capital lease obligations	1,923	1,856
Federal and state income taxes	-	69,829
Total current liabilities	**1,599,115**	**886,461**
Long-term debt	1,855,648	2,193,006
Capital lease obligations	17,245	18,600
Other liabilities	137,763	137,070
Deferred income taxes	680,457	645,020
Guaranteed preferred beneficial interests in the company's subordinated debentures	531,579	531,579
Stockholders' Equity:		
Common stock	1,167	1,167
Additional paid-in capital	711,588	711,324
Accumulated other comprehensive loss	(4,496)	(4,496)
Retained earnings	2,153,724	2,205,674
Less treasury stock	(668,570)	(649,473)
Total stockholders' equity	**2,193,413**	**2,264,196**
Total Liabilities and Stockholders' Equity	**$7,015,220**	**$6,675,932**

See notes to consolidated financial statements.

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

	Three Months Ended		Nine Months End	
	November 1, 2003	November 2, 2002	November 1, 2003	Novem 2
Net Sales	$1,764,484	$1,794,250	$5,299,880	$5
Service Charges, Interest and Other Income	55,952	63,363	192,209	

	1,820,436	1,857,613	5,492,089	5
Costs and Expenses:				
Cost of sales	1,200,053	1,191,437	3,598,443	3
Advertising, selling, administrative and general expenses	517,176	539,769	1,534,662	1
Depreciation and amortization	74,187	76,938	222,775	
Rentals	14,725	14,915	42,684	
Interest and debt expense	37,338	42,526	140,127	
Asset impairment and store closing charges	1,702	-	18,765	
Total Cost and Expenses	1,845,181	1,865,585	5,557,456	5
Income (Loss) Before Income Taxes	(24,745)	(7,972)	(65,367)	
Income Taxes (Benefit)	(8,910)	(2,870)	(23,535)	
Income (Loss) Before Cumulative Effect of Accounting Change	(15,835)	(5,102)	(41,832)	
Cumulative Effect of Accounting Change	-	-	-	(
Net Income (Loss)	**(15,835)**	**(5,102)**	**(41,832)**	**(**
Retained Earnings at Beginning of Period	2,172,897	2,145,295	2,205,674	2
Cash Dividends Declared	(3,338)	(3,382)	(10,118)	
Retained Earnings at End of Period	**$2,153,724**	**$2,136,811**	**$2,153,724**	**$2**
Basic Earnings (Loss) Per Share:				
Earnings (Loss) Before Cumulative Effect of Accounting Change	$(0.19)	$(0.06)	$(0.50)	
Cumulative Effect of Accounting Change	-	-	-	
Net Income (Loss)	$(0.19)	$(0.06)	$ (0.50)	
Diluted Earnings (Loss) Per Share:				
Earnings (Loss) Before Cumulative Effect of Accounting Change	$(0.19)	$(0.06)	$(0.50)	
Cumulative Effect of Accounting Change	-	-	-	
Net Income (Loss)	$(0.19)	$(0.06)	$ (0.50)	
Cash Dividends Declared Per Common Share	$0.04	$0.04	$0.12	

See notes to consolidated financial statements.

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DILLARD'S, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(Amounts in Thousands)

	Nine Months En	
	November 1, 2003	Nov
Operating Activities:		
Net loss	$ (41,832)	$
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	228,045	
Provision for loan losses	24,763	
Cumulative effect of accounting change	-	
Asset impairment and store closing charges	18,765	
Gain on sale of joint venture	(15,624)	
Changes in operating assets and liabilities:		
Decrease in accounts receivable	192,980	
Increase in merchandise inventories and other current assets	(723,854)	
Decrease in other assets	276	
Increase in trade accounts payable and accrued expenses, other liabilities and income taxes	569,771	
Net cash provided by operating activities	**253,290**	
Investing Activities:		
Net proceeds from sale of joint venture	34,579	
Purchases of property and equipment	(171,845)	
Net cash used in investing activities	**(137,266)**	
Financing Activities:		
Proceeds from long-term borrowings	-	
Principal payments on long-term debt and capital lease obligations	(139,561)	
Net proceeds from accounts receivable securitizations	-	
Increase in short-term borrowings	20,500	
Proceeds from issuance of common stock	264	
Cash dividends paid	(10,118)	
Purchase of treasury stock	(19,097)	
Net cash (used in) provided by financing activities	**(148,012)**	
Decrease in cash and cash equivalents	(31,988)	
Cash and cash equivalents, beginning of period	142,356	
Cash and cash equivalents, end of period	**$ 110,368**	

See notes to consolidated financial statements.

DILLARD'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Dillard's, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, each as promulgated under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Certain prior period balances have been reclassified to conform to current period presentation and to reflect the adoption of certain new accounting standards as discussed in Note 11. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three, nine and twelve month periods ended November 1, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2004 due to the seasonal nature of the business. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended February 1, 2003.

Note 2. 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. Accordingly, no compensation expense has been recorded in the consolidated financial statements with respect to option grants. The Company has adopted only the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation, (SFAS No. 123) as amended by SFAS 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 cumulative effect of accounting change would have been (in thousands, except per share data):

	Three Months Ended		Nine Months Ende	
	November 1, 2003	November 2, 2002	November 1, 2003	Novem 20
Income (Loss) Before Cumulative Effect of Accounting Change:				
As reported	$(15,835)	$(5,102)	$(41,832)	
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of taxes	(584)	(1,068)	(2,097)	
Pro forma	$(16,419)	$(6,170)	$(43,929)	
Basic Earnings (Loss) Per Share:				

As reported	$(0.19)	$(0.06)	$(0.50)	
Pro forma	(0.20)	(0.07)	(0.53)	
Diluted Earnings (Loss) Per Share:				
As reported	$(0.19)	$(0.06)	$(0.50)	
Pro forma	(0.20)	(0.07)	(0.53)	

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Note 3. Accounts Receivable Securitization

As part of its credit card securitizations, the Company transfers credit card receivable balances to a Trust in exchange for certificates representing undivided interests in such receivables. The Trust securitizes balances by issuing certificates representing undivided interests in the Trust s receivables to outside investors. In each securitization, the Company retains certain subordinated interests that serve as a credit enhancement to outside investors and expose the Trust assets to possible credit losses on receivables sold to outside investors. The investors and the Trust have no recourse against the Company beyond Trust assets. In order to maintain the committed level of securitized assets, the Trust reinvests cash collections on securitized accounts in additional balances. The Company also receives annual servicing fees as compensation for servicing the outstanding balances.

Currently, all borrowings under the Company s receivable financing conduit are recorded on balance sheet. The Company had $400 million of long term debt outstanding under this agreement on the consolidated balance sheet as of November 1, 2003, February 1, 2003 and November 2, 2002,. 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. The Company reclassified $1.4 million and $3.8 million for the nine and twelve months ended November 2, 2002, respectively, to conform to current period classification. Accordingly, as a result of this decision, the Company recorded an income statement charge of $2.2 million and $5.4 million, respectively, related to the amortization of the beneficial interests recognized up front on the off-balance-sheet financing for the three and nine months ended November 2, 2002. This charge was included in Service Charges, Interest and Other Income.

At November 1, 2003 and November 2, 2002, the Company had $20.5 million and $285 million outstanding, respectively, in short-term borrowings under its accounts receivable conduit facilities related to seasonal financing needs. Remaining available short-term borrowings under these conduit facilities at November 1, 2003 were $479.5 million. Management expects that peak borrowings in the fourth quarter of Fiscal 2003 will be less than $400 million compared to the peak of $465 million during the fall season of 2002.

Note 4. Goodwill

The Company adopted SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142) 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. The cumulative effect of the accounting change as of February 3, 2002 was to decrease net income by $530 million. Financial statements for the quarter ended May 4, 2002 have been restated to reflect this change in accordance with SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements .

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The following pro forma financial information is presented as if the statement was adopted at February 4, 2001(in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	November 1, 2003	November 2, 2002	November 1, 2003	November 2, 2002
Reported net income (loss)	$(15,835)	$(5,102)	$(41,832)	$(470,655)
Cumulative effect of accounting Change	-	-	-	530,331
Net income (loss) before the cumulative effect of accounting Change	(15,835)	(5,102)	(41,832)	59,676
Add back:				
Goodwill amortization	-	-	-	-
Pro forma net income (loss)	$(15,835)	$(5,102)	$(41,832)	$59,676
Net income (loss) per share reported - basic	$(0.19)	$(0.06)	$(0.50)	$(5.57)
Cumulative effect of accounting Change	-	-	-	6.28
Goodwill amortization	-	-	-	-
Pro forma net income (loss) per share - basic	$(0.19)	$(0.06)	$(0.50)	$0.71
Net income (loss) per share reported - diluted	$(0.19)	$(0.06)	$(0.50)	$(5.51)
Cumulative effect of accounting Change	-	-	-	6.21
Goodwill amortization	-	-	-	
Pro forma net income (loss) per share - diluted	$(0.19)	$(0.06)	$(0.50)	$0.70

Note 5. Common Stock Repurchase and Note Repurchase

The Company s board of directors authorized a stock repurchase program in May of 2000. During the nine months ended November 1, 2003, the Company repurchased approximately 1.5 million shares of Class A common stock for $19.1 million. Approximately $56 million in share repurchase authorization remained under this open-ended plan at November 1, 2003.

During the quarter ended November 1, 2003, the Company did not repurchase any Class A common stock or repurchase any outstanding unsecured notes prior to their maturity dates.

During the quarter ended November 2, 2002, the Company repurchased $26.6 million of its outstanding unsecured notes prior to their related maturity dates. Interest rates on the repurchased securities ranged from 6.39% to 8.2%. Maturity dates ranged from 2003 to 2022. Included in interest expense for the quarter ended November 2, 2002 is a pretax gain of $1.7 million related to the early extinguishment of debt.

During the nine months ended November 1, 2003, the Company called the remaining $125.9 million of its 6.39% Reset Put Securities (REPS) due August 1, 2013 prior to their maturity dates. These notes were subject to mandatory repricing on August 1, 2003. A call premium of $15.6 million related to this early retirement is included in interest expense for the nine months ended November 1, 2003. During the nine months ended November 1, 2003, the Company repurchased $6.0 million of its outstanding unsecured notes prior to their related maturity dates. Interest rates on the repurchased securities ranged from 6.39% to 6.88%. Maturity dates ranged from 2004 to 2013.

During the nine months ended November 2, 2002, the Company repurchased $111.9 million of its outstanding unsecured notes prior to their related maturity dates, and the Company also retired the remaining $143 million of its 6.31% Reset Put Securities (REPS) due August 1, 2012 prior to their maturity dates. In connection with these transactions, the Company recorded accelerated interest expense for the nine months ended November 2, 2002 of $6.8 million. Included in the $6.8 million is a call premium of $11.6 million related to the early retirement of its $143 million 6.31% notes, partially offset by a gain on early extinguishment of debt during 2002. Interest rates on the repurchased securities ranged from 6.13% to 9.50%. Maturity dates ranged from 2003 to 2028. The loss for the quarter and nine months ended November 2, 2002 has been reclassified to interest and debt expense from extraordinary loss as described in Note 11.

Note 6. Earnings Per Share Data

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

	Three Months Ended		Nine Months End	
	November 1, 2003	November 2, 2002	November 1, 2003	Novem 2
Basic:				
Earnings (loss) before cumulative effect				

of accounting change	$ (15,835)	$ (5,102)	$ (41,832)	$
Cumulative effect of accounting change	-	-	-	(5
Net earnings (loss) available for per-share calculations	$ (15,835)	$ (5,102)	$ (41,832)	$ (4
Weighted average shares of common stock outstanding	83,303	84,676	83,735	
Per share of common stock:				
Earnings (loss) before cumulative effect of accounting change	$ (0.19)	$ (0.06)	$ (0.50)	$
Cumulative effect of accounting change	-	-	-	
Net income (loss)	$ (0.19)	$ (0.06)	$ (0.50)	$

	Three Months Ended		Nine Months En	
	November 1, 2003	November 2, 2002	November 1, 2003	Nove
Diluted:				
Earnings (loss) before cumulative effect of accounting change	$ (15,835)	$ (5,102)	$ (41,832)	$ 59
Cumulative effect of accounting change	-	-	-	(530
Net earnings (loss) available for per-share calculations	$ (15,835)	$(5,102)	$ (41,832)	$(4
Weighted average shares of common stock outstanding	83,303	84,676	83,735	84
Stock options	-	-	-	
Total average equivalent shares	83,303	84,676	83,735	85
Per share of common stock:				
Earnings (loss) before cumulative effect of accounting change	$ (0.19)	$ (0.06)	$ (0.50)	$
Cumulative effect of accounting change	-	-	-	(
Net income (loss)	$ (0.19)	$ (0.06)	$ (0.50)	$ (

Total stock options outstanding were 9,361,875 and 10,998,210 at November 1, 2003 and November 2, 2002, respectively. Of these, options to purchase 7,985,625 and 7,490,225 shares of Class A common stock at prices ranging from $15.74 to $40.22 and $24.01 to $40.22 per share were outstanding at November 1, 2003 and November 2, 2002, respectively, but were not included in the computation of diluted earnings per share because they would be antidilutive. No stock options were included for the three and nine months ended November 1, 2003 or the three months ended November 2, 2002 computation of diluted earnings per share because they would be antidilutive due to the loss before cumulative effect of accounting change.

Note 7. Comprehensive Income and Accumulated Other Comprehensive Loss

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

	Three Months Ended		Nine Months Ended	
	November 1, 2003	November 2, 2002	November 1, 2003	November 2, 2002
Net Income (Loss)	$(15,835)	$(5,102)	$(41,832)	$(470,655
Other Comprehensive Loss:				
Minimum pension liability adjustment, net of taxes	-	-	-	
Total Comprehensive Income (Loss)	$(15,835)	$(5,102)	$(41,832)	$(470,655

Note 8. Commitments and Contingencies

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

The Company has not provided any financial guarantees as of November 1, 2003.

Note 9. Sale of Joint Venture and Credit Associated with the Mercantile Acquisition

During the quarter ended May 3, 2003, the Company sold its interest in the 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 $15.6 million pertaining to the sale of its interest in Sunrise Mall for the three months ended May 3, 2003. The gain on the sale was recorded in Service Charges, Interest and Other Income.

During the quarter ended May 3, 2003, the Company recorded a $12.3 million pretax credit as a reduction of advertising, selling, administrative and general expenses due to the resolution of a contingent liability originally recorded in conjunction with the purchase of Mercantile Stores Company, Inc. that were deemed not necessary based upon current information.

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Note 10. Asset Impairment and Store Closing Charges

During the quarter ended November 1, 2003, the Company recorded $1.7 million write-off of a beneficial lease on one store. During the nine months ended November 1, 2003, the Company recorded $18.8 million for asset impairment and store closing charges related to eight stores. The charge consists of property and equipment write-downs to fair value for these underperforming stores and further deterioration of the estimated market value of certain assets held for sale. For the nine months ended November 2, 2002, the Company recorded a pre-tax net gain of $0.9 million for asset impairment and store closing charges. The Company recorded $7.1 million of asset impairment and store closing charges related to six stores and received 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.

Note 11. Recently Issued Accounting Standards

In April 2002, SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS No. 145) was issued. SFAS No. 145 rescinds SFAS No. 4 and 64, which required gains and losses from extinguishments of debt to be classified as extraordinary items. SFAS No. 145 also amends SFAS No. 13, eliminating inconsistencies in certain sale-leaseback transactions. The Company adopted the provisions of SFAS No. 145 as of February 2, 2003. For the three months ended November 2, 2002, as a result of adopting SFAS No. 145, the Company has reclassified $1.7 billion ($1.1 billion after tax) to interest and debt expense from extraordinary gain and for the nine and twelve months ended November 2, 2002, the Company has reclassified $6.8 billion and $5.6 billion ($4.4 billion and $3.6 billion after-tax), respectively, to interest and debt expense from extraordinary loss.

In March 2003, the Financial Accounting Standards Board s (FASB) Emerging Issues Task Force (EITF) issued final transition guidance regarding accounting for vendor allowances in its Issue No. 02-16, Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor . EITF Issue No. 02-16 addresses the accounting treatment for vendor allowances and stipulates that cash consideration received from a vendor should be presumed to be a reduction of the prices of the vendors product and should therefore be shown as a reduction in the purchase price of the merchandise. Further, these allowances should be recognized as a reduction in cost of sales when the related product is sold. To the extent that the cash consideration represents a reimbursement of a specific, incremental and identifiable cost, then those vendor allowances should offset such costs. 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. 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.

The adoption of EITF Issue No. 02-16 in 2003 did not have a material impact on the Company s financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS No. 150). This statement establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The statement will be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the period of adoption. We do not expect SFAS 150 to have a material impact on the Company s financial position or results of operations**.**

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FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of APB No. 50" (FIN 46) was issued in January 2003. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company does not currently participate in any variable interest entities.

Note 12. Subsequent Events

On Monday, November 3, 2003, the Company retired the remaining $130.0 million 6.13% notes maturing Saturday, November 1, 2003.

On December 12, 2003, the Company amended and extended its revolving credit agreement (credit agreement) to increase the amount available under this facility from $400 million to $1 billion ($835 million of the facility is available immediately, with an additional $165 million becoming available immediately upon the Preferred Security redemption discussed below). Borrowings under the credit agreement accrue interest at JPMorgan s Base Rate or LIBOR plus 1.50% (currently 2.67%) 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 $1.3 billion at November 29, 2003). 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 has entered into an agreement to redeem the $331.6 million liquidation amount of Preferred Securities of Horatio Finance V.O.F., a wholly owned subsidary of the Company, effective February 2, 2004. This agreement is subject to certain contingencies. The Company anticipates that redemption will occur on February 2, 2004. The credit agreement as well as other financing sources will provide the Company with ample liquidity to redeem the Preferred Securities.

Item 2. Management s Discussion and Analysis of FinancialCondition and Results of Operations

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.

Cost of sales. Cost of sales includes the cost of merchandise sold, bank card 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 and occupancy, selling, distribution, warehousing, store management 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 on property and equipment and amortization of goodwill prior to February 3, 2002.

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 intangibles 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 stores including property and equipment and goodwill 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). 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 the nine months and twelve months ended November 2, 2002 by $530 million or $6.21 and $6.23 per diluted share, respectively.

Critical Accounting Policies and Estimates

The Company s accounting policies are more fully described in Note 1 of Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the fiscal year ended February 1, 2003. As disclosed in this note, the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and accompanying notes. Since future events and their effects cannot be determined with absolute certainty, actual results will differ from those estimates. The Company evaluates its estimates and judgments on an ongoing basis and predicates those estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results will differ from these under different assumptions or conditions.

Management of the Company believes the following critical accounting policies significantly affect its 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

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of inventories. RIM is an averaging method that has been 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 and estimates 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 and application of LIFO provide an inventory valuation which results in a carrying value at the lower of cost or market. The remaining 3% of the inventories are valued by the specific identified cost method.

Allowance for doubtful accounts. The accounts receivable from the Company s proprietary credit card sales are subject to credit losses. The Company maintains allowances for uncollectible accounts for estimated losses resulting from the inability of its customers to make required payments. The adequacy of the allowance is based on historical experience with similar customers including bankruptcy and write-off trends, current aging information and year-end balances. Management believes that the allowance for uncollectible accounts is adequate to cover anticipated losses in the reported credit card receivable portfolio under current conditions; however, significant deterioration in any of the above-noted factors or in the overall health of the economy could materially change these expectations.

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. 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 on a discounted basis, 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 or 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. The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes, which requires that deferred tax assets and liabilities be recognized using enacted rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities in the multiple taxing jurisdictions within which the Company operates. Future tax law changes may require adjustment to the Company s existing tax assets and liabilities.

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Accounts Receivable Securitizations. As part of the credit card securitizations, the Company transfers credit card receivable balances to a Trust in exchange for certificates representing undivided interests in such receivables. The Trust securitizes balances by issuing certificates representing undivided interests in the Trust s receivables to outside investors. In each securitization the Company retains certain subordinated interests that serve as a credit enhancement to outside investors and expose the Trust assets to possible credit losses on receivables sold to outside investors. The investors and the Trust have no recourse against the Company beyond Trust assets. In order to maintain the committed level of securitized assets, the Trust reinvests cash collections on securitized accounts in additional balances. Interest paid to outside investors is recorded in interest expense.

Results of Operations

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

	Three Months Ended		Nine Months Ended	
	November 1, 2003	November 2, 2002	November 1, 2003	November 2002
Net sales	100.0 %	100.0 %	100.0 %	100.
Cost of sales	68.0	66.4	67.9	65.
Gross profit	32.0	33.6	32.1	34.
Advertising, selling, administrative and general expenses	29.3	30.1	29.0	28.
Depreciation and amortization	4.2	4.3	4.2	4.
Rentals	0.9	0.8	0.8	0.
Interest and debt expense	2.1	2.3	2.6	2.
Asset impairment and store closing charges	0.1	-	0.3	
Total operating expenses	36.6	37.5	36.9	36.
Service charges, interest and other income	3.2	3.5	3.6	3.
Income (loss) before income taxes	(1.4)	(0.4)	(1.2)	1.
Income taxes (benefit)	(0.5)	(0.1)	(0.4)	0.
Income (loss) before cumulative effect and of accounting change	(0.9)	(0.3)	(0.8)	1.
Cumulative effect of accounting change	-	-	-	(9.6
Net income (loss)	(0.9) %	(0.3) %	(0.8) %	(8.5

Net Sales

Net sales decreased 2% and 4% for the three and nine month periods ended November 1, 2003, respectively, compared to the three and nine month periods ended November 2, 2002. These decreases were primarily due to decreases in comparable store sales of 2% and 4% for the respective three and nine month periods ended November 1, 2003 compared to the same periods in 2002. Sales were strongest in cosmetics, accessories, shoes and lingerie and men s area during the third quarter of 2003, with those areas performing above the Company average trend of a 2% decline for the period. Sales in the women s and juniors categories were in line with the total Company sales performance. Sales were weakest in the home and children s areas, with sales in children s trending significantly below the average Company performance for the period. Net sales declined 5% for the twelve month period ended November 1, 2003 compared to the same period in 2002 as a result of comparable store sales declines.

Cost of Sales

Cost of sales, as a percent of net sales, increased to 68.0% for the quarter ended November 1, 2003 from 66.4% for the quarter ended November 2, 2002. The increase of 160 basis points in cost of sales for the three months ended November 1, 2003, is attributable to higher levels of promotional markdown activity as the Company experienced lower than expected consumer demand in the third quarter after entering the third quarter with comparable inventory position up 3% from 2002 levels. The higher level of markdown activity increased the cost of sales by 2.9% of sales. Improved levels of markups partially offset this promotional activity during the third quarter of 2003. The increased markup percentage was responsible for a decrease in cost of sales of 1.3% of sales. Inventory in comparable stores at November 1, 2003 was down 50 basis points in comparison to the inventory level at November 2, 2002.

Cost of sales, as a percentage of net sales, for the nine months ended November 1, 2003 and November 2, 2002 was 67.9% and 65.4%, respectively. The increase of 250 basis points in cost of sales for the nine months ended November 1, 2003, is attributable to higher levels of promotional markdown activity partially offset by increased markups. The higher level of markdown activity increased the cost of sales by 4.7% of sales. The increased markup percentage was responsible for a decrease in cost of sales of 2.2% of sales.

Advertising, Selling, Administrative and General Expenses

Advertising, Selling, Administrative and General (SG&A) expenses, as a percentage of net sales, decreased to 29.3% for the quarter ended November 1, 2003 compared to 30.1% for the quarter ended November 2, 2002. SG&A expenses declined $22.6 million for the quarter ended November 1, 2003 compared with the quarter ended November 2, 2002. The decrease was primarily driven by significant savings in payroll, advertising and bad debt expense. Payroll, advertising and bad debt expense declined $10.4 million, $7.2 million and $3.7 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 as well as a reduction in outstanding accounts receivable contributed to the lower bad debt expense.

The comparable relationship between SG&A expenses and net sales for the nine months ended November 1, 2003 and November 2, 2002, respectively, was 29.0% and 28.8%, with the increase due to a lack of sales leverage as SG&A expenses actually declined by $55.8 million in 2003 compared to the same nine month period in 2002. SG&A expenses for the nine months ended November 1, 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. The improvement in SG&A expenses was also driven by savings in payroll ($29.6 million) and advertising ($19.5 million) partially offset by an increase in bad debt expense ($5.8 million).

Depreciation and Amortization Expense

Depreciation and amortization expense, as a percentage of net sales, was 4.2% for the three month period ended November 1, 2003 compared to 4.3% for the similar period in 2002. Depreciation and amortization expense, as a percentage of net sales was 4.2% for the nine months ended November 1, 2003 and November 2, 2002, respectively. Depreciation expenses declined $2.7 million and $8.4 million for the three and nine months ended November 1, 2003 compared to the similar periods in 2002. The decrease was the result of lower capital expenditures in 2003.

Rentals

Rental expense, as a percentage of net sales, for the three, nine and twelve month periods ended November 1, 2003 was 0.9%, 0.8% and 0.9%, respectively, compared to 0.8%, 0.8% and 0.9% for the three, nine and twelve month periods ended November 2, 2002. The increase for the three months ended November 1, 2003 was due to a lack of sales leverage as rental expense for the three months actually declined slightly from the prior period in 2002.

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Interest and Debt Expense

Interest and debt expense was $37.3 million for the three month period ended November 1, 2003 compared with $42.5 million for the similar periods in 2002. Interest expense for the quarter ended November 1, 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**.** Included in interest expense for the quarter ended November 2, 2002 is a pretax gain of $1.7 million related to the early extinguishment of debt. The remainder of the decline in interest and debt expense in 2003 was due to the reduction in outstanding debt in 2003 compared to 2002.

Interest and debt expense, as a percent of net sales, was unchanged at 2.6% for the nine month period ended November 1, 2003 compared to the similar period in 2002. Interest and debt expense was $140.1 million for the nine month period ended November 1, 2003 compared with $143.3 million for the similar period in 2002. This reduction is partially due to the $4.1 million credit discussed above. A call premium of $15.6 million related to the early retirement of debt is included in interest expense for the nine months ended November 1, 2003 compared to a call premium of $11.6 million related to the early retirement of debt for the nine months ended November 2, 2002. Also, included in interest expenses for the nine months ended November 2, 2002 is a gain on the repurchase of debt of $4.8 million. The remainder of the decline in interest and debt expense in 2003 was due to the reduction in outstanding debt in 2003 compared to 2002.

The Company adopted the provisions of SFAS No. 145 as of February 2, 2003. For the three months ended November 2, 2002, as a result of adopting SFAS No. 145, the Company has reclassified $1.7 million to interest and debt expense from extraordinary gain and for the nine and twelve months ended November 2, 2002 the Company has reclassified $6.8 million and $5.6 million, respectively, to interest and debt expense from extraordinary loss.

The Company has reclassified $1.4 million and $3.8 million related to its receivable financing from other revenue to interest expense for the nine and twelve months ended November 2, 2002, respectively.

Asset Impairment and Store Closing Charges

During the quarter ended November 1, 2003, the Company recorded a write-off of a beneficial lease on one store in the amount of $1.7 million. During the nine months ended November 1, 2003, the Company recorded $18.8 million for asset impairment and store closing charges related to eight stores. The charge consists of property and equipment write-downs to fair value for these underperforming stores and further deterioration of the estimated market value of certain assets held for sale. For the nine months ended November 2, 2002, the Company recorded a net gain of $0.9 million for asset impairment and store closing charges. The Company recorded $7.1 million of asset impairment and store closing charges related to six stores and received 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.

Service Charges, Interest and Other Income

Service charges, interest and other income, as a percentage of net sales, was 3.2% and 3.6% for the three and nine months ended November 1, 2003 compared to 3.5% for the same three and nine month periods in 2002. Service charges, interest and other income for the three months ended November 1, 2003 decreased to $56.0 million from $63.4 million for the three months ended November 2, 2002. This decrease is due to a decrease in the average amount of outstanding trade accounts receivable of approximately $119 million during the third quarter of 2003 compared to 2002 and lower income from joint ventures of $3.8 million due to the sale of two mall joint ventures during the fourth quarter of 2002 and the first quarter of 2003.

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The decrease in 2003 was partially offset by a charge of $2.2 million in the third quarter of 2002 related to the amortization of the beneficial interests originally recognized on off-balance-sheet financing. Service charges, interest and other income for the nine months ended November 1, 2003 decreased to $192.2 million from $194.5 million for the nine months ended November 2, 2002. This decrease is due to lower average accounts receivable balances and lower income from joint ventures discussed above partially offset by the inclusion of a gain of $15.6 million relating the sale of the Company s interest in Sunrise Mall and its associated center in Brownsville, Texas during the first quarter of 2003.

Income Taxes

The actual federal and state income tax rates for the three and nine month periods ended November 1, 2003 and November 2, 2002 was 36%.

Accounting Change

For the nine months ended November 2, 2002, the Company recorded a non-cash charge of $530 million for the write-off of goodwill in accordance with the adoption of SFAS No. 142, Goodwill and Other Intangible Assets . The Company tested its goodwill for impairment using the two-step process prescribed in SFAS No. 142. The fair value of the Company s reporting units was estimated using the expected discounted future cash flows and market values of related businesses, where appropriate. 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. In accordance with SFAS No.142, the Company restated its results for the first quarter ended May 4, 2002 to reflect the resulting $530 million non-cash goodwill impairment charge as a cumulative effect of a change in accounting principle.

Financial Condition

Cash provided by operating activities totaled $253.3 million and $54.3 million for the nine months ended November 1, 2003 and November 2, 2002, respectively. The increase in cash provided by operating activities is due primarily to a $187.8 million increase in accounts payable from year end levels compared to the increase in accounts payable from prior year end levels and a $79.0 million decrease in accounts receivable from year end levels compared to the decrease in accounts receivable from prior year end levels, partially offset by lower income before accounting change in 2003.

The Company invested $171.8 million in capital expenditures for the nine months ended November 1, 2003 compared to $193.5 million for the nine months ended November 2, 2002. These expenditures consist primarily of the construction of new stores, remodeling of existing stores and investments in technology.

During the nine months ended November 1, 2003, the Company opened its newly constructed 220,000 square foot location at Great Northern Mall in North Olmstead, Ohio, near Cleveland; its 126,000 square foot store at NorthPark Mall in Davenport, Iowa; its 200,000 square foot store at Stony Point Fashion Park in Richmond, Virginia; its 200,000 square foot store at Short Pump Town Center in Richmond, Virginia and its 250,000 square foot store in Memorial City Mall in Houston, Texas. The Memorial City Mall store replaced the 223,000 square foot store at Town and Country Mall. The Company closed seven store locations totaling 1,158,000 square feet during the nine months ended November 1, 2003.

The Company expects to open seven stores in fiscal 2004. Future capital requirements will depend primarily on the number of new stores opened, the number of existing stores remodeled and the timing of these expenditures. Projected capital expenditures are approximately $240 million, to be used primarily to fund new store openings, the remodeling of existing stores and technology investments. Historically, the Company has financed such capital expenditures with cash flow from operations. The Company believes that it will continue to finance capital expenditures in this manner during fiscal 2004.

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During the nine months ended November 1, 2003, the Company sold its interest in Sunrise Mall and its associated center in Brownsville, Texas and received net cash proceeds of $34.6 million from the sale. The purchaser also assumed $40 million in debt related to the sale.

Cash used in financing activities totaled $148.0 million for the nine months ended November 1, 2003 compared with cash provided by financing activities of $89.5 million for the nine months ended November 2, 2002. The Company borrowed $20.5 million and $285.0 million through its accounts receivable conduit facilities as short-term seasonal borrowings during the nine months ended November 1, 2003 and November 2, 2002, respectively. During the nine months ended November 2, 2002, the Company issued $40.0 million of variable rate mortgage notes due 2004 and borrowed an additional $100.0 million in long-term accounts receivable securitizations. During the nine months ended November 1, 2003 and November 2, 2002, the Company reduced its level of outstanding debt by $139.6 million and $331.4 million, respectively.

On Monday, November 3, 2003, the Company retired the remaining $130.0 million 6.13% notes maturing Saturday, November 1, 2003.

During the nine months ended November 1, 2003, the Company repurchased approximately 1.5 million shares of Class A common stock for $19.1 million under its existing $200 million share repurchase authorization. Approximately $56 million in share repurchase authorization remained under this open-ended plan at November 1, 2003.

Management of the Company anticipates that it will be necessary to incur additional short-term borrowings during periods of peak working capital demand in the fourth quarter of 2003. Although the Company has an unused committed line of credit in the amount of $400 million, management expects to accomplish these borrowings principally through its accounts receivable conduit facilities. At November 1, 2003, letters of credit totaling $72.5 million were issued under this $400 million line of credit facility. Accounts receivable conduit facilities totaling $500 million were available to the Company with $20.5 million utilized at November 1, 2003 leaving available short-term borrowings under these conduit facilities of $479.5 million. Management expects its accounts receivable conduit facilities to be adequate to meet peak borrowing demand. This peak demand is expected to be less than $400 million, compared to the peak of $465 million during the fall season of 2002. Other than peak working capital requirements, management believes that cash generated from operations will be sufficient to cover its reasonably foreseeable working capital, capital expenditure, stock repurchase and debt service requirements. Depending on conditions in the capital markets and other factors, the Company will from time to time consider the issuance of debt or other securities, or other possible capital market transactions, the proceeds of which could be used to refinance current indebtedness or other corporate purposes.

On December 12, 2003, the Company amended and extended its revolving credit agreement (credit agreement) to increase the amount available under this facility from $400 million to $1 billion ($835 million of the facility is available immediately, with an additional $165 million becoming available immediately upon the Preferred Security redemption discussed below). Borrowings under the credit agreement accrue interest at JPMorgan s Base Rate or LIBOR plus 1.50% (currently 2.67%) 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 $1.3 billion at November 29, 2003). 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 has entered into an agreement to redeem the $331.6 million liquidation amount of Preferred Securities of Horatio Finance V.O.F., a wholly owned subsidary of the Company, effective February 2, 2004. This agreement is subject to certain contingencies. The Company anticipates that redemption will occur on February 2, 2004.

The credit agreement as well as other financing sources will provide the Company with ample liquidity to redeem the Preferred Securities.

Except as noted above, there have been no material changes in the information set forth under caption Contractual Obligations and Commercial Commitments in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the fiscal year ended February 1, 2003 except for reductions of contractual commitments for debt due to the early payoffs during the nine months ended November 1, 2003.

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

New Accounting Standards

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS No. 150). This statement establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The statement will be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the period of adoption. The Company does not expect SFAS 150 to have a material impact on the Company s financial position or results of operations.

FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of APB No. 50 (FIN 46) was issued in January 2003. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company does not currently participate in any variable interest entities.

Forward-Looking Information

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, critical accounting policies and estimates, financing requirements and other similar forecasts and statements of expectation. Words such as may , expects, anticipates, plans and believes, and variations of these words and similar expressions, are intended to identify these 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, the Company s annual report on Form 10-K, or made by management 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; 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 3. Quantitative and Qualitative Disclosure About Market Risk

During the nine months ended November 1, 2003, the Company repurchased $6.0 million of its outstanding unsecured notes prior to their related maturity dates. During the nine months ended November 1, 2003, the Company also retired $125.9 million of its 6.39% Reset Put Securities (REPS) due August 1, 2013 prior to their maturity dates. Interest rates on the repurchased securities ranged from 6.39% to 6.88%. Maturity dates ranged from 2004 to 2013.

On December 12, 2003, the Company amended and extended its revolving credit agreement (credit agreement) to increase the amount available under this facility from $400 million to $1 billion ($835 million of the facility is available immediately, with an additional $165 million becoming available immediately upon the Preferred Security redemption discussed below). Borrowings under the credit agreement accrue interest at JPMorgan s Base Rate or LIBOR plus 1.50% (currently 2.67%) 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 $1.3 billion at November 29, 2003). 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 has entered into an agreement to redeem the $331.6 million liquidation amount of Preferred Securities of Horatio Finance V.O.F., a wholly owned subsidary of the Company, effective February 2, 2004. This agreement is subject to certain contingencies. The Company anticipates that redemption will occur on February 2, 2004. The credit agreement as well as other financing sources will provide the Company with ample liquidity to redeem the Preferred Securities.

Except as disclosed above, there have been no material changes in the information set forth under caption Item 7A-Quantitative and Qualitative Disclosures About Market Risk in the Company s Annual Report on Form 10-K for the fiscal year ended February 1, 2003.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures , as such term is defined in Rules 13a-14 and 15d-14 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

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regarding the required disclosures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of November 1, 2003, 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 quarter ended November 1, 2003 to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

Ratio of Earnings to Fixed Charges:

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

Nine Months Ended		Fiscal Year Ended				
November 1, 2003	November 2, 2002	February 1, 2003	February 2, 2002	February 3, 2001*	January 29, 2000	Jan
0.57	1.57	1.94	1.52	1.91	2.00	

* 53 week year.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Number	Description
10**	Amended and Restated Credit Agreement dated December 12, 2003
12	Statement re: Computation of Earnings to Fixed Charges
31(a)	Certification of Chief Executive Officer Pursuant to Securities Exchange Act R 240.13a-14(a) or Rule 15d-14(a) (17 CFR 240.15d-14(a))
31(b)	Certification of Chief Financial Officer Pursuant to Securities Exchange Act R 240.13a-14(a) or Rule 15d-14(a) (17 CFR 240.15d-14(a))
32(a)	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-O (18 U.S.C. 1350).
32(b)	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-O (18 U.S.C. 1350).

** - As Corrected

(b) Reports on Form 8-K filed during the third quarter:

A current report on Form 8-K dated August 25, 2003 was filed with the Securities and Exchange C 25, 2003 to report, under Item 5, that the registrant issued a press release (attached as Exhibit

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly ca be signed on its behalf by the undersigned thereunto duly authorized.

DILLARD'S, INC.
(Registrant)

DATE: December 16, 2003 /s/James I. Freeman

James I. Freeman
Senior Vice President & Chief Finan
(Principal Financial & Accounting O

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