

RETAIL VENTURES, INC

**Moderator: Jim McGrady
December 8, 2004
8:00 a.m. ET**

Operator: Good day everyone, and welcome to the Retail Ventures' third quarter earnings conference call. Today's call is being recorded.

At this time, I would like to turn the call over to your host, Mr. Jim McGrady. Please go ahead, sir.

Jim McGrady: OK. Thanks, Jay. Good morning and welcome everybody to our discussion of the third quarter fiscal 2004 operating results. On the call today with me in New York is our CEO, Heywood Wilansky.

I would like to apologize for the confusion this morning in the phone lines, something that was unfortunately out of our control. Before proceeding, I would like to restate for you our company's policy with respect to forward-looking information pursuant to the Private Securities Litigation Reform Act of 1995.

Statements made in the course of this call that are not purely historical, such as statements regarding the company's or management's intentions, expectations or projections of the future, are forward-looking statements. Actual results could materially differ from the forward-looking statements.

Factors that could cause or contribute to such differences include, but are not limited to, the factors and risks discussed in the company's annual report on Form 10-K for the period ended January 31, 2004, and other reports filed from time to time by the company with the Securities and Exchange Commission. Any forward-looking statements made during this call are on information presently available to the company. No obligation to update any such forward-looking statements.

Today we announced a third quarter loss of \$900,000 compared to a profit of \$900,000 in the prior year's quarter. Our basis and diluted loss per share is three percent in the current quarter versus a three cent share income in the prior year's quarter.

For the nine months and the period to date, we reported a loss of \$1.3 million compared to a prior year's loss of \$15.9 million. The loss per share in each respective period is four cents and 47 cents. Total sales for the quarter increased \$19.1 million or 2.8 percent to \$699.7 million from 680.6 million.

Comparable store sales for the quarter decreased 4.1 percent. Value City stores comparable stores sales for the quarter decreased 7.8 percent due to a decline in customer traffic against the comparable period, partially offset by higher average unit retail.

Value City's comparable quarterly sales decreased in non-apparel hard lines three percent while apparel decreased 8.6 percent, jewelry decreased 14.2 percent, and shoes in the Value City segment declined 10.7 percent. The apparel divisions of men's, ladies, and children's had decreases of 8.3, 9.4, and 7.7 percent, respectively.

The DSW segment sales for the quarter were \$255.8 million, an increase of about 18.6 percent, which included the net increase of 30 stores over the comparable period along with a comparable

store sale increase of seven-tenths of a percent. During the quarter we saw customer traffic and improvement in the average unit retail.

The DSW operations in the merchandise categories of athletes had an increase of 12.9 percent, while men's and women's areas had decreases of 2.1 percent and 1.2 percent, respectively. During the quarter we had a net increase of 49 leased shoe departments covered under various supply agreements over the comparable year. We opened in the current fiscal year 25 DSW stores.

Our Filene's Basement sales for the quarter increased 9.4 percent to 97.9 million, which includes a net increase of four stores over the prior year and a comparable store increase of 1.2 percent. The sales increases were due in part of increases in customer traffic and average unit retail.

The merchandise categories of men's, ladies, and children's had comparable sales increases of five-tenths of a percent, 6.7 percent, and 15.9 percent, respectively. The shoe and jewelry categories also had increases of 2.6 percent and 1.5 percent, respectively.

Total gross profit increased for the quarter \$18.6 million to 280 million. Gross profit as a percentage of sales increased 40 percent – excuse me, increased to 40 percent compared to 38.4 percent for the prior year. The increase in our overall margin rate is attributable to higher initial markups at all of our retail business operations.

The Value City segment saw improved average unit retail initial markups and reduced markdowns to obtain its gross margin increase. DSW and Filene's Basements had reduced amount of promotional markdowns during the period. Gross profit as a percent of sales by segment in third quarter were Value City, 38.9 percent, DSW 43.5 percent, Filene's Basement 34.9 percent, and again, overall it was 40.0 percent.

Selling, general and administrative expenses for the quarter increased \$24 million from 249.6 million to 273.6 million. Approximately four percent of this is associated with the increase in pre-opening expenses incurred during the three months ended October 30th, 2004 compared to the prior year's quarter.

Total SG&A expenses associated with stores opened subsequent to November 1st of 2003 and through October 30th, 2004, was \$18 million and represents approximately 75 percent of the increase in SG&A. As a percent of sales SG&A was 39.1 percent compared to 36.7 percent in the same period last year. By segment our SG&A ran at Value City department stores 41.5 percent, DSW 37.1 percent, and Filene's Basement 35.7 percent.

Operating profit for the quarter decreased to \$8.4 million from 13.2 million, and decreased as a percent of sales from 1.9 percent to 1.2 percent. By segment we are reporting operating losses of 7.6 million and \$400,000 at Value City and Filene's Basement, and an operating profit of \$16.4 million at DSW.

Last year's operating profit for the quarter was \$13.2 million and consisted of an operating loss at Filene's Basement of 2.3 million and operating profits of 9.4 million and 6.1 million at DSW and Value City, respectively. Net interest expense for the quarter increased \$400,000 to \$9.9 million.

This increase is due primarily increases in the weighted average borrowing rate and an increase of approximately \$25.3 million in outstanding average borrowings compared this year to last year. Our tax rate for the quarter was 40.7 percent and this compares to very high tax rate in the prior year, effect of some of the impact of non-deductible (warrant) amortization that's included for book income but not for tax.

As we turn to our balance sheet, our inventory totaled \$584.8 million at the end of the quarter versus \$547.7 million last year. This is an increase of approximately 6.8 percent. The total

increase includes approximately \$31.1 million for the new – for the – excuse me, the 30 new DSW stores and the 49 net new supply locations that we're operating at this point in time; and also \$11.4 million for the four new Filene's Basement stores.

Net working capital October 30th, 2004 was 284.4 million compared to 285.3 million last year at this time. Current ratios are 1.7 and 1.8, respectively. Net cash used for capital expenditures was approximately \$54.9 million this year, while depreciation and amortization for the 39 weeks totaled 39.5 million compared with 38.7 million in the prior comparable period.

EBITDA for the third quarter was \$22.4 million versus 26.2 million for last year's comparable third quarter. EBITDA for the 39 weeks this year is \$66.7 million versus \$43 million last year. At October 30th we had \$108.8 million available under our revolving credit facility and this aggregated down to \$185 million of direct borrowings with about 20 – little over \$21 million in letters of credit issued and outstanding.

This concludes our review of the third quarter. As we look a little bit into the future, we mentioned in our quarter at the beginning of the quarter that we anticipated a profit for the year of 23 to 27 cents per share. Subsequent we said that that was very dependent upon this Christmas selling season and that would generate comp store sales overall of about one to two percent.

And as you are aware, we recently announced comparative store sales in November were a decrease of 5.3 percent from the previous year. We are disappointed with our sales results and remain concerned that the overall economic environment in the balance of our holiday season. We are now forecasting a loss in the year of approximately 12 cents to 15 cents a share – a share, excuse me.

At this time we are not ready to provide guidance for fiscal 2005, however, we will update you with our expectations here in the near future. In regards to our financing, we still expect to have a

announcement for you late in this fiscal year which would be in January, probably towards the end of January. And with that update I would now like to say thank you and I'll turn the call over to Heywood.

Heywood Wilansky: Thank you, Jim, and good morning to everyone. As you are all aware, I joined RVI as CEO on November 3rd of this year. And I'm very pleased to have this opportunity. I believe the challenges that face us, particularly in the Value City operations, are not insurmountable.

Joining me in the transition are Jerry Politzer, Debbie Ferree, and Mark Shulman, who will be responsible for our Value City, DSW, and Filene's Basement brands, respectively. And I look forward to the achievements we expect from each of our brands.

As Jim has discussed, the third quarter overall for Retail Ventures was in summary not up to expectation. Sales were less than we forecasted, particularly at Value City. Although some of the sales shortfall was made up by higher margins, the overall profitability for RVO was below our plans.

On a positive note, DSW and Filene's Basement continued their trend of increased sales and improved profitability. The strategies behind these two brands are solid. And I would also add that we are pleased with the performance of our new locations at Union Square in New York where both DSW and Filene's Basement stores are achieving sales expectations. The rapid consumer acceptance at this location speaks to the power of these brands and their potential for continued growth.

The Value City department store division, however, has struggled through the third quarter. Current economic conditions are disproportionately hurting the lower-income families of our nation and since this is a key consumer segment for Value City the brand suffered along with its customers.

The drop in sales at Value City was mitigated in part by increases to average unit retail prices and increases to gross margin. But in total, the third quarter operating profit for Value City declined significantly from a year ago. We will be and we are taking a number of steps to remedy the situation at Value City and the first step is to change the culture of Value City.

And this process has begun with the appointment of Jerry Politzer as president. Jerry has great depth of operational and merchandising experience and he was integral to the top-line growth at Filene's Basement for the last year-and-a-half.

The second step is to access the Value City chain to determine the best path for a more prosperous future. And Jerry and I are formulating a plan to understand where the brand stands today and what strategic options are available to us and what strategic path we will take. And as we come to conclusions, I assure you we will act swiftly to make these changes.

And although it's a little too early to say exactly which path Value City will ultimately take, I can assure you that we are committed to doing whatever it takes to make Value City a stronger contributor to the RVI portfolio on a consistent basis. And as we know what we're doing we're going to communicate that to the group at large.

I want to thank you for your continued support and now I will ask Jake to open the line for questions. Jake?

Operator: Thank you. Today's question-and-answer session will be conducted electronically. If you would like to ask a question, you may do so by simply pressing the star key followed by the digit one on your touch-tone telephone. Please keep in mind that if you are using a speakerphone, please make sure your mute function has been turned off to allow your signal to reach our

equipment. Once again, star one if you have a question and we will pause for just a moment to assemble our roster.

We will take our first question from David Mann.

David Mann: Good morning. First question I have is regarding in terms of Value City near term and the inventory condition. Looks like inventories are down a little bit at Value City which was I guess a little surprising to me given the recent sales trend. Can you just talk about the quality of that inventory, whether, you know, you're going to have to – or whether you're looking to clean things up there in terms of, you know, positioning for next year, any changes in advertising or promotion near term to achieve that?

Heywood Wilansky: Well, David, this is Heywood. You know we have just started going through as many of the Value City stores as we can to really get a firsthand look at what the condition of the inventory is and the quality of the inventory.

From a quantity point of view, while it's under control relative to recent history, I don't believe that the quality of the inventory is up to snuff. And clearly, we're going to be going through trying to figure out what the costs might be to clean up that inventory to put us in a situation we can go forward on a – on a fresh-start basis. We don't know what that number is yet, we're working on that.

In terms of marketing, we're clearly going to change the marketing profile that Value City has, how that – how that takes shape is still under discussion. In the meantime, during this December-January period we're going to be instituting some additional promotional opportunities to try to push through the inventory that currently exists to try to get cleaner, faster so we can get started on the new – on the new prototypes more quickly.

David Mann: That sort of dovetails into my second question, the fourth quarter or implied fourth quarter guidance you're giving, does that assume that the sales trend continues at the sort of November level? And it looks like you have some additional markdowns in there as well?

Jim McGrady: Yes, that's correct, David.

David Mann: And on the gross margin side, obviously you've seen some good improvement even on a – you know, on a year-over-year basis when you started doing better last year in the third quarter. Should we expect the gross margins to continue to hold up well at the DSW and Basement businesses?

Heywood Wilansky: Well, I ...

Jim McGrady: I believe that they should. I don't see any reason that there – we should see much of a change in those.

David Mann: On the DSW side, earlier in the year I think you had expressed some concern about the ability to anniversary the gross margins in the back half yet you put up a nice gross margin in the third quarter. What might have happened that helped, you know, allay your previous concerns and come up with some pretty good performance?

Jim McGrady: I think one thing that we were definitely concerned about as we – as we came into the year is that we had a very, very successful boot season in the prior year. And we were concerned that it might be difficult to anniversary that same growth rate in boots.

And I'm pleased to say that while we haven't seen the same amount of sales growth in boots, the decline has not been what we anticipated. And we remain very pleased with our athletic, you

know, department and the progress that it's making. So those are really some of the areas that have, you know, changed from our initial expectations for the year.

David Mann: Thank you, good luck to you, Heywood. Hopefully we can see similar success that you've had at Basement at RVI.

Heywood Wilansky: Well, sometime in 2005 but not on the first day of February.

David Mann: Very good.

Jim McGrady: OK, thanks.

Operator: And now, we'll take a question from Lee Backus with Buckingham Research.

Lee Backus: Yes, first, Heywood, congratulations on your new position.

Heywood Wilansky: Thank you, Lee.

Lee Backus: Heywood, could you discuss the systems at Value City, I mean, what additional work needs to be done as far as systems?

Heywood Wilansky: You know we're still going through that process. I would say that the one system that we are looking to have a quicker upgrade is the planning allocation system. When you have 116 stores, you know, spread out over a wide geographic area, the importance of having quality allocations made based upon, you know, recent sales history, becomes critical.

And the current system has a little too much of the manual still in it and that's something that we're working on during 2005. The rest of the systems we're still going through ascertaining what we need to get done on them. We don't have an answer on that at this moment.

Lee Backus: Could you also discuss the buyings – the buyers at Value City? Are there a lot of changes that need to be made do you think, or you think your buying staff is what it should be?

Heywood Wilansky: Nothing like putting me on the spot on the first call.

Lee Backus: Right.

Heywood Wilansky: Let's just say that Value City results have been poor. And if you had a – if you had a sporting team that was not doing well you would look to see if you could change the manager and also change some of the players to improve the performance. I would say that we'd probably follow a similar tact, although, how wholesale that is is unclear at the moment.

Lee Backus: OK, thank you.

Operator: Now we'll take a question from Jonas Gerstl with Jonas Capital Partners.

Jonas Gerstl: Hi. Just a bigger look at the picture. Heywood, you've done a great job with Jerry at Filene's; Debbie's done a great job at DSW. You've been taken away from Filene's, Debbie has been given added responsibilities now at DSW. How can you assure us that we don't miss a beat in the two things that have been working right for the company?

And the second question, Heywood, is a lot of people might not know your past. If you could just review a little bit the things you did at Bon Ton because it was similar situation, desperate need

when you came in, you changed it around where it's a viable company now? If you could just focus on those two questions?

Heywood Wilansky: Sure, sure. Well, first of all, in terms of the current condition at Filene's Basement and DSW and their ability to go forward continuing the improvements that they've made. In Boston we appointed – we hired Mark Shulman to follow me as president of Filene's Basement.

And Mark's background, he was most recently Chief Operating Officer of Retail Brands Alliance, which owns, among other businesses Adrienne Vittadini, Carolee, Casual Corner, and also importantly Brooks Brothers. And I think we've all seen a tremendous resurgence and improvement in the Brooks Brothers business over the last several years and Mark was integral in making that happen.

And prior to that Mark had been, among other things he had been the president and CEO of Yonkers Department Store; he had been the head merchant at Stage Stores when they were performing at a very high level. He had been president and CEO of Henri Bendel so he understands, you know, certainly an appreciation for better product.

The strategy at Filene's Basement is pretty well established now as we've changed it from what it was to what are trying to make it and what it has become. And his background fits hand-in-glove with that. In addition to that, the key merchants underneath Mark are all superior. They are a terrific team of people who have enjoyed the recent success and are really coming together to drive the business. So he's got a great team and he's well-positioned to do that.

In Debbie's case, Debbie has been integral in the growth of DSW and has been there for quite some time, tinkering with and, you know, adjusting the merchandising strategies and the – and the merchandising initiatives in order to grow that business. And her new responsibility isn't going to change a lot of that.

While the title is president her foremost responsibility will still be functioning as the strategist for the merchandising initiatives and working with the people underneath her. As a matter of fact, we've actually been able to strengthen her team underneath her by adding some positions that give her more flexibility and time to work with her folks versus just running and doing for herself.

And I know that at DSW they are looking for one or two partners to help her on the operating of finance side of that business. And those announcements should be forthcoming in the relatively near future. So they're well – they're well structured as a team to give her the support necessary to give her the time to continue her attention to the merchandising detail.

In terms of my history, I'll do it really quickly. I started at Federated Department Stores a thousand years ago on the Abraham & Strauss training squad of 1970, which was a place where everyone thought that the future retailing gurus came out of.

I spent three years and change at Abraham & Strauss, rising to buyer, all experience in the men's business. I became a buyer at Allied Stores, which owned (Gertz) in New York at the time and was put into the ladies side of the business, ladies accessories.

Did that for not quite three years and became a merchandise manager and did that for about a year before I went to May Department Stores, and that was in – around 1977. And I stayed at May Department Stores for about 19-and-a-half years.

In that time period I had virtually every job on the store side of the business, rising up to VP of Stores; and every job on the merchandising side of the business, rising to Senior Vice President, General Merchandise Manager for a wide area of the company including shoes, juniors, cosmetics, accessories, and several other areas as well.

I moved to New York and became the EVP of Merchandising at Lord & Taylor, working with Marshall Hilsberg in the two years that Lord & Taylor had its – probably its best performance ever in terms of sales growth and earnings growth and did that for about two years. And then was promoted to the President and CEO of Filene's in Boston, a division of May Corporation and ran that for about two years.

And Filene's had the two best years of its history at that time period in sales and earnings growth, and in handily beating the competition. And was promoted at that time to the President and CEO of Foley's Department Store in Houston, Texas, which was the biggest division that May Corporation owned.

I was in Texas for about three years. The competition there was Dillard's and Foley's handily beat Dillard's in the hand-to-hand combat of the southwest. Did the merger and acquisition of May DNS into Foley's and Foley's drew at the time period from about 1.1 billion when I got there to about 1.75 billion when I left.

I left there to become the President and CEO of the Bon Ton Store's Corporation, which at the time that I got there was, as you said, a close to death store. They were probably days or weeks away from a Chapter 11 filing. The company had no strategic initiative and it had no reason for being.

But I thought that by creating a strategy whatever the strategy we chose we could at least improve the performance there and stabilize the business and grow it. In Bon Ton we chose the strategy of moving upscale because that was the only strategy I thought that they could long term win at and that if it was successful was expandable and exportable.

And over a five year period that's exactly what happened and actually in the second, third and part of the fourth year Bon Ton Stores had the number one comp store increase of all department

stores – public department stores – in the country during that time period. And the company grew from about at the time \$575 million when I got there to about close to 800 billion when I retired in I guess July of 2000.

In the time period that I didn't work in retailing I became a college professor at the University of Maryland in College Park and taught global retailing management from a strategic perspective. And it was – it was a terrific experience and, you know, when I retire the second time some point in the future I'll do it again, it was – it was great. It was learning for me and for the students.

But in Bon Ton, very much like Value City – Value City is very like Bon Ton, the strategic direction of the company has flaws in it that need to be corrected. They need to have a specific strategy if not for the whole company then by broad swaths of it so that we would deal within a geographic basis.

Having run companies that have very disparate geographic stores and the ability to sell different types of products before, it's doable. You have to just pay attention by store and really create a strategy almost on a by-store basis, lumping the company into one or two halves. And that's exactly what we intend to do.

In my – in my early visits out to some of the Value City stores – and we're visiting a number of stores this week and next week again as well – I see many of the same things I saw in Bon Ton. I see boxes that are situated in roads where enough traffic goes by that they should be able to do business, with decent parking fields, and good enough lighting, and enough real estate and space inside the building.

But what they don't have is a clear message to the consumer. And in Value City's case I think that they have a distinct lack of quality and fashion currentness in their inventory assortments. And that's something that we'll be working on and already working on as we speak to improve the

fashionability and also just to be able to have consistent sizes and colors and recent current fashion available to the consumer.

And I think that they've relied too heavily on the opportunistic deal without having a base of merchandise in their store that would allow the consumer to understand that they'll be consistently able to buy current fashion with good sizes and colors at a very good price while supplementing that with great opportunistic purchases that the company over the years has become known for.

We probably need to raise the quality level that they – that they attack and try to – try to balance the more not only at the budget level but moving up to a budget and moderate level in order to spread out the area of attack.

But in Bon Ton stores very similar. They had no strategic initiative. We move it up. It actually in some cases became known as the Bloomies of the boonies. Not dissimilar it was mostly in tertiary and secondary markets. And we were able to accomplish that and create equity for the shareholder over time.

And, you know, when I was there we looked at buying Elder Bierman. That was an old plan that they had in place that as you see they finally executed that plan and you can see the growth in the stock price based upon those initiatives as well. I don't know if that answers your question but ...

Jonas Gerstl: Yes. Thanks for the thorough answer and lots of luck.

Heywood Wilansky: You bet, thank you.

Jim McGrady: Thanks, Jonas.

Operator: Now I'd like to move to Arnold Brief with Goldman & Harris. Oh, excuse me, Goldsmith & Harris.

Arnold Brief: Two questions, Filene's performance has obviously improved – somewhat profitable. Can you give us some breakout to what extent the opening expenses and new store losses and that kind of thing effected performance and how the base of the store are doing actually in terms of maybe give us some outlook for profitability for next year for Filene's?

And then secondly, you just did give us a pretty picture I think of what's wrong with Value City. And I realize that you haven't finalized your decisions in terms of new direction, but could you give us some perspective on to what extent the store locations within their markets will limit your ability to trade up, number one?

And number two, could you give us some feel maybe for the timing when you think the decision will be finalized, when you can get new merchandise into the store? When should we be looking for some of the strategies to start to have an effect?

Heywood Wilansky: OK, Jim, do you want to take the first half, I'll take the second half?

Jim McGrady: Sure. Arnie, as you know, we don't talk about individual stores so at that point I really can't address any questions on an individual store. I can say that overall so far this year at Filene's Basement we've got close to \$2.5 million in pre-opening expenses recorded on the books for the new stores that we've – that we've opened up. And, you know, as you're aware, most recently in New York so in the – at the Union Square there so we really didn't have a lot of time to get a top-line impact from that yet as we look down the road.

As far as what we're going to talk about for next year, I think that really I would prefer to wait and address that all at once when we do come out with our estimates for next year as we get a little bit closer to formulating our plans here. So as far as that's concerned that's where I'm going to have leave that with you right now.

Arnold Brief: How about the store opening expenses – store openings next year for Filene's?

Jim McGrady: As far as how many stores?

Arnold Brief: Yes.

Jim McGrady: Yes. We're not prepared to talk about that right now.

Arnold Brief: Oh, OK.

Jim McGrady: All of that we're going to talk about when we – when we give our estimates for next year.

Arnold Brief: OK.

Jim McGrady: OK?

Heywood Wilansky: In terms of the comments on store markets, the stores that I have viewed so far, with the exception of one store – consistent enough that you could create a strategy that could go across those stores. And, frankly, in discussing the inventory mix with the people on the frontline in those stores, virtually all of them felt that we could move up.

The question is how far up and that is going to be becoming a little bit of a – of a jigsaw puzzle, you know, by store. One store we may take up two clicks, one store we may take up four clicks.

We'll have to group them by pods so to speak so that we end up – you can't manage 116 separate pods but you can probably manage, you know, three or four pods. And we'll be – we'll be identifying what stores fit into what pod in terms of how far up it moves.

But out of the 116 stores we currently operate, you know, it appears quickly that the overwhelming majority of them have room to move up, the question is to what degree. And that's what we're assessing right now.

In terms of the timing of when you might see improvement in the inventory mix so that – so that you'll see it on the sales sheet, I would say that we can impact the third quarter of 2005 pretty significantly. We can probably have marginal impact on the first quarter, maybe a touch; and a little more in the second quarter. Third quarter we should be able to impact inventory mix, you know, to an 80-85-percent level at least and that's when you'll see what that mix really should look like.

In terms of the strategy, we're close to understanding what the strategy is. I want to visit a few more stores before we – I want to see a few more of the, quote, "bad" stores to understand how bad the bad stores are versus the, quote, "good" stores – I've seen a bunch of the good stores already – to understand how disparate the two are. And when we do that we'll segment the company. But even the lowest level of the company is going to move up from its current position in terms of merchandising.

Arnold Brief: To what extent is any new strategy, particularly one that involves individualizing the stores a little bit, dependant on your new systems – planning and allocation systems and when do you see those being finalized?

Heywood Wilansky: Well, the planning and allocation piece, you know, I think that we will have in place – Jim, you want to – you want to check me on this – I thought we thought we would have that in place for the third quarter?

Jim McGrady: Right. We show that in place for about the – it will probably – towards the end of the third quarter but definitely at the end of the third quarter. One thing to remember with any P&A system that we put in is dependent upon the history that we build and the database that we have.

So you don't – you don't realize immediate benefit out of that but you definitely start to see the impact of it as soon as it's up and going within the company. But in order to really see the – utilize it 100 percent to its full benefit, it will generally take a little while to build some history that's in there. But again, I do believe that we'll at least have the base in here in the third quarter.

Heywood Wilansky: But what's going to impact in addition to the systems more importantly is the buying system. And in the base – when I got there we went on a buying system, created a buying system that worried very much at the point of purchase about what the merchandise would look like when it was at store level and – instead of just buying merchandise.

And we're going to institute and have already started to do that same business system at Value City so that allocations get better just by the nature of the buying. And that is in progress and I think you'll see some significant improvement on that, you know, the third quarter at the latest.

Arnold Brief: Does Value City and Filene's compete at all for merchandise?

Heywood Wilansky: Well, they don't compete for customers. I think there are almost no markets that they share, geographic locations that are even remotely adjacent to one another. In terms of product procurement, up until I've arrived they probably didn't compete for merchandise because they followed a strategy that was very different from what the Basement had adopted.

With the changes that we will make there will clearly be more overlap of similar product in a significant number of Value City stores, not all but a significant number of them – more similar to some of the product that you would see in the Basement with the possible exception of the European imports that we – that we currently do at the Basement.

And so I look at more not so much competing for merchandise but giving us probably a bigger buying power, opportunities to be able to work with manufacturers either on upfront buys or on opportunistic purchases more effectively.

Filene's Basement was always limited by the fact that they have well currently now 26 stores and if we identified a segment of Value City that could more overlap that assortment you might be able to go in there and talk about buying for 60 stores having joint purchasing opportunities.

The good news is that both Jerry and myself and Mark Shulman work well together in that there will be no walls up between the two companies, and that the amount of communication and information sharing to the two – which wasn't very good prior – is already improving dramatically and the two merchandising teams are working together on a number of initiatives with important manufacturers.

And that's going to benefit Value City from the quality that they're able to acquire and it will benefit Filene's Basement by the ability to be part of a larger purchase that might allow them to get some pricing leverage that they weren't able to get as a smaller purchaser.

Arnold Brief: If there any possibility of converting Value City stores – some Value City stores to Filene's?

Heywood Wilansky: I think that that's certainly one of the strategies that could be in play depending upon what happens. And the question is whether they would actually convert to Filene's Basement or

whether some of the areas within a Value City store might could become Filene's Basement at Value City. So there are some options available to us and we're going to examine all of them.

Arnold Brief: Thank you.

Operator: And there are no more questions in the queue, however, if you have any further questions, you may signal by pressing star one. And we'll pause for any further questions.

And Arnold Brief did requeue.

Arnold Brief: As long as nobody else is in line – could you give us some feel on the fashion trends and the impact they may have on DSW's spring season and how you're positioning yourself?

Jim McGrady: Yes. Arnie, I think as Debbie is taking a look at her spring line that she's very excited. She's seen some color changes that are coming along, some style changes that are pretty unique – are not repeats of what we saw last spring and they're not – they're not close.

Again, I think that we've – you know, we're very excited as well about some of the lines that we're going to be able to present in athletics. So right now I don't – I don't see anything that would say that it's not going to be, you know, a pretty typical year in the transition of the seasons for shoes. And I know that Debbie has really worked hard to put together a great line this year.

Arnold Brief: What would happen if – I'm not predicting this and I don't think it's going to happen – but just as a point of curiosity, what would happen if retailing through Christmas and the winter's a little bit weak and the department stores in general – retailing in general get more promotional? What would be the impact on Value City and DSW, Filene's from a ...

Jim McGrady: I think ...

Arnold Brief: ... swing in that kind of environment?

Jim McGrady: Yes, well I think that we will become just as competitive with everybody else and we'll be in the same position. I don't – you know, I don't really have an answer for that question because, you know, we've put in plan the ability to control our open to buy at this point in time and, you know, we're adjusting it as we always have to maintain, you know, fresh inventories and keep the balances at a manageable level.

So, you know, I think that all retailers at this point in time, frankly, are being cautious about the holiday season. And I think that really as Heywood kind of said a little bit earlier, we've adjusted some of our marketing plans throughout the balance of the holiday season in expectation of maybe not, you know, the best holiday season that has ever been on record here.

Heywood Wilansky: Let me just add that when business is tough at the – at all the different tiers of retailing, from a manufacturing point of view it puts more pressure on the manufacturer and in some cases might open up the door for some improved opportunistic purchasing that would maybe be more fashion-right with better sizes and better colors held together because of the other channels of distribution, you know, holding back, cutting back, canceling, maneuvering. And so sometimes that actually will open up more opportunity for the – for the off-price or discount segment to take advantage of.

Arnold Brief: Is there – do you foresee any impact at all of the change in the quota system, increased supply so to speak? Is that helping you any indirectly?

Heywood Wilansky: You know, everybody that I've talked to that's manufacturing in China tells me that they have no clue what's really going to happen. And that – and that all of the suppositions we're all making about prices coming down because the quota is going away and how much it will

mean, no one knows yet. And I would say that probably the impact will be less significant than everybody things. That's my – that's my quick gut.

Arnold Brief: I wasn't thinking of price so much as must more supply that would maybe create opportunity for you.

Heywood Wilansky: Well, you know, as a general statement, there's no lack of merchandise out there.

Arnold Brief: OK.

Heywood Wilansky: Go into any store, I don't see any stores empty.

Arnold Brief: OK, OK. All right, thank you – thank you.

Operator: Now we have a question from Michelle Simmons, Cougar Trading.

Michelle Simmons: Hi, guys.

Jim McGrady: Hi, Michelle.

Michelle Simmons: Can you give us your comp assumptions based on your revised guidance?

Jim McGrady: For ...

Heywood Wilansky: 2004?

Michelle Simmons: For the next – yes, for the next quarter?

Jim McGrady: Yes, I think actually that as we take a look we're probably going to see the trends running about the same as what they were in November in the press release that we saw out there.

Michelle Simmons: OK.

Jim McGrady: OK?

Michelle Simmons: Thank you.

Operator: At this time there are no further questions. I'll turn it back over to your host for further remarks.

Jim McGrady: Great. Thank you, everyone, for your participation and support. And again, I apologize for the inconvenience on the – on the startup here this morning. I look forward to speaking to everyone in the near future and have a happy holiday, everybody. Thanks again.

Heywood Wilansky: Happy holidays.

Operator: That does conclude today's program. We do thank you for your participation. Everyone may now disconnect. Have a wonderful day.

Jim McGrady: Thank you.

Heywood Wilansky: Thank you.

END