

**Value City**  
**2nd Quarter Operating Results**  
**Conference Call**  
**September 9, 2003**

Operator (Jill)

Thanks for holding, ladies and gentlemen, and welcome to the Value City Department Stores 2nd Quarter Operating Results Conference Call. During the presentation all lines will be on a listen-only mode. There will be an opportunity to ask questions, and instructions will be given at that time. Thank you for your attention, I now turn the time over to your host, Mr. John Rossler.

John Rossler, President and CEO

Thanks, Jill, and thank you everyone for joining us for our Second Quarter Conference Call. With me today are Ed Kozlowski, our Chief Operating Officer; and Jim McGrady, our Chief Financial Officer. Before starting, I would like to remind everyone that during this discussion we may make certain forward-looking statements based on our current expectations or beliefs. We caution that actual events and results may differ materially from those anticipated, based upon the risk factors described in the reports we filed with the SEC, and we encourage you to read these filings. Jim will now discuss the second quarter financial results.

Jim McGrady, Chief Financial Officer

Good morning, everyone, and thank you, John. Let me start off with a review of our second quarter results and what they say about the company. A little later on, John will discuss in greater depth where we are in terms of the strategy for our repositioning. Yesterday we announced a net loss for the quarter of \$3.6 million, or 11 cents a share, versus a loss of \$700,000, or two cents a share, last year. Year-to-date loss is \$16.8 million, or 50 cents a share, compare to the prior year's loss, which included the change in accounting principal of \$5.5 million, or 16 cents a share.

We were pleased to see the positive trends in our top line results. Total sales for the second quarter increased \$35.5 million, or 6.2 percent, to a total of \$604.6 million. As John will expand upon, the second quarter showed gains and improvement in measurements like average basket, customer counts, and comparable sales. Our comparable store sales for the quarter were a positive 1.6 percent, compared to a negative 4.3 percent in last year's second quarter. Comparable sales by business segment were: Department Stores, 6/10 of a percent; DSW, 4.5 percent; and Filene's Basement, 0.3 percent.

Looking to the operating level, sales results demonstrate that our three retail brands are at different stages of their evolution, and have differing merchandising and marketing needs. Value City's non-apparel comp sales increased 5.3 percent, while apparel comp sales decreased two percent. Value City's men's and ladies apparel divisions had negative comps for the quarter of 4.8 percent and 1.2 percent respectively.

The children's division had positive comps of two percent. Apparel sales were negatively impacted the cooler weather in certain of our markets early on in the quarter. Shoes in the Value City operation for the quarter has a positive comp gain of 2.8 percent.

DSW demonstrated its growth capabilities with its 21.1 percent increase, and sales that totaled \$192.3 million for the second quarter. This includes a net increase of 14 stores and a comp store sales increase of 4.5 percent. Including a six-month comp sales increase of 4/10 of a percent, DSW sales rose to \$375.4 million for the year-to-date period.

At Filene's Basement, the impact of the merchandising repositioning can be seen in the second quarter sales results, which totaled \$75.7 million, a 2.7 percent increase. This includes a comparable store sales increase of 3/10 of a percent. Filene's Basement's six-month comp store sales decreased 3.8 percent, and were \$138.3 million for the year-to-date period. Improvement in margin is somewhat lagging behind improvements we've seen in sales and comps. We will need to focus on this in the balance of the year and in periods beyond that.

Total gross profits increased \$12.8 million, a 5.7 percent improvement, to \$236.4 million. The gross profits for the year-to-date period increased \$6.3 million, a 1.4 percent improvement, to \$453.1 million. In the second quarter, gross profit as a percent of sales decreased to 39.1 percent. The decrease is primarily attributable to increased markdowns we incurred mostly due to the spring weather inventory issues we

addressed. By segment, the gross margin percentages are: Department Stores, 39.2; DSW, 41.0; and Filene's Basement, 33.7 percent.

Our SG&A expenses for the quarter increased slightly to 39 percent as a percent of sales, compared to the 38.5 percent for the second quarter of last year. In dollars, the amount of the increase was \$16.5 million, which totaled \$235.9 million. \$5.3 million of this increase is associated with the new stores and leased departments in operation at DSW. The balance of the increase is heavily weighted towards our investment we've made to promote sales and create brand awareness, particularly at the department stores.

Our year-to-date SG&A increased \$24.3 million to \$466.9 million, which is 39.1 percent of sales, compared to the 38.3 percent that we had in the prior year. Of this increase, \$16.8 million is associated with the operation of the 14 new DSW stores and 153 leased shoe departments we have in operation today. Our SG&A by segment in the second quarter was: Department Stores, 42.6 percent; DSW, 35.5 percent; and Filene's Basement, 32.2 percent. Our operating profit or loss by segment was as follows: Department Stores had an operating loss of \$10.6 million; DSW had an operating profit of \$10.9 million; and Filene's Basement had an operating profit of \$1.4 million. Overall, our operating profit for the quarter was \$1.8 million.

Our net interest expense for the quarter increased \$200,000 to \$8.1 million. This is attributable to an \$18 million increase in our weighted average borrowings, and a 1.4 percent increase in our weighted average borrowing rate. For the year, interest has increased \$3.5 million, to \$17.7 million. This is attributable to a slight drop we had in

weighted average borrowings and a 2.7 percent increase we've incurred in our average borrowing rate. Our effective tax rate for the three months in the quarter is 42 percent versus 38.3 percent last year. The effective tax rate for the six-month period is 41.4 percent, compared to 37.1 in the prior year. During the quarter, the company established an allowance for its deferred tax assets in the amount of \$9.8 million. Also during this year, prior year as reflected in the P&L, we reclassified about \$3.3 million to our SG&A expenses in compliance with FFAS Form 45. This related to the debt refinancing that we had last year. All of these adjustments, again, are running through the prior year numbers and are just a reclass.

Looking to our balance sheet, our inventory totaled \$477.2 million at the end of the quarter versus \$417.3 million last year. This is about a 14.4 percent increase and is around \$59.9 million. This includes, again, the inventory for the 14 new DSW stores and 153 leased shoe departments that we're operating.

Our working capital at the end of the quarter was \$270.5 million, compared with last year's \$209 million. Net cash used for capital expenditures was approximately \$23.5 million in the quarter. Depreciation and amortization in the second quarter totaled \$14 million, and that's compared with \$17.5 million in the prior year. EBITDA in the second quarter was \$15.8 million and was \$16.7 million for the year-to-date period. Availability under our revolving credit agreement was in excess of \$130 million.

Before turning it over to John, I think it's fair to say we remain cautiously optimistic about the current quarter and the balance of 2003, both because of what we see

as an improving economy and the impact of our cost-saving initiatives, plus our systems improvements. Building on our back-to-back comp sales gains in July and August, we expect comp stores volume to be in the low single digits range for the balance of fiscal 2003. For the year we will open approximately 16 to 18 new DSW stores, and we've already opened the one planned Filene's Basement store. There are no new Department Stores currently on the agenda. We anticipate the gross margin decreases that we've seen in the first two quarters to stabilize and run at approximately the same rate for the balance of the year. As we experienced in the front half of the year, we will continue to aggressively promote our brands and reach out to our customers. These additional costs will be balanced somewhat with the savings in operations in stores, warehouses, and support areas that we've put in place. For the balance of fiscal 2003, we anticipate a profit in the third and fourth quarters, and we anticipate to be profitable for the year.

Finally, regarding the reorganization that was announced earlier this year, we're close to completing all of the paperwork and gathering the necessary consents. I realize this has taken longer than we initially anticipated; however, we have effectively put in place virtually all of our internal reporting structure and now are finalizing the few finishing touches we need to do to complete the process. That concludes our financial review, and I'll now turn it back to John.

John Rossler, President and CEO

Thank you, Jim. At mid-point in fiscal 2003, I can state three things clearly and with certainty. First, our business is on the upswing. Second, we're building momentum.

Third, we made needed investments in talent, systems, and marketing during a very difficult fiscal 2002 and in the first half of 2003 that will serve us well in the remainder of fiscal 2003 and beyond. When I took this job 18 months ago, our management team committed to getting Value City Department Stores stabilized and returned to being a growth company. It wasn't clear then just how long this turnaround would take. We can now estimate with more precision that we are within another 18 months of our turnaround being completed with the result being a healthy growth company.

Fiscal 2002 and the first half of 2003 was an emergency time period. Our Department Stores, which remain the toughest part of our turnaround, were in an emergency situation, reflecting years of underinvestment. Today, momentum is on our side, and I can say with even more conviction our goal is achievable. While an improving economy is playing a part in building momentum, I believe that the key was investing in what was needed to fix this company and our three brands: new talent, new systems, and new marketing.

Why do I say our business is on the upswing? It's no secret that horrible winter weather in the northeast and Midwest, particularly in February, pretty much sank the first quarter and then dragged down the second quarter with excess inventory that we needed to burn through. Even so, starting in May we have experienced an increase in average basket for each division ranging from 1.5 to 8.5 percent, compared to 2002. We have also seen a trend of improved customer counts at Department Stores and DSW during

that time period. Filene's Basement has experienced the most significant basket improvement, as we focus on increasing the average item retail.

Our results in the second quarter, particularly on the top line, were in line with our expectations. We have also maintained top line momentum into the beginning of the third quarter. I am pleased to report positive comps across all of our operating segments for the second quarter. We have also reported a 4.2 percent companywide comp sales increase for August. Again, all three operating divisions had a positive sales line performance.

But creating momentum is an ongoing process. Filene's Basement, for example, was being operated with a POS strategy, which emphasized sales at the expense of margins. Now, Heywood Wilansky's "best brands for less" merchandising approach, coupled with institutional event marketing, is repositioning Filene's Basement as the legendary institution at the upper end of the off-price segment it once was.

DSW is a profitable organization that was stuck in a comps stalemate for the past two years. We heavily invested in a new electronic brand awareness marketing campaign in the first half of 2003. Market research showed immediate increases in consumer awareness of DSW. However, increased traffic counts and sales were somewhat delayed reactions, with upward trends in comps starting in May and continuing to improve since then.

As to Department Stores, while it will take longer to address the many issues involved, the primary initiative is to refocus our merchandising and marketing as “brands at an extreme value.” This focus started to push same store sales in an upward direction in May, and is trending favorably since then.

Summing up. Where are we now? We’ve invested in Filene’s Basement and DSW for growth, both on a comp basis and through store openings. We’ve invested in Department Stores for stabilization and growth in comps. Our investments in branding, information technology, and logistics have been made. They’re real and will continue to bring improvements as we move forward. We now have effective, proven merchants and managers in place at all three operating units. We’ve achieved significant cost savings both at the corporate level and at Department Stores and DSW.

I realize that the cost savings we achieved in fiscal 2002 and year-to-date fiscal 2003 have been largely offset by our forward investing in marketing and information technology. But there’s no doubt that the cost savings have been realized and that the offsetting investments were critical to the success of this company and its operating divisions. Because marketing is going to remain a significant expense, particularly for Department Stores, the best way to leverage the cost is going to be increased comps and, at the appropriate time, new store openings.

To get that sustained increase in revenues, we have some challenges ahead of us as a management team. As a new management team, it took us a while to learn the brands. They are very different from each other. It’s not enough to lump them together as

off-price brands. But for the 20-some top merchants and management executives added to our company over the past 18 months, that learning curve is now substantially over. We need to continue to make improvements in traffic. That's why our investment in market research, and our focus on appropriately merchandising, and marketing each of our brands is critical. We need to make improvements in margins through focus on inventory turns. That means being ready at the front end of the season, but it also means buying closer to need during the balance of the season. And we need to leverage our cost structure through store growth and comp improvements. We substantially exhausted cost-cutting opportunities.

Can we make it? Yes. How long will it take? Another 18 months. Can this management team do what needs to be done to finish the job? Yes. You have my commitment on it. I will now ask Jill to open the lines for questions.

Operator

Thank you. To ask a question, please press a "1" followed a "4" on your touchtone phone. If for any reason you need to retract your question, press a "1" followed by a "3". All questions will be taken in the order they are received, and you will be placed back into conference following your question. Once again, for questions or comments, press a "1" followed by a "4". We have Mr. David Mann with Johnson Rice. Go ahead, sir.

David Mann, Johnson Rice

Hi, yes, good morning. John, can you talk a little bit about the systems improvements that you've done and where you stand in terms of the timetable towards completing them?

John Rossler, President and CEO

Thank you, David. We believe that we're about half way through our systems renovation. And transitionally, now during the period of the next 18 months, new systems will be coming onboard. At the end of the 18-month period, we will have in Value City Department Stores our main merchandising system, which is being put in place of a 1960s legacy system. We will have our new warehouse management systems for all divisions put in place, have our new planning and allocations put in place. We will have, in the case of Department Stores and DSW, new POS systems in place, and those things are starting are starting to come onboard now in transition.

David Mann, Johnson Rice

When you look out to that 18-month threshold point, what will the P&L look like? What kind of revenues do you think you'll have? What kind of operating margin do you think you can achieve? Can you elaborate on that?

Jim McGrady, Chief Financial Officer

David, it's Jim. Right now I think I'd prefer not to elaborate on that, but I think I can say that it'd be substantially different than what you see. I think we would like to get back to profit levels that we saw back in our fiscal 1999, which actually was historically the best year the company's had. We believe that we can get there.

David Mann, Johnson Rice

Okay. And then one other question. On the apparel side at the Department Stores, can you talk about some of the initiatives you have in place there to try and get those sales going, and specifically comment on your Big & Tall initiative?

John Rossler, President and CEO

David, it's John. Generally speaking, you know, I mentioned in my comments that it took us a little bit of time to learn each of the brands. And starting 18 months ago, I think that we felt that the merchandise offering in the Department Stores was too discounted, too low of price points, and I think during the first nine to 12 months onboard, we pushed the price points a little bit too high. But, as we've discussed before, Department Stores has never had market research and did not have a clear understanding of our customer. We have laid in place now a tremendous amount of market research. We think we are much more acquainted with our customer, and we think we are getting those price points more in line with our customer needs. So, we're just in a tweaking process now, you know, from a soft goods standpoint as to brands and price points.

You said specifically on the Big & Tall. We are not up to speed to our satisfaction yet. On the urban side of that business is I think where we have last season, the spring/summer summer, fallen a little bit short. That's where we think the opportunity is, and I think we'll see during the fall/winter season substantial improvements in our Big & Tall business.

David Mann, Johnson Rice

Thank you.

Operator

Once again, to ask a question, please press a "1" followed a "4" on your touchtone phone. We have Mr. Jonas {Garstell}. Go ahead, sir.

Jonas Garstell

Hi. Just to follow-up a little bit from David's question. You said that you'd like to get margins back to the 1999 level at the end of the 18 months, but that's before all these new systems and everything have been put in place. So, I guess asking again what David said, what is a profit target that could be achieved once everything is humming?

Jim McGrady, Chief Financial Officer

Really, at this point in time, I don't think we're ready to commit to truly what that target is 18 months from now. I can say, you know, that as those systems come onboard,

they're going to come on bits and pieces at a time, and we'll start to see benefits from those probably in the latter half of next year. So we're going to start to see benefits as those legacy systems that we have are replaced. I actually think, you know, if we take a look a back at the prior year's numbers and everything like that, where we were, you know, I definitely believe that the company can get back to the same percentage bottom line as what we had back in 1999. I mean, and that's really, you know, is just repeating some of the marketing plans that were in place back then, and really capitalizing on the benefits of what we're going to see from the current marketing that we've put in place. So that's really about right now about as far as we're going to be able to go with where we're going to be as far as margins and things like that.

Jonas Garstell

Okay. The operating loss for Value City Department Stores for the first half, could you give us just some sort of frame of mind what sort of improvement could we see in the first half next year? Do you hope to get that loss down by 25 percent, by 50 percent? Because that clearly is one of the keys to the story.

Jim McGrady, Chief Financial Officer

Oh, I agree. And I think if you take a look back, as John said. I don't mean to repeat the weather to you or anything like that. The first couple of months of the first quarter this year were just drastic. I mean, we would have never probably in our wildest estimation thought that we would have come up with something like that. I actually

think, as we take a look forward going on out here that I would really like to see on an operating performance line that we're able to at least show an operating profit in each one of those quarters.

Jonas Garstell

Good. Inventory, you mentioned the additional new DSW stores. How is the inventory at the Value City Department Stores?

Jim McGrady, Chief Financial Officer

It's right in line with our expectations and our plans. We actually went out and did some early buying this year getting ready for the fall season, which is something that, on a historical basis, we may not have really taken advantage of in the past or last year. This year we've definitely invested forward in the season, and we intend to keep doing that as we see the results. We're ready for the fall season right now.

Ed Kozlowski, Chief Operating Officer

This is Ed Kozlowski. You know one of the things that the company has a tendency to do is be hesitant as it heads into a season. And we've taken the stand that we want to be ready in the front end of the season when margins are full and we're able to take advantage of customers' needs. And as we move through the season, we want to be closer to the need, as John talked about. But what you may see time to time is we may run inventories a little higher at the front end of the season, and then we want to bring

them back into line as we move through the season, and then we want to come out clean. That's the objective, and that's what we're working vigorously towards in all three of our businesses.

Jonas Garstell

Okay. And last question. As far as store openings by division, any plans for next year that you could share with us?

Male Voice

Not right at the time. I think at our third quarter call we'll be able to share a little bit more with you. We're still working on putting together our real estate plan for next year. We do intend to be a little more aggressive than we have been this year. But exactly what our store counts are going to be and our expectations; we haven't really put a final number to that yet.

Jonas Garstell

Okay. Thank you.

Operator

Next we have Mr. {Kip Mack} with UBS. Go ahead, sir.

Kip Mack, UBS

Hey, guys. I'm pretty new to your whole business. And because there's a Filene's that just went up across from where I work, and I've been visiting that and have been very impressed with that concept. And it appears from the numbers that you've released on comp sales and this quarters results that the DSW and Filene's might be more the momentum part of your story. And is there, do you think going forward – I don't know if this is a repeat of the last question or not – but is there a vision going forward of focusing more of the efforts on those components of your business? The second question is the Retail Ventures, Inc., is that going to lead itself to a strategy for acquisitions that you might be able to elaborate on at this time?

Male Voice

I think I'll address question on Retail Ventures, Inc. Presently, we're not in an acquisition mode. We're addressing some of the issues that we have here at home and still working on getting those to where we need to be. That doesn't mean the right opportunity that would come along that we would not want to be in a position to take advantage of it. The real reason for the repositioning in the Retail Ventures, Inc. is to be able to align the services company and be able to share in the overhead rates and costs like that where we can benefit by consolidating a lot of our back room and administrative functions.

John Rossler, President and CEO

Kip, this is John. On the other point, the focus on each of our brands, we believe that all three of our brands have tremendous potential, and it's just that each of the brands are in different stages of their turnaround and their growth cycle. In the case of DSW, DSW has been a profitable company for some time, we've been growing it, and it's our intention to continue to grow it aggressively.

Filene's Basement has been in a turnaround situation, and it's very near to the end of its turnaround situation, and its rollout prospects will accelerate a little faster than Department Stores. But in the case of Department Stores, which has been our biggest, toughest turnaround, most complicated turnaround, we're maybe not quite as close to Department Stores being a rollout business yet. But certainly our focus is to getting it to that point, and that ties back to some of my comments earlier about over the course of the next 18 months.

Kip Mack, UBS

Well, I think your position is right on target. And DSW I think is a great store, and then Filene's as well, and I'm going to make it out to Value City just to check it out. But keep up the good work and best of luck to you guys.

Male Voices

Thank you, Kip. Thank you.

Operator

Once again, for questions or comments, press a “1” followed by a “4”. It appears we have no further questions at this time.

John Rossler, President and CEO

All right, thank you, Jill, and thank you everybody for joining us this morning. Again, this will be available on our website for replay, and wish everybody a good day.

Operator

This now concludes today’s Value City Department Stores conference call, and thank you for your participation.

(End of Conference Call)