

DILLARDS INC  
Form DEF 14A  
April 10, 2003

DILLARD'S, INC.  
PROXY STATEMENT

DILLARD'S, INC.  
POST OFFICE BOX 486  
LITTLE ROCK, ARKANSAS 72203

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 17, 2003

PROXY STATEMENT

DILLARD'S, INC.  
POST OFFICE BOX 486  
LITTLE ROCK, ARKANSAS 72203

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

Notice is hereby given that the annual meeting of Stockholders of Dillard's, Inc., auditorium of Dillard's Corporate Office, 1600 Cantrell Road, Little Rock, Arkansas on Saturday 9:30 a.m. for the following purposes:

1. To elect 12 Directors of the Company (four Directors to represent Class A Stockholders and eight Directors to represent Class B Stockholders).
2. To consider and act upon proposals by certain Stockholders.
3. To transact such other business as may properly come before the meeting or adjournments thereof.

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The stock transfer books of the Company will not be closed, but only stockholders of business on March 31, 2003, will be entitled to notice of, and to vote at, the meeting.

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

By Order of the

Secretary  
Chief

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DILLARD'S, INC.  
POST OFFICE BOX 486  
LITTLE ROCK, ARKANSAS 72203  
Telephone (501) 376-5200

April 8, 2003

**PROXY STATEMENT**

The enclosed Proxy is solicited by and on behalf of the management of Dillard's, Inc. (a Delaware corporation), for use at the annual meeting of stockholders to be held on Saturday, May 17, 2003, at 10 a.m. at the Dillard's Corporate Office, 1600 Cantrell Road, Little Rock, Arkansas, or at any adjournments thereof.

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

If matters of business other than those described in the Proxy properly come before the meeting, the persons named in the Proxy will vote in accordance with their best judgment on such matters. The Proxy solicited herein shall not confer any authority to vote at any meeting of stockholders other than the meeting to be held on May 17, 2003, or any adjournment or adjournments thereof.

The cost of soliciting Proxies will be borne by the Company. The Company will reimburse the stockholders, custodians, nominees and other fiduciaries for their charges and expenses in forwarding proxies to the beneficial owners of shares. In addition to solicitation by mail, certain officers and employees of the Company may solicit Proxies by telephone, telegraph and personally. These persons will receive no compensation in addition to their regular salaries. The Company has retained D.F. King & Co., Inc., a professional proxy solicitor, to assist in the solicitation of proxies. The fees of such firm are not expected to exceed \$7,000.

**OUTSTANDING STOCK; VOTING RIGHTS;  
VOTE REQUIRED FOR APPROVAL**

The stock transfer books of the Company will not be closed, but only stockholders of business on March 31, 2003, will be entitled to notice of, and to vote at, the meeting. As of March 31, 2003, there were 80,747,732 shares of Class A Common Stock outstanding and 4,010,929 shares of Class B Common Stock outstanding.

Each holder of Class A Common Stock and each holder of Class B Common Stock shall be entitled to one vote for each share of common stock held.

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on the matters presented at the meeting for each share standing in his name except that the Common Stock are empowered as a class to elect one-third of the Directors and the holders of C are empowered as a class to elect two-thirds of the Directors. Stockholders will not be al greater number of nominees than those named in this proxy statement. Nominees for director of elected, must receive a plurality of the votes cast within that class. Cumulative voting for permitted. Approval of the Stockholder proposals requires the affirmative vote of the holde the shares of Common Stock represented at the meeting and entitled to vote. Under Delaware Gene if shares are held by a broker that has indicated that it does not have discretionary auth

respect to that matter, but such shares will be counted with respect to determining whether a Abstentions will not be counted as votes cast for election of directors and with respect proposals, abstentions will have the effect of a vote against such proposals.

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

### PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth certain information regarding persons who beneficially (5%) or more of a class of the Company's outstanding voting securities at the close of busi 2003.

Name and Address	Class	No. of Shares Owned
Dillard's, Inc. Retirement Trust 1600 Cantrell Road Little Rock, AR 72201	Class A	10,646,883(2)
Dodge & Cox One Sansome St. 35th Floor San Francisco, CA 94014	Class A	8,633,305(2)
Flippin, Bruce & Porter, Inc. 800 Main Street, Suite 200 Lynchburg, VA 24505	Class A	3,659,293(2)
W.D. Company (3) Little Rock, Arkansas	Class A Class B	41,496 3,985,776
Wellington Management Company, LLP 75 State Street Boston, MA 02109	Class A	8,111,570(2)

\* Denotes less than 0.1%

- (1) At February 1, 2003 there were a total of 80,746,732 shares of the Company's Class 4,010,929 shares of the Company's Class B Common Stock outstanding.
- (2) Based on information contained in a Schedule 13G filed with the Securities and Exchange
- (3) William Dillard II, Chief Executive Officer of the Company, Alex Dillard, President, Executive Vice President, are officers and directors of W.D. Company, Inc. and ow

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26.3%, respectively, of the outstanding voting stock of W.D. Company, Inc.

### ELECTION OF DIRECTORS

Four Directors representing Class A Stockholders and eight Directors representing Class B Stockholders are to be elected by the Class A Stockholders and the Class B Stockholders, respectively, at a meeting to be held on or about May 1, 2003, for a term of one year and until the election and qualification of their successors. The Proxy Statement will be voted "FOR" the election as Directors of the 12 persons hereinafter identified under the heading "Election as Directors" if not specified otherwise. Management does not know of any nominee who will not serve, but should any nominee be unable or decline to serve, the discretionary authority granted to the Board will be exercised to vote for a substitute or substitutes. Management has no reason to believe that any substitute nominee will be required.

In 1998, the Company adopted a resolution amending its by-laws to provide that nominees for Class A stockholders shall be of independent persons only. For these purposes, independent persons are those who: has not been employed by the Company or an affiliate in any executive capacity within the last two years; was not, and is not a member of a corporation or firm that is one of the Company's paid advisors; is not employed by a significant customer, supplier or provider of professional services; has not entered into a contract with the Company; is not employed by a foundation or university that receives significant contributions or endowments from the Company; is not a relative of the management of the Company; is not a signatory to any signed shareholder agreements legally binding him to vote with management; and is not the chairman of the Board which Dillard's, Inc. Chief Executive Officer is also a board member.

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

**THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE ELECTION AS DIRECTORS OF THE 12 PERSONS IDENTIFIED.**

### NOMINEES FOR ELECTION AS DIRECTORS

The following table briefly indicates the principal occupation of each nominee, the number of shares of Class A and Class B Common Stock of the Company beneficially owned by each nominee as of March 31, 2003, and the year each nominee first was elected as a Director. The table also indicates the approximate number of shares of Class A and Class B Common Stock of the Company beneficially owned by the executive officers and directors. "Compensation of Directors and Executive Officers" and the number of shares beneficially owned by the executive officers and directors, as a group, as of March 31, 2003.

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Director Since</u>	Shares of Common Stock Owned as of <u>3/31/03</u>
Robert C. Connor (a)	61	Investments	1987	Class A Class B
Drue Corbusier (b)	56	Executive Vice President of the Company	1994	Class A Class B
Will D. Davis (a)	73	Partner, Heath, Davis & McCalla, Attorneys,	1972	Class A Class B

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Austin, TX

Alex Dillard (b) (5)	53	President of the Company	1975	Class A Class B	1, 3,
Mike Dillard (b) (5)	51	Executive Vice President of the Company	1976	Class A Class B	1, 3,
William Dillard II (b) (5)	58	Chief Executive Officer of the Company	1967	Class A Class B	2, 3,
James I. Freeman (b)	53	Senior Vice President and Chief Financial Officer of the Company	1991	Class A Class B	
John Paul Hammerschmidt (a)	80	Retired Member of Congress	1992	Class A Class B	
Bob L. Martin (a)	54	Business Consultant and Retired Chief Executive Officer of Wal-Mart International	-	Class A Class B	
Warren A. Stephens (b)	46	President and Chief Executive Officer, Stephens Group and Stephens, Inc., Little Rock, AR	2002	Class A Class B	
William H. Sutton (b)	72	Managing Partner, Friday, Eldredge & Clark, Attorneys, Little Rock, AR	1994	Class A Class B	
J. C. Watts	45	Former Member of Congress & Chairman of the J.C. Watts Companies	2003	Class A Class B	
All Nominees and Executive Officers as a Group (a total of 21 persons)				Class A Class B	8, 3,

(a) Class A Director

(b) Class B Director

\*Denotes less than 0.1%

(1) Based on information furnished by the respective individuals.

(2) Includes nine shares owned by his wife. Robert C. Connor owns 13,732 shares of Class A and has the right to acquire beneficial ownership of 18,268 shares pursuant to currently outstanding options granted under Company stock option plans.

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- (3) Drue Corbusier owns 225,046 shares of Class A Common Stock and has the right to ownership of 601,293 shares pursuant to currently exercisable options granted under option plans.
- (4) Will D. Davis owns 13,440 shares of Class A Common Stock and has the right to ownership of 21,000 shares pursuant to currently exercisable options granted under option plans.
- (5) William Dillard II, Alex Dillard and Mike Dillard are directors and officers of W.D. Company, Inc. They own 27.4%, 27.9% and 26.3%, respectively, of the outstanding voting stock of such company.
- (6) Includes 41,496 shares of Class A Common Stock and 3,985,776 of Class B Common Stock of W.D. Company, Inc., in which shares William Dillard II, Alex Dillard and Mike Dillard have a beneficial interest due to their respective relationships with W.D. Company, Inc. as "Principal Holders of Voting Securities." William Dillard II individually owns 600 shares of Class A Common Stock and has the right to acquire beneficial ownership of 1,425,000 shares pursuant to currently exercisable options granted under Company stock option plans. Alex Dillard and Mike Dillard individually own 432,607 and 48,311 shares, respectively, of Class A Common Stock, and have the right to acquire beneficial ownership of 1,425,000 shares pursuant to currently exercisable options granted under Company stock option plans. Mike Dillard and his wife individually own 3,985,776 shares, respectively, of Class A Common Stock, he has sole voting power with respect to the shares held in trust for three minor children and has the right to acquire beneficial ownership of 1,425,000 shares pursuant to currently exercisable options granted under Company stock option plans.
- (7) James I. Freeman owns 162,257 shares of Class A Common Stock, has sole voting power with respect to 14,150 shares held in trust for three minor children and has the right to acquire beneficial ownership of 618,339 shares pursuant to currently exercisable options granted under option plans.
- (8) John Paul Hammerschmidt owns 5,097 shares of Class A Common Stock and has the right to ownership of 18,903 shares pursuant to currently exercisable options granted under option plans.
- (9) Warren A. Stephens owns 1,000 shares of Class A Common Stock and has the right to ownership of 5,000 shares pursuant to currently exercisable options granted under option plans.
- (10) William H. Sutton owns 12,000 shares of Class A Common Stock and has the right to ownership of 21,000 shares pursuant to currently exercisable options granted under option plans.
- (11) The shares in which William Dillard II, Alex Dillard and Mike Dillard are deemed to have a beneficial interest due to their respective relationships with W.D. Company, Inc. have been included in the computation only once and were not aggregated for such purpose.
- (12) Includes the right to acquire beneficial ownership of 6,242,735 shares pursuant to currently exercisable options granted under Company stock option plans.

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

<u>Name</u>	<u>Director of</u>
William Dillard, II	Acxiom Corporation and Barnes & Noble, Inc.
John Paul Hammerschmidt	First Federal Bank of Arkansas and Southwestern Energy Services, Inc.
Bob L. Martin	Edgewater Technologies, Inc., Furniture Brands International, Inc., The Gap, Inc. and Sabre Holdings Corporation.

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Warren A. Stephens

Alltel Corporation, American Capital Access Holdings Group, Inc., Stephens Holding Company and Stephens Terex Corporation

J.C. Watts

The business associations of the nominees as shown in the table under "Nominees for Election" have been continued for more than five years, except that prior to 1998 Drue Corbusier was Vice President of the Company, Alex Dillard was Executive Vice President of the Company and William Dillard II was Operating Officer of the Company. Mr. Martin retired from Wal-Mart International in 1999. Mr. Martin served in Congress in 2003. Each nominee for Director was elected to the Board of Directors at the annual meeting of the stockholders held May 18, 2002, except for Bob L. Martin and J.C. Watts.

The Board of Directors met four times during the Company's last fiscal year, on March 2, 2002, and November 16, 2002.

Audit Committee members are Calvin N. Clyde, Jr., Robert C. Connor, Chairman; and John H. Hammerschmidt. The Audit Committee held four meetings during the year.

The Executive Compensation Committee members are Robert C. Connor; Will D. Davis, Chairman; and John H. Hammerschmidt. The Executive Compensation Committee held two meetings during the year.

The Stock Option Committee members are Robert C. Connor; Will D. Davis, Chairman; and John H. Hammerschmidt. The Stock Option Committee held three meetings during the year.

All of the nominees for director attended at least 75% of the aggregate of (1) the total number of meetings of the Board of Directors and (2) the total number of meetings held by all committees of the Company in which they served.

### COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

#### Cash and Other Compensation

The following table sets forth, for the fiscal years indicated, the cash and other compensation paid to the Chief Executive Officer and each of the four most highly compensated executive officers (the "named executive officers") of the Company in all capacities in which they served during the year.

**Summary Compensation Table**

(a) Name and Principal Position	(b) Year	(c) Annual Compensation			(e) Other Annual Compensation (\$)	(f) Awards	
		(c) Salary (\$)	(d) Bonus (\$)	(e) Restricted Stock Award(s) (\$)		(f) Securities Underlying SARs	
William Dillard II Chief Executive Officer	2002	\$710,000	\$1,375,000	--	--		

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	2001	710,000	0	--	--
	2000	710,000	0	--	--
Alex Dillard President	2002	620,000	1,375,000	--	--
	2001	620,000	0	--	--
	2000	620,000	0	--	--
Mike Dillard Executive Vice President	2002	540,000	645,000	--	--
	2001	540,000	0	--	--
	2000	540,000	0	--	--
Drue Corbusier Executive Vice President	2002	500,000	645,000	--	--
	2001	500,000	0	--	--
	2000	500,000	0	--	--
James I. Freeman Senior Vice President and Chief Financial Officer	2002	500,000	555,000	--	--
	2001	500,000	0	--	--
	2000	500,000	0	--	--

(1) Amounts represent the Company's defined contributions for the benefit of the named executive officers pursuant to its Retirement Plans.

**Stock Option Grants**

The following table sets forth information concerning stock options granted under the Option Plan to the named executive officers:

**Option/SAR Grants in Last Fiscal Year**

Individual Grants					
(a)	(b)	(c)	(d)	(e)	
Name	Number of Securities Underlying Options/SARs Granted (#) (1)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date	
William Dillard II	300,000	13.0%	\$24.01	5/14/2009	\$2



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Alex Dillard	300,000	13.0	24.01	5/14/2009	2
Mike Dillard	150,000	6.5	24.01	5/14/2009	1
Drue Corbusier	150,000	6.5	24.01	5/14/2009	1
James I. Freeman	150,000	6.5	24.01	5/14/2009	1

(1) If payment for shares upon exercise of any of these options is made with shares of the Company owned by the optionee, the optionee shall be granted on that date an option ("Reload Option") for a number of shares equal to the number of shares tendered to the Company. The exercise price of the Reload Option shall be the market price of the Company's common stock on the Reload Option expiration date of the Reload Option shall be the same as that of the original option.

**Stock Option Exercises and Holdings**

The following table sets forth information concerning stock options exercised during the fiscal year and stock options held as of the end of the last fiscal year by the named executive officers.

**AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES**

(a)	(b)	(c)	(d)	
Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Exercisable	Number of Securities Unexercised Option SARs at FY-End (#)
			Unexercisable	
William Dillard II	150,000	\$411,000	1,425,000	0
Alex Dillard	150,000	411,000	1,425,000	0
Mike Dillard	150,000	411,000	910,000	0
Drue Corbusier	410,000	3,064,017	601,293	0
James I. Freeman	363,135	2,021,850	618,339	0

(1) Represents the amount by which the market price at fiscal year end of the shares underlying the options exceeds the exercise price for such shares.

**Pension Plan**

The following table shows the estimated annual benefits payable pursuant to the Company's pension plan for persons in specified compensation and years of service categories upon retirement.

Compensation	Pension Plan Table			
	Years of Service			
	15	20	25	30
\$500,000	\$92,925	\$123,900	\$154,875	\$185,850
750,000	149,175	198,900	248,625	298,350
1,000,000	205,425	273,900	342,375	410,850
1,250,000	261,675	348,900	436,125	523,350
1,500,000	317,925	498,900	623,625	748,350
2,000,000	430,425	573,900	717,375	860,850
2,250,000	486,675	648,900	811,125	973,350
2,500,000	542,925	723,900	904,875	1,085,850

A participant's compensation covered by the Company's pension plan is his average (as reported in the Summary Compensation Table) for the highest three years of his employment with credited years of service for each of the named executive officers is as follows: William D. Dillard, 31 years; Mike Dillard, 31 years; Drue Corbusier, 34 years; and James I. Freeman, 31 years. The amounts shown are computed as a single life annuity with five years term certain beginning at age 65 and do not include a deduction for social security or other offset amounts.

**Compensation of Directors**

Directors who are not officers of the Company each receive an annual retainer of \$20,000 in the form of shares of Class A Common Stock. In addition, committee chairmen receive an annual retainer of \$20,000. Directors who are not officers also receive \$1,500 for attendance at each board meeting, \$1,000 for each committee meeting, and actual travel expenses.

**Report of Executive Compensation and Stock Option Committees**

The following report addressing the Company's compensation policies for executive officers is included in the proxy statement submitted by the Executive Compensation and Stock Option Committees (the "Compensation Committees") to the Company's stockholders.

**General**

The Compensation Committee, which is composed of independent directors who are not employees of the Company, establishes policies relating to the compensation of employees and oversees the administration of the Company's employee benefit plans. The compensation program of the Company has been designed (1) to provide competitive opportunities that are equivalent to those offered by comparable companies, thereby allowing the Company to attract, hire and retain talented executives who are critical to the Company's long-term success, (2) to reward executives by rewarding them for attainment of profitability of the Company, and (3) to align the interests of executives with the long-term interests of stockholders by awarding stock options to executives. The compensation provided to them.

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In order to develop a competitive compensation package for the executive officers of the Company, the Compensation Committee compares the Company's compensation package with those of a comparison group. The comparison group is composed of department stores, specialty stores and other public companies that were family-owned or were family-managed. Not all of the companies in the comparison group are included in the Supercomposite Department Stores Index. The Compensation Committee believes that the companies in the comparison group are comparable to the Company in management style and management culture. Although the Compensation Committee has made these comparisons, it also has taken into account that as the Company's number of senior executives has not grown proportionately, so that the number of senior executives of the Company is lower than the number of senior executives at other companies of similar size.

Currently, the Company's compensation program consists of salary, annual cash performance bonus, and long-term incentive opportunities in the form of stock options. The program is focused both on short-term and long-term performance of the Company, rewarding achievement of profitability and growth in stockholder value.

**Salary** -- Each year the Compensation Committee establishes the salary for all executive officers. Salaries are set at the discretion of the Compensation Committee and are not specifically related to any performance criteria, as are both the cash performance bonus and stock option portions of the compensation program discussed below. The Compensation Committee does, however, base any increase in salary on a regression analysis of salaries paid versus total revenues for the comparison group. For fiscal 2002, the salaries set by the Compensation Committee were below the target salaries produced by this analysis.

**Cash Performance Bonus** -- Cash performance bonuses may be paid annually to senior management. If a bonus is paid, however, the Company must have income before federal and state income taxes ("pre-tax income") for the year. The Compensation Committee, within ninety (90) days after the start of a fiscal year, identifies the individuals in senior management eligible to receive a cash performance bonus. Bonuses are paid out of a fiscal year from a bonus pool, which is equal to one and one-half percent (1-1/2%) of the pre-tax income plus three and one-half (3-1/2%) of the increase in pre-tax income over the prior fiscal year. The Compensation Committee designates the individuals eligible to participate in the cash performance bonus and also designates the percent of the bonus pool each individual will be entitled to receive. The Compensation Committee retains at all times the authority to adjust downward the amount of bonus any individual receives pursuant to the above-described formula. For fiscal 2002, the Company experienced a pre-tax income of \$99,530,000 and an increase in pre-tax income of \$99,530,000.

The Compensation Committee decided to adjust downward by approximately \$2,055,052 the amount of bonus that named executive officers would receive for fiscal 2002.

**Stock Options** -- Stock option grants under the Company's 2000 Incentive and Non-Qualified Stock Option Plan are utilized by the Company for long-term incentive compensation for executive officers. These options relate their compensation directly to the performance of the Company's stock. The exercise price of a grant is one hundred percent (100%) of the fair market value of the shares underlying such option at the time of grant and have value to the executive officers only if the Company's stock price increases. The options are exercisable on or after May 14, 2002. When making option grants, the Stock Option Committee does not consider the number of options already held by an executive officer.

As discussed in previous Compensation Committee Reports, the Omnibus Budget Reconciliation Act of 1986 prohibits public corporations from deducting as a business expense that portion of compensation exceeding \$500,000 for a named executive officer in the Summary Compensation Table. This deduction limit applies to "performance-based compensation." The Compensation Committee believes that the necessary steps to ensure that the cash performance bonus portions of the Company's compensation program qualify as performance-based compensation are being taken.

**Chief Executive Officer**

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In setting the Chief Executive Officer's compensation, the Compensation Committee makes the same regard to salary, cash performance bonus and stock options as discussed above for the other officers. For fiscal 2002, the increase in the Chief Executive Officer's salary over the resulted in a salary lower than the target salary produced by the regression analysis discussed a

Robert C. Connor  
John Paul Hammerschmidt  
Will D. Davis, Chairman

### Company Performance

The graph below compares for each of the last five fiscal years the cumulative total return Class A Common Stock, the Standard & Poor's 500 Index and the Standard & Poor's Supercomposite Index. The cumulative total return on the Company's Class A Common Stock assumes \$100 invested February 1, 1998 and assumes reinvestment of dividends.

Dillard's, Inc.  
Proxy Graph Data Points

	Base	1998	1999	2000	2001
Dillard's, Inc.	100	70.91	55.35	44.7	35.78
S&P 500	100	132.59	142.74	139.78	117.15
S&P Supercomposite Dept. Strs	100	101.86	74.94	94.57	101.16

### CERTAIN RELATIONSHIPS AND TRANSACTIONS

William Dillard II, Drue Corbusier, Alex Dillard and Mike Dillard are siblings.

Mr. William H. Sutton is Managing Partner of the law firm Friday, Eldredge & Clark, which Company for legal services.

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and persons who own more than 10% of the Company's Class A Common Stock, to file with the Securities Commission and the New York Stock Exchange initial reports of ownership and reports of changes in stock of the Company.

To the Company's knowledge, based solely on a review of copies of reports provided by such Company and written representations of such individuals that no other reports were required, during the period ended February 1, 2003, all Section 16(a) filing requirements applicable to its officers, directors and more than 10% beneficial owners were complied with.

### AUDIT COMMITTEE REPORT

The Audit Committee operates under a written charter adopted by the Board of Directors. Each member of the Audit Committee is independent as defined under the listing standards of the New York Stock Exchange.

The Audit Committee has reviewed and discussed the audited financial statements for the period ended February 1, 2003 with management and the independent auditors, Deloitte & Touche LLP. Management advised the Audit Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The discussions with Deloitte & Touche LLP included the matters required by Statement of Financial Accounting Standards No. 61, as amended (Communications with Audit Committees). Deloitte & Touche LLP provided the Audit Committee the written disclosures and the letter regarding its independence as required by Independence Board Standard No. 1 (Independence Discussions with Audit Committees). The Audit Committee also

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whether the provision of non-audit services by Deloitte & Touche LLP is compatible with maintaining independence.

Based upon the reviews and discussions noted above, the Audit Committee recommended to the Directors that the audited consolidated financial statements be included in the Company's Annual 10-K to be filed with the Securities and Exchange Commission for the year ended February 1, 2003.

Robert C. Connor  
Calvin N. Clyde  
John H. Johnson

### INDEPENDENT PUBLIC ACCOUNTANTS

A representative of Deloitte & Touche LLP, the Company's independent public accountant for fiscal year 2002 and the current year, will be present at the meeting, will have the opportunity to make a statement, and also will be available to respond to appropriate questions.

#### Audit Fees

Deloitte & Touche LLP billed the Company a total of \$567,106 for professional services for the audit of the Company's annual financial statements for the year ended February 1, 2003, and for a review of the financial statements included in the Company's quarterly reports on Form 10-Q for the year ended February 1, 2003.

#### Financial Systems Design and Implementation Fees

No fees were paid to Deloitte & Touche LLP for any information technology services described in Rule 2-01(c)(4)(ii)(B) of Regulation S-X during 2002.

#### All Other Fees

The Company paid Deloitte & Touche LLP an aggregate of \$1,202,157 for all services provided by Deloitte & Touche LLP other than the audit and financial systems design and implementation described above.

The Audit Committee of the Board of Directors has considered whether the provision of services described above under "Financial Systems Design and Implementation Fees" and "All Other Fees" is compatible with maintaining the independence of Deloitte & Touche LLP.

### STOCKHOLDER PROPOSAL CONCERNING GLOBAL HUMAN RIGHTS STANDARDS

The New York City Pension Funds, 1 Centre Street, New York, NY 10007, owner of 295,482 shares of Common Stock, Christian Brothers Investment Services, Inc., 90 Park Avenue, 29th Floor, New York, NY 10017, owner of 48,500 shares of Class A Common Stock and Aaron Merle Epstein, 13455 Ventura Boulevard, Sherman Oaks, CA 91423, owner of 185 shares of Class A Common Stock have indicated that they intend to propose the following resolution for action at the meeting:

"Whereas, Dillard's, Inc. currently has extensive overseas operations, and

Whereas, reports of human rights abuses in the overseas subsidiaries and suppliers of some U.S.-based corporations has led to an increased public awareness of the problem of "sweatshop" conditions, and the denial of labor rights in U.S. corporate overseas operations;

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Whereas, corporate violations of human rights in these overseas operations can lead to negative protests, and a loss of consumer confidence which can have a negative impact on shareholder value, and

Whereas, a number of corporations have implemented independent monitoring programs with respect to religious organizations to strengthen compliance with international human rights norms and supplier factories, and

Whereas, these standards incorporate the conventions of the United Nations' International Labor Organization on workplace human rights which include the following principles:

- 1) All workers have the right to form and join trade unions and to bargain collectively. (ILO Conventions 87 and 98)
- 2) Workers representatives shall not be the subject of discrimination and shall have the right to organize independent workplaces necessary to enable them to carry out their representation functions. (ILO Convention 151)
- 3) There shall be no discrimination or intimidation in employment. Equality of opportunity shall be provided regardless of race, color, sex, religion, political opinion, age, national origin, or other distinguishing characteristics. (ILO Convention 100 and 111)
- 4) Employment shall be freely chosen. There shall be no use of force, including bonded or indentured labor. (ILO Conventions 29 and 105)
- 5) There shall be no use of child labor. (ILO Convention 138), and,

Whereas, independent monitoring of corporate adherence to these standards is essential to ensure that the company is in compliance with these standards if consumer and investor confidence in our company's commitment to human rights is to be maintained.

Therefore, be it resolved that shareholders request that the company commit itself to the highest ethical code of corporate conduct based on the aforementioned ILO human rights standards by its international operations and in its own international production facilities and commit to a program of outside, independent monitoring and compliance with these standards."

### **THE BOARD OF DIRECTORS FAVORS A VOTE AGAINST THE ADOPTION OF THIS PROPOSAL FOR THE FOLLOWING REASONS:**

The Company recognizes the importance, as both an ethical and a business responsibility, of providing assurances that the products it sells are manufactured in accordance with all applicable laws and regulations. The rights and welfare of workers around the world are respected.

The Company has always been committed to the highest ethical conduct and strict compliance with the law in all its business dealings, including its relationships with its many suppliers. The Company is deeply concerned about the issues raised in the Proposal and believes it has already adequately addressed such issues as described below.

Products sold at the Company's stores are supplied by independent suppliers who also supply other retail stores and chains. To a much lesser degree, the Company is also supplied by source agents and buying agents for the Company. The Company does not engage directly in manufacturing.

The Company has previously addressed the concerns raised in the Proposal by implementing the following policies and procedures:

The Company has developed a formal business policy (the "Policy") which focuses on the highest ethical conditions of, and legal compliance by, foreign vendors. The Policy was distributed to all of the Company's foreign vendors to restate and reemphasize the Company's longstanding philosophy that merchandise purchased by the Company will be manufactured with the use of legal labor. In addition, under the Policy the Company reserves the right not to contract with and to terminate contracts with vendors who violate basic human rights.

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In furtherance of the Policy, the Company's agreements with foreign buying agents (including its buying office) include prohibitions against illegal child labor and other forms of illegal manufacturing, shipping, customs and environmental practices. Under the contract, a buying agent must use its best efforts to ensure that each vendor is in full compliance with any current, applicable law of either the country of manufacture or the United States governing the use of child labor, and/or governing the importation into the United States of merchandise produced or manufactured as well as any other similar human rights statute, regulation or law. Buying agents must also implement policies and procedures which the Company implements to ensure that all such statutes, regulations and procedures are followed. If a buying agent discovers a violation of such prohibitions, the buying agent must immediately notify the Company of such violation(s) or evidence of violation(s), so that appropriate action can be taken to rectify such violation(s). Under these agreements, among other things, buying agents are required to periodically inspect factories to ensure compliance with these statutes. Additionally, Company employees personally inspect selected factories to verify compliance.

The Company's philosophy also appears in the Company's Purchase Order Terms, Conditions and Instructions, which is the Company's standard form of purchase order and which is applicable to all transactions between the Company and all of its suppliers. The document explicitly requires each supplier to warrant and represent that its merchandise is manufactured in compliance with applicable law, including later adopted, law of either the country of manufacture or the United States governing the use of child labor, prison labor, and/or governing the importation into the United States of merchandise. The document also prohibits child labor as well as any other similar human rights statute, regulation or law.

The Company has previously issued a press release announcing its business policy, which contains prohibitions against workplace abuse and also contains the steps taken by the Company to enforce the policy. Furthermore, the Company has furnished a copy of that policy to interested parties and will continue to so provide copies of that policy.

The Company believes that it has already addressed the concerns raised in the Proposed Resolution through its expenditure of valuable time and funds. As the above reflects, the Company is committed to ensuring that its suppliers treat their employees properly.

**FOR THE ABOVE REASONS, THE BOARD RECOMMENDS VOTING AGAINST THE PROPOSAL.**

### INDEXED OPTIONS PROPOSAL

The Trust for the International Brotherhood of Electrical Workers' Pension Benefit Fund, 1125 Fifteenth Street N.W., Washington, D.C. 20005 owner of 3,790 shares of Class A Common Stock have indicated they intend to propose the following resolution for action at the meeting:

"Resolved, that the shareholders of Dillard's (the "Company") request that the Board of Directors adopt an executive compensation policy that all future stock option grants to senior executives shall be performance-based. For the purposes of this resolution, a stock option is performance-based if the option exercise price is performance-based or linked to an industry peer group stock performance index so that the options have value only if the Company's stock price performance exceeds the peer group performance level."

**Statement of Support:** As long-term shareholders of the Company, we support executive compensation policies and practices that provide challenging performance objectives and serve to motivate executives to achieve corporate value maximization goals. It is our opinion that stock option grants can and do often provide a performance-based compensation well beyond those merited. It is also our view that stock option grants with performance-based targets often reward executives for stock price increases due solely to a general market rise, rather than to extraordinary company performance.

Indexed stock options are one type of option whose exercise price moves with an appropriate index composed of a company's primary competitors. The resolution requests that the Company's Board of Directors consider senior executive stock option plans link the options exercise price to an industry performance

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with a peer group of companies selected by the Board, such as those companies used in the statement to compare 5 year price performance.

Implementing an indexed stock option plan would mean that our Company's participating executive payouts only if the Company's stock price performance was better than that of the peer group average exercise price to a market index, indexed options reward participating executives for competition. Indexed options would have value when our Company's stock price rises in excess average or declines less than its peer group average stock price decline. By downwardly adjusting price of the option during a downturn in the industry, indexed options remove pressure to re-price. In short, superior performance would be rewarded.

At present, stock options granted by the Company are not indexed to peer group performance standards. As stock owners, we feel strongly that our Company would benefit from the implementation of a stock option plan that rewarded superior long-term corporate performance. We urge your support for this important governance proposal.

### **THE BOARD OF DIRECTORS FAVORS A VOTE AGAINST THE ADOPTION OF THIS PROPOSAL FOR THE FOLLOWING REASONS:**

The Board believes that adopting a compensation policy that requires the Company to grant stock options under conditions such as those contained in the shareholder proposal is inconsistent with competitive industry practices and, therefore, could place the Company at a substantial disadvantage in recruiting and retaining top talented executives.

In addition, indexing options in the manner set forth in the proposal -- disconnecting the value of the options from increases or decreases in the Company's stock price -- could undermine the entire incentive purpose of the stock options. For example, the Company's stock price could decrease, but less so than the contemplated peer group, which would cause the Company's executives' options to have value and confer an economic benefit on the executives even though the shareholders would suffer a loss. This clearly is not a result that aligns the interests of the Company's executives with those of its shareholders, but instead disjoins those interests.

In addition to introducing potential competitive disadvantages and disjoining incentive from shareholder value, implementing the shareholder proposal would have negative financial consequences for the Company and its shareholders. Internal Revenue Code Section 162(m) limits the deductibility of compensation over \$1 million paid to certain executives. Specific performance-based compensation meeting IRS requirements is excluded from the calculation to determine whether the \$1 million cap has been exceeded. If the exercise price of a stock option is less than the fair market value of the stock on the date of grant of the option, all compensation arising from the exercise would fail to qualify as performance-based compensation and would be includable as compensation subject to the \$1 million limit on deductibility. The shareholder proposal thereby potentially increases the Company's tax expense, to the ultimate disadvantage of shareholders.

Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and Financial Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," provide the accounting and financial reporting guidance relative to the exercise of stock options. Assuming the exercise price of the senior executives' stock options were indexed to the share price under the shareholder proposal, the stock option plan would be treated as a variable plan and compensation would be measured, for all individuals who received grants under the plan, at each reporting period when an option is exercised. Because the Company applies APB No. 25 to the compensation expense recorded on the financial statement, the calculation would be based on the intrinsic value method, the difference between the exercise price and the exercise price of the stock at the reporting date. This accounting treatment could reduce the Company's operating results if the Company's operating results outperform the industry peer group index, such that if the stock price declines and the exercise price does not fluctuate the difference would cause additional compensation expense to be recorded in future periods.

Moreover, the Compensation Committee--which is comprised of independent directors--has implemented various measures to make sure that compensation provides executives with the appropriate incentives.



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protecting shareholders. In fact, options granted under the Company's current incentive plan are performance-based compensation: because an option's exercise price is equal to the fair market value underlying the option on the date of grant, executives receive an economic benefit from stock option grants if the stock price increases subsequent to a grant. As such, stock option grants under the incentive plan motivate executives to maximize long-term corporate value and directly link executives' interests with those of the shareholders.

In summary, the Board believes that implementation of the shareholder proposal could have significant competitive and financial consequences and could undermine the incentive purpose of stock option grants to the detriment of the Company and its shareholders. The Board believes the right balance is currently achieved in the granting of stock options to executives under the incentive plan.

**FOR THE ABOVE REASONS, THE BOARD RECOMMENDS VOTING AGAINST THE PROPOSAL.**

### OTHER MATTERS

Management of the Company knows of no other matters that may come before the meeting. If any matters other than those referred to herein should properly come before the meeting, it is the intention of the persons named in the enclosed Proxy to vote the Proxy in accordance with their judgment.

### STOCKHOLDER PROPOSALS FOR THE 2003 ANNUAL MEETING

Proposals of stockholders intended to be presented at the Company's annual meeting of stockholders in 2004 must be received by the Company at its principal executive offices no later than December 9, 2003 in order to be included in the Company's Proxy Statement and form of Proxy for that meeting.

### ANNUAL REPORTS

The Company's annual report for the fiscal year ended February 1, 2003 is being mailed with this Proxy Statement but is not to be considered as a part hereof.

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K, INCLUDING THE FINANCIAL STATEMENTS AND SCHEDULES THERETO, REQUIRED TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, MAY BE OBTAINED WITHOUT CHARGE BY ANY STOCKHOLDER WHOSE PROXY IS SOLICITED UPON WRITTEN REQUEST TO:

**DILLARD'S, INC.**  
Post Office Box 486  
Little Rock, Arkansas 72203  
Attention: James I. Freeman,  
Senior Vice President,  
Chief Financial Officer

By Order of the Board

J  
Senior  
Chief Fi  
Assi

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

Dillard's, Inc.  
Post Office Box 486

Little Rock, Arkansas 72203 PROXY The undersigned hereby appoints  
Telephone No. (501) 376-5200 William Dillard II and James I. Freeman as Proxies, each with the power to substitute, and hereby authorizes them to act as designated below, all the shares of Stock of Dillard's, Inc., held of record on March 31, 2003, at the annual meeting to be held on May 17, 2003, or any adjournment

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1. ELECTION OF DIRECTORS. ? FOR all Class A ? WITHHOLD  
nominees listed to vote for all below (except as Class  
marked to the contrary below)

(INSTRUCTION: TO WITHHOLD AUTHORITY TO VOTE FOR AN INDIVIDUAL NOMINEE, STRIKE A LINE THROUGH IN THE LIST BELOW.)

Class A Nominees

Robert C. Connor \* Will D. Davis \* John Paul Hammerschmidt \* Bob L. Martin  
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Management of the Company supports this proposal  
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2. STOCKHOLDER PROPOSAL CONCERNING GLOBAL HUMAN RIGHTS STANDARDS.  
(Management of the Company opposes this proposal.)

? FOR ? AGAINST ? ABSTAIN

3. STOCKHOLDER PROPOSAL CONCERNING INDEXED OPTIONS.  
(Management of the Company opposes this proposal.)

? FOR ? AGAINST ? ABSTAIN

4. In their discretion, the Proxies are authorized to vote upon such other business as before the meeting.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED. IF NO DIRECTION IS MADE, THE PROXY WILL BE VOTED FOR PROPOSAL 1 AND AGAINST PROPOSALS 2 AND 3.