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VALUE CITY DEPARTMENT STORES INC /OH
Form 10-Q
September 12, 2002

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 3, 2002

OR

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

For the transition period from _____ to _____

Commission file number 1-10767

VALUE CITY DEPARTMENT STORES, INC.

(Exact name of registrant as specified in its charter)

Ohio	31-1322832
----- (State or other jurisdiction of incorporation or organization)	----- (I.R.S. Employer Identification No.)

3241 Westerville Road, Columbus, Ohio	43224
----- (Address of principal executive offices)	----- (Zip Code)

(614) 471-4722

Registrant's telephone number, including area code

Not applicable

(Former name, former address and former fiscal year, if changed since last
report)

The registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

The number of shares outstanding of Common Stock, without par value, as of September 5, 2002 was 33,988,374.

VALUE CITY DEPARTMENT STORES, INC.

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VALUE CITY DEPARTMENT STORES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)
(UNAUDITED)

	August 3, 2002	February 2, 2002

ASSETS		
Cash and equivalents	\$ 31,952	\$ 35,915
Accounts receivable, net	5,135	6,650

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Receivables from affiliates	899	905
Inventories	417,309	396,830
Prepaid expenses and other assets	12,401	15,741
Deferred income taxes	70,505	63,102

Total current assets	538,201	519,143

Property and equipment, net	241,006	244,644
Goodwill	37,619	40,974
Tradenames, net	18,245	19,038
Other assets	67,186	56,512

	\$ 902,257	\$ 880,311

LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 196,877	\$ 149,864
Accounts payable to affiliates	5,644	8,909
Accrued expenses	125,902	130,930
Current maturities of long-term obligations	743	665

Total current liabilities	329,166	290,368

Long-term obligations, net of current maturities	314,874	337,199
Deferred rent and other noncurrent liabilities	41,178	32,315
Commitments and contingencies	--	--
Common shares, without par value; 80,000,000 authorized; issued, including treasury shares, 33,988,374 and 34,227,540 shares, respectively	144,183	145,772
Retained earnings	76,931	82,432
Deferred compensation expense, net	(1,283)	(4,150)
Treasury shares, at cost, 7,651 shares	(59)	(59)
Accumulated other comprehensive loss	(2,733)	(3,566)

	217,039	220,429

	\$ 902,257	\$ 880,311

The accompanying notes are an integral part of the consolidated financial statements.

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VALUE CITY DEPARTMENT STORES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Three months ended	Six
	-----	-----
	August 3,	August 3,
	August 4,	August 3,

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	2002	2001	2000
Net sales, excluding sales of licensed departments	\$ 569,062	\$ 536,477	\$ 1,154,974
Cost of sales	(345,463)	(330,877)	(708,188)
Gross profit	223,599	205,600	446,786
Selling, general and administrative expenses	(216,005)	(211,284)	(439,275)
License fees from affiliates	792	2,139	1,681
Other operating income	1,639	2,094	2,912
Operating profit (loss)	10,025	(1,451)	12,104
Interest expense, net	(7,863)	(8,058)	(14,201)
Income (loss) before equity in loss of joint venture, extraordinary item and cumulative effect of accounting change and income taxes	2,162	(9,509)	(2,097)
Equity in loss of joint venture	--	(327)	--
Income (loss) before extraordinary item and cumulative effect of accounting change and income taxes	2,162	(9,836)	(2,097)
(Provision) benefit for income taxes	(818)	4,065	746
Income (loss) before extraordinary item and cumulative effect of accounting change	1,344	(5,771)	(1,351)
Extraordinary (charge), net of income taxes	(2,070)	--	(2,070)
Cumulative effect of accounting change, net of income taxes	--	--	(2,080)
Net loss	\$ (726)	\$ (5,771)	\$ (5,501)
Weighted average shares outstanding	33,651	33,547	33,641
Basic and diluted earnings (loss) per share:			
Income (loss) before extraordinary item and cumulative effect of accounting change	\$ 0.04	\$ (0.17)	\$ (0.04)
Extraordinary (charge), net of income taxes	\$ (0.06)	--	\$ (0.06)
Cumulative effect of accounting change, net of income taxes	--	--	\$ (0.06)
Net loss	\$ (0.02)	\$ (0.17)	\$ (0.16)

The accompanying notes are an integral part of the consolidated financial statements.

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(UNAUDITED)

	Six months ended	
	August 3, 2002	August 4, 2001

Cash flows from operating activities:		
Net loss	\$ (5,501)	\$ (13,570)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Extraordinary charge	2,070	--
Cumulative effect of accounting change	2,080	--
Depreciation and amortization	27,408	25,243
Deferred income taxes and other noncurrent liabilities	(3,839)	(8,603)
Equity in loss of joint venture	--	1,211
Loss (gain) on disposal of assets	52	(5)
Change in working capital, assets and liabilities:		
Receivables	1,521	41,075
Inventories	(20,479)	(53,379)
Prepaid expenses and other assets	3,018	6,722
Accounts payable	43,748	3,565
Accrued expenses	(4,669)	(32,395)

Net cash provided by (used in) operating activities	45,409	(30,136)

Cash flows from investing activities:		
Capital expenditures	(19,989)	(15,366)
Proceeds from sale of assets	26	5
Other assets	--	2,550
Proceeds from lease incentives	6,451	--

Net cash used in investing activities	(13,512)	(12,811)

Cash flows from financing activities:		
Proceeds from issuance of common shares	--	783
Proceeds from issuance of debt	100,000	--
Debt issuance costs	(13,205)	--
Net increase (decrease) in:		
Revolving credit facility	(101,500)	55,000
Capital leases and other debt	(21,155)	(274)

Net cash (used in) provided by financing activities	(35,860)	55,509

Net (decrease) increase in cash and equivalents	(3,963)	12,562
Cash and equivalents, beginning of period	35,915	10,562

Cash and equivalents, end of period	\$ 31,952	\$ 23,124

The accompanying notes are an integral part of the consolidated financial statements.

VALUE CITY DEPARTMENT STORES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Value City Department Stores, Inc. and its wholly owned subsidiaries. These entities are herein referred to collectively as the Company. The Company operates a chain of full-line, off-price department stores, principally under the names Value City and Filene's Basement, as well as better-branded off-price shoe stores, under the name DSW Shoe Warehouse ("DSW"). As of August 3, 2002, a total of 254 stores were open, including 116 Value City stores located principally in Ohio (23 stores) and Pennsylvania (18 stores) with the remaining stores dispersed throughout the Midwest, East and South, 117 DSW Shoe Warehouse stores located throughout the United States and 21 Filene's Basement stores ("Filene's Basement") located principally in the Northeast United States.

The accompanying consolidated financial statements reflect all adjustments consisting of only normal recurring adjustments, which are, in the opinion of management, necessary to present fairly the consolidated financial position and results of operations for the periods presented.

To facilitate comparisons with the current year, certain previously reported balances have been reclassified to conform with the current period presentation.

2. LONG-TERM OBLIGATIONS

On June 11, 2002, the Company, together with its principal subsidiaries, entered into a \$525.0 million refinancing that consists of three separate credit facilities: (i) a new three-year \$350.0 million revolving credit facility, (ii) two \$50.0 million term loan facilities provided equally by Cerberus Partners, L.P. and Schottenstein Stores Corporation, and (iii) an amended and restated \$75.0 million senior convertible loan, initially entered into by the Company on March 15, 2000, which is held equally by Cerberus Partners, L.P. and Schottenstein Stores Corporation.

The Company recorded an extraordinary loss on debt extinguishment of \$3.3 million, \$2.1 million net of taxes, as a result of the debt financing. This loss represents the balance of unamortized deferred loan fees as of June 11, 2002.

\$350 Million Revolving Credit Facility

Under the Revolving Credit Facility, the borrowing base formula is structured in a manner that allows the Company and its subsidiaries availability based on the value of their inventories and receivables. Primary security for the facility is provided by a first priority lien on all of the inventory and accounts receivable of the Company, as well as certain intercompany notes and payment intangibles. The facility also has a second priority perfected interest in all of the collateral securing the Term Loans. Interest on borrowings is calculated at the bank's base rate or Eurodollar rate plus 2.00% to 2.75%, depending upon the level of average excess availability the Company maintains. At August 3, 2002, \$147.0 million was available

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VALUE CITY DEPARTMENT STORES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

under the Revolving Credit Facility. Direct borrowings aggregated \$110.0 million, plus \$28.0 million of letters of credit were issued and outstanding.

\$100 Million Term Loans

The Term Loans are comprised of a \$50.0 million Term Loan B and a \$50.0 million Term Loan C. All obligations under the Term Loans are senior debt, ranking pari passu with the Revolving Credit Facility and the Senior Convertible Facility. The Company and its principal subsidiaries are obligated on the facility.

The Term Loans stated rate of interest per annum during the initial two years of the agreement is 14% if paid in cash and 15% if the Company elects a paid-in-kind ("PIK") option. During the first two years of this facility, the Company may elect to pay all interest in PIK. During the final year of the Term Loans, the stated rate of interest is 15.0% if paid in cash or 15.5% by PIK. The PIK option is limited to 50% of the interest due.

The Company has agreed to issue to the Term Loan C Lenders warrants ("Warrants") to purchase shares of common stock initially exercisable for up to 8.75% of the shares of the common stock outstanding on the closing date, June 11, 2002, excluding all outstanding convertible securities, warrants, options or other equity equivalents, at an initial exercise price of \$4.50 per share. The number of shares issuable upon the exercise of the Warrants and the per share exercise price are subject to adjustment upon the occurrence of specified events. The Warrants are exercisable at any time prior to the 10th anniversary of the date of issuance at the then Warrant exercise price. The Company has granted the Term Loan C Lenders registration rights with respect to the shares issuable upon exercise of the Warrants.

The issuance of the Warrants is subject to shareholder approval. Schottenstein Stores Corporation has agreed to vote its shares of Company common stock in favor of the approval of the issuance of the Warrants.

\$75 Million Senior Convertible Loan

The Company has amended and restated its \$75.0 million Senior Subordinated Convertible Loan Agreement dated March 15, 2000. As amended, borrowings under the convertible loan will bear interest at 10% per annum. At the Company's option, interest may be PIK from the closing date to the second anniversary thereof, and thereafter, at the option of the Company, up to 50% of the interest due may be PIK until maturity. The convertible loan is guaranteed by all principal subsidiaries and is secured by a lien on assets junior to liens granted in favor of the Lenders on the Revolving Credit Agreement and Term Loans. The Senior Convertible Loan is not prepayable for five years from the closing date. The agent has the right to designate two observers to the Board of Directors for so long as the agent is the beneficial owner of at least 50% of the advances initially made by it and has the right to designate two individuals to the Board of Directors for so long as the agent is the beneficial owner of at least 50% of the conversion shares issued upon conversion of the advances initially made by it.

VALUE CITY DEPARTMENT STORES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The convertible notes are convertible at the option of the holders into shares of Value City Department Stores, Inc. common stock at an initial conversion price of \$4.50. The conversion price is subject to adjustment upon the occurrence of specified events. The conversion of the Senior Convertible Loan for shares representing in excess of 19.9% of the shares of Company common stock currently outstanding is subject to shareholder approval. Schottenstein Stores Corporation has agreed to vote its shares of Company common stock in favor of the approval of such conversion rights.

Long-term obligations consist of the following (in thousands):

	August 3, 2002	February 2, 2002

Credit facilities:		
Revolving credit facility	\$ 110,000	\$ 211,000
Term loans	99,042	--
Senior convertible loan	75,000	75,000
SSC loan	--	20,000
	-----	-----
	284,042	306,000
Capital lease obligations	31,085	31,281
Other	490	583
	-----	-----
	315,617	337,864
Less current maturities	(743)	(665)
	-----	-----
	\$ 314,874	\$ 337,199
	-----	-----

3. SHAREHOLDERS' EQUITY

Shareholders' equity for the six months ended August 3, 2002 consists of (in thousands, except shares):

Total shareholders' equity, beginning of period	\$220,429
Net Loss	(5,501)
Amortization of deferred compensation expense	278
Net unrealized gain on derivative financial instruments, net of income tax provision of \$379	833
Forfeitures of 570,000 restricted shares at \$2,590	--
Issuance of common stock purchase warrants	1,000

Total shareholders' equity, end of period	\$217,039

4. VALUATION ACCOUNTS

Reserves established and used for severance costs are the result of head count and job elimination reductions of approximately 360 associates at Value City Department Stores and an inventory alignment reserve as follows (in thousands):

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VALUE CITY DEPARTMENT STORES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Six months ended		
	August 3, 2002	August 4, 2001	
	Severance	Inventory	Severance
Balance at beginning of period	\$ 5,357	\$ 43,700	\$ 3,397
Provisions to establish reserves	1,860	--	--
Charges/payments	(5,048)	(43,700)	(2,540)
Balance at end of period	\$ 2,169	--	\$ 857

5. ADOPTION OF ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("FASB") periodically issues Statements of Financial Accounting Standards ("SFAS"), some of which require implementation by a date falling within or after the close of the fiscal year.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 applies to all business combinations completed after June 30, 2001, and requires the use of purchase accounting. SFAS No. 141 also establishes new criteria for determining whether intangible assets should be recognized separately from goodwill.

Under SFAS 142, the Company was required to test all existing goodwill for impairment as of February 3, 2002, on an operating segment basis. A fair value approach is used to test goodwill for impairment. An impairment charge is recognized for the amount, if any, by which the carrying amount of goodwill exceeds its implied fair value. Fair values and the related implied fair values of their respective goodwill were established using discounted cash flows. When available and as appropriate, comparative market multiples were used to corroborate results of the discounted cash flows.

The result of testing goodwill for impairment in accordance with SFAS 142, as of February 3, 2002, was a non-cash charge of \$3.4 million, \$2.1 million net of taxes, which is reported in the caption "Cumulative effect of accounting change". Substantially all of the charge relates to goodwill associated with the Company's purchase of the Mazel partner's interest in VCM, Ltd. and is included in the net loss for the six months ended August 3, 2002.

The following proforma amount reflects the effect of retroactive application on the previously reported quarter ended May 4, 2002 (in thousands, except per share amounts).

Net loss before cumulative effect of accounting change	\$ (2,695)
Cumulative effect of accounting change, net of income taxes	(2,080)

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Net loss as restated	\$ (4,775)
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VALUE CITY DEPARTMENT STORES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Per share amounts:

Basic and diluted loss per share:	
Net loss before cumulative effect of accounting change	\$ (0.08)
Cumulative effect of accounting change, net of income taxes	(0.08)
Net loss as restated	\$ (0.16)

The proforma effect of ceasing amortization of goodwill under SFAS 142 is as follows (in thousands, except per share amounts):

	Six months ended	
	August 3, 2002	August 4, 2001
Reported net loss	\$ (5,501)	\$ (13,570)
Addback goodwill amortization	--	1,670
Adjusted net loss	\$ (5,501)	\$ (11,900)
Basic and diluted loss per share	\$ (0.16)	\$ (0.35)

Amortization of intangible assets are as follows (in thousands):

	Value City	DSW	Filene's Basement	Tot
As of August 3, 2002				
Tradenames:				
Gross amount	\$ 1,120	\$ 12,749	\$ 9,900	\$ 23,7
Accumulated amortization	(317)	(3,612)	(1,595)	(5,5
Useful life (in years)	15	15	15	
Favorable lease values:				
Gross amount	\$ 14,417	--	\$ 24,993	\$ 39,4
Accumulated amortization	(3,602)	--	(4,563)	(8,1
Average useful life (in years)	25	--	20	
As of February 2, 2002				
Tradenames:				
Gross amount	\$ 1,120	\$ 12,750	\$ 9,900	\$ 23,7

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Accumulated amortization	(280)	(3,188)	(1,265)	(4,7
Useful life (in years)	15	15	15	
Favorable lease values:				
Gross amount	\$ 14,417	--	\$ 24,993	\$ 39,4
Accumulated amortization	(3,295)	--	(3,602)	(6,8
Average useful life (in years)	25		20	

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VALUE CITY DEPARTMENT STORES, INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

Aggregate amortization expense for the current and each of the five succeeding years is as follows (in thousands):

Fiscal Year	Value City	DSW	Filene's Basement	Total
-----	-----	---	-----	-----
2002	\$ 688	\$ 850	\$ 2,253	\$ 3,791
2003	681	850	1,794	3,325
2004	676	850	1,794	3,320
2005	676	850	1,794	3,320
2006	676	850	1,794	3,320
2007	676	850	1,794	3,320

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addressed financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Under this Statement, obligations that meet the definition of a liability will be recognized consistently with the retirement of the associated tangible long-lived assets. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is currently assessing the impact of SFAS No. 143. At this time, the Company has yet to determine the effect of this pronouncement on its results of operations and financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Because SFAS No. 121 did not address the accounting for a segment of a business accounted for as a discontinued operation under Opinion 30, two accounting models existed for long-lived assets to be disposed of. The FASB decided to establish a single accounting model, based on the framework established in Statement 121, for long-lived assets to be disposed of by sale. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. At this time, the Company is currently evaluating the impact of SFAS No. 144.

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In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The standard rescinds FASB Statements No. 4 and 64 that deal with issues relating to the extinguishment of debt. The standard also rescinds FASB Statement No. 44 that deals with intangible assets of motor carriers. The standard modifies SFAS No. 13, "Accounting for Leases," so that certain capital lease modifications must be accounted for by lessees as sale-leaseback transactions. Additionally, the standard identifies amendments that should have been made to previously existing pronouncements and formally amends the appropriate pronouncements.

This statement is effective for fiscal years beginning after May 15, 2002. The adoption of SFAS No. 145 will not have a significant effect on the Company's results of operations or its financial position.

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VALUE CITY DEPARTMENT STORES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

In July 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs that are associated with a restructuring, discontinued operations, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". Statement 146 replaces Issue 94-3 and is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

6. OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) represent net income (loss) plus the results of certain non-shareowner's equity changes not reflected in the Consolidated Statement of Operations.

The components of comprehensive income (loss), net of tax are as follows (in thousands):

	Three months ended		Six
	August 3, 2002	August 4, 2001	August 20
Net loss	\$ (726)	\$ (5,771)	\$ (5,5
Net unrealized gain (loss), on derivative financial instruments, net of income tax	381	(2,309)	8
Minimum pension liability, net of income tax	--	--	
Other comprehensive loss	\$ (345)	\$ (8,080)	\$ (4,6

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The components of the balance sheet caption accumulated other comprehensive loss are as follows (in thousands):

	August 3, 2002	February 2, 2002

Net unrealized loss on derivative		
financial instruments, net of income tax	\$(1,762)	\$(2,595)
Minimum pension liability, net of income tax	(971)	(971)

Accumulated other comprehensive loss	\$(2,733)	\$(3,566)

7. INVESTMENT IN JOINT VENTURE

Effective at the close of business on February 2, 2002, the Company acquired the Mazel partner's interest in the VCM, Ltd. joint venture for \$8.4 million. The consolidated balance sheet and current operations for the period ended August 3, 2002 reflect this acquisition.

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VALUE CITY DEPARTMENT STORES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following unaudited proforma consolidated financial results for the three and six months ended August 4, 2001 are presented as if the acquisition had taken place at the beginning of the applicable period (in thousands, except per share amounts):

	Three Months Proforma Total	Six Months Proforma Total

Net sales	\$ 562,126	\$ 1,115,171
Net loss	\$ (5,487)	\$ (13,401)
Basic and diluted loss per share	\$ (0.16)	\$ (0.40)

8. SEGMENT REPORTING

The Company is managed in three operating segments: Value City Department Stores, DSW and Filene's Basement. All of the operations are located in the United States. The Company has identified such segments based on management responsibility and measures segment profit as operating (loss) profit that is defined as income before interest expense and income taxes.

Three month period ended August 3, 2002 (in thousands):

	Value City -----	DSW ---	File ---
Net sales	\$336,456	\$158,833	\$73

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Operating profit	892	8,745
Capital expenditures	5,623	8,079
Depreciation and amortization	10,280	1,909

Three month period ended August 4, 2001 (in thousands):

	Value City -----	DSW ---	File ---
Net sales	\$336,657	\$130,916	\$68
Operating (loss) profit	(4,732)	(1,397)	4
Capital expenditures	4,774	939	1
Depreciation and amortization	9,033	1,684	1

Six month period ended August 3, 2002 (in thousands):

	Value City -----	DSW ---	File ---
Net sales	\$695,681	\$314,809	\$144
Operating (loss) profit	(3,402)	13,732	1
Capital expenditures	8,033	10,637	1
Depreciation and amortization	20,557	3,381	3
Identifiable assets	420,907	363,230	118

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VALUE CITY DEPARTMENT STORES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Six month period ended August 4, 2001 (in thousands):

	Value City -----	DSW ---	File ---
Net sales	\$681,499	\$252,666	\$132
Operating (loss) profit	(13,482)	3,716	4
Capital expenditures	8,689	5,725	3
Depreciation and amortization	17,816	4,222	3
Identifiable assets	399,257	417,728	109

9. COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal proceedings that are incidental to the conduct of its business. In the opinion of management, the amount of

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any liability with respect to these proceedings will not be material.

10. EARNINGS PER SHARE

Basic earnings per share is based on a simple weighted average of common shares outstanding. Diluted earnings per share give effect to all dilutive potential common shares outstanding during a period. The quarterly calculation for dilution indicated the result would be antidilutive and therefore would not be included in the statement.

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VALUE CITY DEPARTMENT STORES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Company's Form 10-K for the year ended February 2, 2002 included a discussion of the Company's critical accounting policies, which discussion should be read in conjunction with the quarterly information contained in this Form 10-Q.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage relationships to net sales of the listed items included in the Company's Consolidated Statements of Operations.

	Three months ended		Six m
	August 3, 2002	August 4, 2001	August 3, 2002
Net sales, excluding sales of licensed departments	100.0%	100.0%	100.0%
Cost of sales	(60.7)	(61.7)	(61.3)
Gross profit	39.3	38.3	38.7
Selling, general and administrative expenses	(38.0)	(39.4)	(38.0)
License fees from affiliates and other operating income	0.5	0.8	0.4
Operating profit (loss)	1.8	(0.3)	1.1
Interest expense, net	(1.4)	(1.5)	(1.2)
Income (loss) before equity in loss			

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of joint venture, extraordinary item and cumulative effect of accounting change and income taxes	0.4	(1.8)	(0.1)
Equity in loss of joint venture	--	--	--

Income (loss) before extraordinary item and cumulative effect of accounting change and income taxes	0.4	(1.8)	(0.1)
(Provision) benefit for income taxes	(0.1)	0.7	--

Income (loss) before extraordinary item and cumulative effect of accounting change	0.3	(1.1)	(0.1)
Extraordinary (charge), net of income taxes	(0.4)	--	(0.2)
Cumulative effect of accounting change, net of income taxes	--	--	(0.2)

Net loss	(0.1)%	(1.1)%	(0.5)%

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VALUE CITY DEPARTMENT STORES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

THREE MONTHS ENDED AUGUST 3, 2002 COMPARED TO THREE MONTHS ENDED AUGUST 4, 2001

The Company's net sales increased \$32.6 million, or 6.1%, from \$536.5 million to \$569.1 million. Sales for the period ended August 3, 2002 include \$24.0 million attributable to sales of departments formally operated by the joint venture VCM, Ltd. Comparable stores sales decreased 4.3% for the quarter. By segment, comparable store sales were:

	Three months ended	
	August 3, 2002	August 4, 2001
Value City Department Stores	(6.1)%	(7.2)%
DSW	(2.1)%	1.3%
Filene's Basement	1.2%	2.8%

Total	(4.3)%	(4.5)%

Value City Department Store's non-apparel comparable sales decreased 5.8% while apparel sales decreased 8.1%. Each of the three apparel divisions: Children's, Men's and Ladies, had negative comparable sales for the quarter of 14.1%, 11.4% and 2.8%, respectively, and shoe sales increased 3%.

DSW sales were \$158.8 million, a 21.3% increase in the quarter, which includes a net increase of 28 stores.

Filene's Basement sales were \$73.8 million, a 7.1% increase in the quarter, which includes a net increase of 2 stores.

Gross profit increased \$18.0 million, an 8.8% improvement, from \$205.6 million to \$223.6 million, and increased as a percentage of sales to 39.3%. Gross

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profit, as a percent of sales by segment in the second quarter, was:

	Three months ended	
	August 3, 2002	August 4, 2001
Value City Department Stores	39.7%	38.8%
DSW	40.9%	38.3%
Filene's Basement	33.9%	36.0%
Total	39.3%	38.3%

Selling, general and administrative expenses ("SG&A") increased \$4.7 million, from \$211.3 million to \$216.0 million, and decreased as a percentage of sales from 39.4% to 38.0%. This increase includes \$7.0 million attributable to new stores in operation at DSW and Filene's Basement, a charge of \$0.7 million for store closings and a \$0.2 million provision for severance costs. SG&A for the quarter ended August 4, 2001 included \$0.8 million of goodwill amortization. SG&A as a percent of sales by segment in the second quarter was:

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VALUE CITY DEPARTMENT STORES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

	Three months ended	
	August 3, 2002	August 4, 2001
Value City Department Stores	39.9%	41.1%
DSW	35.5%	39.7%
Filene's Basement	34.3%	30.3%
Total	38.0%	39.4%

License fees from affiliates and other operating income decreased \$1.8 million, from \$4.2 million to \$2.4 million, and decreased as a percentage of sales from 0.8% to 0.4% as a result of VCM, Ltd. acquisition. License fees received from the VCM, Ltd. joint venture in the quarter ended August 4, 2001 were approximately \$1.7 million.

Operating profit (loss) increased \$11.5 million, from a loss of \$1.5 million to income of \$10.0 million, and increased as a percentage of sales from a loss of 0.3% to income of 1.8%.

Net interest expense for the quarter decreased \$0.2 million to \$7.9 million. This decrease is due primarily to a \$44.1 million drop in average borrowings from last year to this year, primarily due to inventory management and expense controls and a 5.7% decrease in our weighted average borrowing rate.

Effective at the close of business on February 2, 2002, the Company acquired the Mazel partner's interest in the VCM, Ltd. joint venture for \$8.4 million. The consolidated balance sheet as of August 3, 2002 and February 2, 2002, and statements of operations for the three month period ended August 3, 2002 reflect

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this acquisition.

The Company recorded an extraordinary loss on debt extinguishment of \$3.3 million, \$2.1 million net of taxes, as a result of the debt refinancing. This loss represents the balance of unamortized deferred loan fees as of June 11, 2002.

SIX MONTHS ENDED AUGUST 3, 2002 COMPARED TO SIX MONTHS ENDED AUGUST 4, 2001

The Company's net sales increased \$88.4 million, or 8.3%, from \$1,066.6 million to \$1,155.0 million. Sales for the six-month period ended August 3, 2002 include \$49.1 million attributable to sales of departments formally operated by the joint venture VCM, Ltd. Comparable stores sales decreased 2.1%. By segment, comparable store sales were:

	Six months ended	
	August 3, 2002	August 4, 2001
Value City Department Stores	(3.6)%	(6.8)%
DSW	(0.4)%	1.8%
Filene's Basement	3.0%	6.3%
Total	(2.1)%	(4.2)%

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VALUE CITY DEPARTMENT STORES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Value City Department Store's non-apparel comparable sales decreased 1.9% while apparel sales decreased 5.4%. Each of the three apparel divisions: Children's, Men's and Ladies, had negative comparable sales for the six-month period of 7.8%, 9.0% and 1.6%, respectively, and shoe sales increased 1.1%.

DSW sales were \$314.8 million, a 24.6% increase in the six-month period, which includes a net increase of 28 stores.

Filene's Basement sales were \$144.5 million, a 9.1% increase in the six-month period, which includes a net increase of 2 stores.

Gross profit increased \$39.3 million, a 9.6% improvement from \$407.5 million to \$446.8 million, and increased as a percentage of sales from 38.2% to 38.7%. Gross profit, as a percent of sales by segment in the six-month period, was:

	Six months ended	
	August 3, 2002	August 4, 2001
Value City Department Stores	38.8%	38.4%
DSW	40.0%	39.0%
Filene's Basement	35.4%	35.8%
Total	38.7%	38.2%

Selling, general and administrative expenses ("SG&A") increased \$19.5 million,

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from \$419.8 million to \$439.3 million, and decreased as a percentage of sales from 39.4% to 38.0%. This increase includes \$11.7 million attributable to new stores in operation at DSW and Filene's Basement, a charge of \$1.8 million for store closings and a \$1.9 million provision for severance costs. SG&A for the six months ended August 3, 2001 included \$1.7 million of goodwill amortization. SG&A as a percent of sales by segment in the six-month period was:

	Six months ended	
	August 3, 2002	August 4, 2001
Value City Department Stores	39.8%	41.2%
DSW	35.7%	37.6%
Filene's Basement	34.9%	33.4%
Total	38.0%	39.4%

License fees from affiliates and other operating income decreased \$2.2 million, from \$6.8 million to \$4.6 million, and decreased as a percentage of sales from 0.6% to 0.4% as a result of VCM, Ltd. acquisition. License fees received from the VCM, Ltd. joint venture in the six-month period ended August 4, 2001 were approximately \$3.1 million.

Operating profit (loss) increased \$17.6 million, from a loss of \$5.5 million to income of \$12.1 million, and increased as a percentage of sales from a loss of 0.5% to income of 1.0%.

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VALUE CITY DEPARTMENT STORES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net interest expense for the six-month period decreased \$2.3 million to \$14.2 million. This decrease is due primarily to a \$34.0 million drop in average borrowings from last year to this year, primarily due to inventory management and expense controls and a 20.2% decrease in our weighted average borrowing rate.

Effective at the close of business on February 2, 2002, the Company acquired the Mazel partner's interest in the VCM, Ltd. joint venture for \$8.4 million. The consolidated balance sheets as of August 3, 2002 and February 2, 2002 and statements of operations for the six month period ended August 3, 2002 reflect this acquisition.

Under SFAS 142, the Company was required to test all existing goodwill for impairment as of February 3, 2002, on an operating segment basis. A fair value approach is used to test goodwill for impairment. An impairment charge is recognized for the amount, if any, by which the carrying amount of goodwill exceeds its implied fair value. Fair values and the related implied fair values of their respective goodwill were established using discounted cash flows. When available and as appropriate, comparative market multiples were used to corroborate results of the discounted cash flows.

The result of testing goodwill for impairment in accordance with SFAS 142, as of February 3, 2002, was a non-cash charge of \$3.4 million, \$2.1 million net of taxes, which is reported in the caption "Cumulative effect of accounting change". Substantially all of the charge relates to goodwill associated with the Company's purchase of the Mazel partner's interest in VCM, Ltd. and is included

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in the net loss for the six months ended August 3, 2002.

The Company recorded an extraordinary loss on debt extinguishment of \$3.4 million, \$2.1 million net of taxes, as a result of the debt refinancing. This loss represents the balance of unamortized deferred loan fees as of June 11, 2002.

The effective tax rate for fiscal 2002 is 35.6% versus 41.4% for fiscal 2001. The Company expects its tax rate to trend lower than last year, the extent to which will depend upon the relative taxable income in the various taxing jurisdictions.

LIQUIDITY AND CAPITAL RESOURCES

Net working capital was \$209.0 million at August 3, 2002, compared to \$273.9 million at August 4, 2001. Current ratios at those dates were each 1.63 and 1.93, respectively.

Net cash provided by operating activities totaled \$45.4 million for the six months ended August 3, 2002 compared to a use of cash of \$30.1 million for the six months ended August 4, 2001. Earnings before interest, taxes, depreciation and amortization (EBITDA) for the six months ended August 3, 2002 was \$42.1 million.

Net cash used for capital expenditures was \$13.5 million and \$15.4 million for the six months ended August 3, 2002 and August 4, 2001, respectively. During the six months ended August 3, 2002, capital expenditures included \$2.9 million for new stores, \$7.7 million on remodeled and existing stores, \$1.4 million for MIS upgrades and new systems and \$1.5 million for office and warehousing.

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VALUE CITY DEPARTMENT STORES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On June 11, 2002, the Company, together with its principal subsidiaries, entered into a \$525.0 million refinancing that consists of three separate credit facilities: (i) a new three-year \$350.0 million revolving credit facility, (ii) two \$50.0 million term loan facilities provided equally by Cerberus Partners, L.P. and Schottenstein Stores Corporation, and (iii) an amended and restated \$75.0 million senior convertible loan, initially entered into by the Company on March 15, 2000, which is held equally by Cerberus Partners, L.P. and Schottenstein Stores Corporation.

\$350 Million Revolving Credit Facility

Under the Revolving Credit Facility, the borrowing base formula is structured in a manner that allows the Company and its subsidiaries availability based on the value of their inventories and receivables. Primary security for the facility is provided by a first priority lien on all of the inventory and accounts receivable of the Company, as well as certain intercompany notes and payment intangibles. The facility also has a second priority perfected interest in all of the collateral securing the Term Loans. Interest on borrowings is calculated at the bank's base rate or Eurodollar rate plus 2.00% to 2.75%, depending upon the level of average excess availability the Company maintains.

\$100 Million Term Loans

The Term Loans are comprised of a \$50.0 million Term Loan B and a \$50.0 million

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Term Loan C. All obligations under the Term Loans are senior debt, ranking pari passu with the Revolving Credit Facility and the Senior Convertible Loans. The Company and its principal subsidiaries are obligated on the Term Loans.

The Term Loans stated rate of interest per annum during the initial two years of the agreement is 14% if paid in cash and 15% if the Company elects a paid-in-kind ("PIK") option. During the first two years of this facility, the Company may pay all interest by PIK. During the final year of the Term Loans, the stated rate of interest is 15.0% if paid in cash or 15.5% by PIK and the PIK option is limited to 50% of the interest due.

The Company has agreed to issue to the Term Loan C Lenders warrants ("Warrants") to purchase shares of common stock initially exercisable for up to 8.75% of the shares of the common stock outstanding on the closing date, June 11, 2002, excluding all outstanding convertible securities, warrants, options or other equity equivalents, at an initial exercise price of \$4.50 per share. The number of shares issuable upon the exercise of the Warrants and the per share exercise price are subject to adjustment upon the occurrence of specified events. The Warrants are exercisable at any time prior to the 10th anniversary of the date of issuance at the then Warrant exercise price. The Company has granted the Term Loan C Lenders registration rights with respect to the shares issuable upon exercise of the Warrants.

The issuance of the Warrants is subject to shareholder approval. Schottenstein Stores Corporation has agreed to vote its shares of Company common stock in favor of the approval of the issuance of the Warrants.

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VALUE CITY DEPARTMENT STORES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

\$75 Million Senior Convertible Loan

The Company has amended and restated its \$75.0 million Senior Subordinated Convertible Loan Agreement dated March 15, 2000. As amended, borrowings under the convertible loan will bear interest at 10% per annum. At the Company's option, interest may be PIK from the closing date to the second anniversary thereof, and thereafter, at the option of the Company, up to 50% of the interest due may be PIK until maturity. The convertible loan is guaranteed by all principal subsidiaries and is secured by a lien on assets junior to liens granted in favor of the Revolving Credit Agreement and Term Loans. The Senior Convertible Loan is not prepayable for five years from the closing date. The agent has the right to designate two observers to the Board of Directors for so long as the agent is the beneficial owner of at least 50% of the advances initially made by it and has the right to designate two individuals to the Board of Directors for so long as the agent is the beneficial owner of at least 50% of the conversion shares issued upon conversion of the advances initially made by it.

The convertible notes are convertible at the option of the holders into shares of Value City Department Stores, Inc. common stock at a initial conversion price of \$4.50. The conversion price is subject to adjustment upon the occurrence of specified events. The conversion of the Senior Convertible Loan for shares representing in excess of 19.9% of the shares of Company common stock currently outstanding is subject to shareholder approval. Schottenstein Stores Corporation has agreed to vote its shares of Company common stock in favor of the approval of such conversion rights.

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ADOPTION OF ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("FASB") periodically issues Statements of Financial Accounting Standards ("SFAS"), some of which require implementation by a date falling within or after the close of the fiscal year.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 applies to all business combinations completed after June 30, 2001, and requires the use of purchase accounting. SFAS No. 141 also establishes new criteria for determining whether intangible assets should be recognized separately from goodwill.

Under SFAS 142, the Company was required to test all existing goodwill for impairment as of February 3, 2002, on an operating segment basis. A fair value approach is used to test goodwill for impairment. An impairment charge is recognized for the amount, if any, by which the carrying amount of goodwill exceeds its implied fair value. Fair values and the related implied fair values of their respective goodwill were established using discounted cash flows. When available and as appropriate, comparative market multiples were used to corroborate results of the discounted cash flows.

The result of testing goodwill for impairment in accordance with SFAS 142, as of February 3, 2002, was a non-cash charge of \$3.4 million, \$2.1 million net of taxes, which is reported in the caption "Cumulative effect of accounting change". Substantially all of the charge relates to goodwill associated with the Company's purchase of the Mazel partner's interest in VCM, Ltd. and is included in the new loss for the six months ended August 3, 2002.

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VALUE CITY DEPARTMENT STORES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addressed financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Under this Statement, obligations that meet the definition of a liability will be recognized consistently with the retirement of the associated tangible long-lived assets. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is currently assessing the impact of SFAS No. 143. At this time, the Company has yet to determine the effect of this pronouncement on its results of operations and financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Because SFAS No. 121 did not address the accounting for a segment of a business accounted for as a discontinued operation under Opinion 30, two accounting models existed for long-lived assets to be disposed of. The FASB decided to establish a single accounting model, based on the framework established in Statement 121, for long-lived assets to be disposed of by sale. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. At this time, the Company is currently evaluating the impact of SFAS No. 144.

In May 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4,

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44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The standard rescinds FASB Statements No. 4 and 64 that deal with issues relating to the extinguishment of debt. The standard also rescinds FASB Statement No. 44 that deals with intangible assets of motor carriers. The standard modifies SFAS No. 13, "Accounting for Leases," so that certain capital lease modifications must be accounted for by lessees as sale-leaseback transactions. Additionally, the standard identifies amendments that should have been made to previously existing pronouncements and formally amends the appropriate pronouncements.

This statement is effective for fiscal years beginning after May 15, 2002. The adoption of SFAS No. 145 will not have a significant effect on the Company's results of operations or its financial position.

In July 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs that are associated with a restructuring, discontinued operations, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". Statement 146 replaces Issue 94-3 and is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

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VALUE CITY DEPARTMENT STORES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INFLATION

The results of operations and financial condition are presented based upon historical cost. While it is difficult to accurately measure the impact of inflation because of the nature of the estimates required, management believes the effect of inflation, if any, on the results of operations and financial condition has been minor.

RISK FACTORS AND SAFE HARBOR STATEMENT

We caution that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Report and/or other risk factors that may be described in the Safe Harbor Statement and Business Risks section of the Company's Form 10-K, filed April 29, 2002, or contained in other filings with the Securities and Exchange Commission or made by our management involve risks and uncertainties, and are subject to change based on various important factors. The following factors, among others, in some cases have affected and in the future could affect our financial performance and actual results and could cause actual results for 2002 and beyond to differ materially from those expressed or implied in any such forward-looking statements: decline in demand for our merchandise, our ability to attain our fiscal 2002 business plan, expected cash from operations, vendor and their factor relations, flow of merchandise, compliance with the terms of our credit facilities, our ability to strengthen our liquidity, the availability of desirable store locations on suitable terms, changes in consumer spending patterns, consumer preferences and overall economic conditions, the impact of competition and pricing, changes in weather patterns, changes in existing or

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potential duties, tariffs or quotas, paper and printing costs, and the ability to hire and train associates.

Historically, our operations have been seasonal, with a disproportionate amount of sales and a majority of net income occurring in the back-to-school and Christmas selling seasons. As a result of this seasonality, any factors negatively affecting us during this period, including adverse weather, the timing and level of markdowns or unfavorable economic conditions, could have a material adverse effect on our financial condition and results of operations for the entire year.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk results from fluctuations in interest rates. The Company is exposed to interest rate risk through borrowings under its revolving credit agreement. To minimize the effect of interest rate fluctuations, the Company has entered into a \$75.0 million interest rate swap arrangement. Under this agreement, the Company pays a fixed rate of interest on a portion of the outstanding balance.

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PART II. OTHER INFORMATION

- Item 1. LEGAL PROCEEDINGS. Not applicable
- Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS. Not applicable
- Item 3. DEFAULTS UPON SENIOR SECURITIES. Not applicable
- Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. Not applicable
- Item 5. OTHER INFORMATION. Not applicable
- Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

Part A Exhibits.

Exhibit No. -----	Document -----
10	Employment Agreement by and between Value City Department Stores, Inc. and John C. Rossler, effective as of February 3, 2002.
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted, Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer.
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted, Pursuant to Section 906 of the

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Sarbanes-Oxley Act of 2002 by the
Chief Financial Officer.

Part B Reports on Form 8-K.

On June 12, 2002, we filed a Form 8-K, Items 5 and 7,
relating to our new credit facility.

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SIGNATURE

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

VALUE CITY DEPARTMENT STORES, INC.
(Registrant)

Date: September 12, 2002

By: /s/ James A. McGrady

James A. McGrady,
Chief Financial Officer and Treasurer

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CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John C. Rossler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Value
City Department Stores, Inc.;
2. Based on my knowledge, this quarterly report does not contain
any untrue statement of a material fact or omit to state a
material fact necessary to make the statements made, in light
of the circumstances under which such statements were made,
not misleading with respect to the period covered by this
quarterly report; and
3. Based on my knowledge, the financial statements, and other
financial information included in this quarterly report,
fairly present in all material respects the financial
condition, results of operations and cash flows of the

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registrant as of, and for, the periods presented in this quarterly report.

Date: September 12, 2002

/s/ John C. Rossler

John C. Rossler
President and Chief Executive Officer of
Value City Department Stores, Inc.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James A. McGrady, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Value City Department Stores, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 12, 2002

/s/ James A. McGrady

James A. McGrady
Executive Vice President, Chief Financial
Officer, Treasurer and Secretary of
Value City Department Stores, Inc.