VALUE CITY DEPARTMENT STORES INC /OH
Form 10-Q
September 18, 2001

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 4, 2001

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 7, 2001 was 34,416,960.

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VALUE CITY DEPARTMENT STORES, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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	AUGUST 4,	FEBRUARY 3,

	2001	2001
ASSETS		
Current assets:		
Cash and equivalents	$ 23,124	$ 10,562
Accounts receivable, net	13,825	44,927
Receivables from affiliates	3,093	9,452
Inventories	446,956	393,577
Prepaid expenses and other assets	15,568	22,290
Deferred income taxes	65,492	51,732
Total current assets	568,058	532,540
Property and equipment, at cost:		
Furniture, fixtures and equipment	230,949	223,675
Leasehold improvements	182,451	176,318
Land and building	801	801
Capital leases	37,414	38,348
	451,615	439,142
Accumulated depreciation and amortization	(208,117)	(190,103)
Property and equipment, net	243,498	249,039
Investment in joint venture	7,081	8,292
Goodwill and tradenames, net	61,294	67,056
Other assets	46,629	51,082
Total assets	$ 926,560	$ 908,009
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 186,446	$ 180,736
Accounts payable to affiliates	11,510	13,655
Accrued expenses:		
Compensation	16,209	19,662
Taxes	33,016	31,255
Other	46,456	75,227
Current maturities of long-term obligations	581	603
Total current liabilities	294,218	321,138
Long-term obligations, net of current maturities	381,564	326,449
Deferred income taxes and other noncurrent liabilities	14,565	10,115
Commitments and contingencies	-	-
Shareholders' equity:		
Common shares, without par value; 80,000,000 authorized; issued, including treasury shares, 34,429,783 and 34,330,863 shares, respectively	146,442	145,659
Retained earnings	97,585	111,155
Deferred compensation expense, net	(5,447)	(6,448)
Treasury shares, at cost, 7,651 shares	(59)	(59)
Accumulated other comprehensive loss	(2,308)	-
Total shareholders' equity	236,213	250,307
Total liabilities and shareholders' equity	$ 926,560	$ 908,009

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

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

	THREE MONTHS ENDED		
	AUGUST 4, 2001	JULY 29, 2000	AUG 2
Net sales, excluding sales of licensed departments	$ 536,477	$ 528,246	$ 1,0
Cost of sales	(330,877)	(327,958)	(6
Gross profit	205,600	200,288	4
Selling, general and administrative expenses	(211,288)	(197,063)	(4
License fees from affiliates	2,139	2,731	
Other operating income	2,094	1,156	
Operating (loss) profit	(1,455)	7,112	
Interest expense, net	(8,058)	(7,963)	(
Gain on disposal of assets, net	4	861	
(Loss) income before equity in (loss) income of joint venture and benefit (provision) for income taxes	(9,509)	10	(
Equity in (loss) income of joint venture	(327)	107	
(Loss) income before benefit (provision) for income taxes	(9,836)	117	(
Benefit (provision) for income taxes	4,065	(49)	
Net (loss) income	$ (5,771)	$ 68	$ (
Basic and diluted (loss) earnings per share	$ (0.17)	$ 0.00	$

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

VALUE CITY DEPARTMENT STORES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	SIX MONTHS ENDED	
	AUGUST 4, 2001	JULY 29, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (13,570)	$ 123
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	25,243	18,985
Deferred income taxes and other noncurrent liabilities	(8,603)	(2,154
Equity in loss of joint venture	1,211	161
Gain on disposal of assets	(5)	(841
Change in working capital, assets and liabilities excluding effects of acquisition:		
Receivables	41,075	(8,446
Inventories	(53,379)	(160,221
Prepaid expenses and other assets	6,722	696
Accounts payable	3,565	105,191
Accrued expenses	(32,395)	(11,559
Net cash used in operating activities	(30,136)	(58,065
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(15,366)	(34,480
Proceeds from sale of assets	5	116
Acquisition	-	(3,506
Other assets and lease acquisition costs	2,550	(25,022
Net cash used in investing activities	(12,811)	(62,892
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common shares	783	1,371
Net proceeds from issuance of debt	54,726	128,705
Net cash provided by financing activities	55,509	130,076
Net increase in cash and equivalents	12,562	9,119
Cash and equivalents, beginning of period	10,562	6,027
Cash and equivalents, end of period	$ 23,124	$ 15,146

Non-cash transactions:

Issuance of common shares related to acquisition	-	$ 5,500
Contribution made in treasury shares	-	$ 1,080

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

VALUE CITY DEPARTMENT STORES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED AUGUST 4, 2001 AND JULY 29, 2000
(unaudited)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Value City Department Stores, Inc. (VCDS) 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 name Value City, a chain of off-price specialty retail stores under the name Filene's Basement, as well as better-branded off-price shoe stores, under the name "DSW Shoe Warehouse." As of August 4, 2001 a total of 227 stores were open, including 119 Value City stores located principally in Ohio (23 stores) and Pennsylvania (19 stores) with the remaining stores dispersed throughout the Midwest, East and South and 89 DSW Shoe Warehouse stores (DSW) located throughout the United States and 19 Filene's Basement stores ("Filene's") located principally in the New England states.

The accompanying 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.

Certain prior year balances have been reclassified to conform with the current year presentation.

2. SHAREHOLDERS' EQUITY

The Company entered into a $75.0 million Senior Subordinated Convertible Loan Agreement ("Senior Facility"), dated as of March 15, 2000. The Senior Facility bears interest at various rates, currently equal to 250 basis points over LIBOR. The interest rate increases an additional 50 basis points every 90 days after the first anniversary date. The Senior Facility is due in September 2003. In December 2000, pursuant to terms of the Senior Facility, Schottenstein Stores Corporation ("SSC"), direct owner of approximately 53.0% of the Company's common shares, purchased the outstanding balance under the same continuing terms. The terms, as amended, provide that if prior to August 5, 2001, the balance outstanding thereunder is not repaid from the proceeds of an equity offering or other subordinated debt acceptable to lenders under the Credit Agreement, then after that date SSC, as the lender, has the right to convert the debt into our common stock at a price equal to 95% of the 20-day average of high and low sales prices reported on the New York Stock Exchange at the time of conversion. The Company paid SSC a one time fee of 200 basis points, or $1.5 million, in December 2000 as consideration for entering into a Put Agreement associated with the Senior Facility. See Note 8 "Subsequent Event."

3. VALUATION ACCOUNTS

For the three and six months ended August 4, 2001, charges to the inventory realignment reserve and the accrued severance liability were $19.1 million, $43.7 million, $0.2 million and $1.2 million, respectively.

4. 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 our fiscal year.

Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company's adoption of SFAS 133 effective February 4, 2001 did not have a significant impact on the financial position, results of operations, or cash flows of the Company.

The Company utilizes interest rate swap agreements to manage its interest rate risks on borrowings under its $300 million variable rate credit agreement. The Company does not hold or issue derivative financial instru-

ments for trading purposes. The Company does not have derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions.

In July 2001, the FASB issued SFAS 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". The guidance in SFAS No. 141 supercedes APB 16 and is applicable to business combinations initiated after June 30, 2001. Upon adoption of SFAS No. 142, goodwill will cease to be amortized and will instead be subject to periodic impairment reviews as set forth in the new standard. The Company is currently evaluating the Statement's impairment provisions and has not yet determined what effect, if any, they might have on the consolidated financial position and results of operations of the Company.

5. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The difference between net earnings and comprehensive earnings for the quarter ending August 4, 2001 relates to the change in the fair market value of interest rate swap agreements. Comprehensive loss is $0.2 million and $0.7 million greater than net loss for the three and six month periods ended August 4, 2001, respectively.

6. INVESTMENT IN JOINT VENTURE

Pursuant to the terms of the joint venture Operating Agreement the Company informed Mazel Stores, Inc. of its intention to terminate the joint venture. The Company is in discussion with Mazel regarding the notice of termination.

7. SEGMENT REPORTING

The Company is managed in three operating segments: Value City Department Stores, DSW Shoe Warehouse stores and Filene's Basement stores, acquired effective March 17, 2000. 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. Corporate assets include goodwill and loan costs related to the Shonac acquisition.

THREE MONTH PERIOD ENDED AUGUST 4, 2001 (IN THOUSANDS):

	VALUE CITY	DSW	FILENE'S	CORPOR
Net sales	$336,657	$130,916	$68,904	-
Operating (loss) profit	(4,736)	(1,397)	4,678	-
Capital expenditures	4,774	939	119	-
Depreciation and amortization	9,033	1,108	1,694	$576

THREE MONTH PERIOD ENDED JULY 29, 2000 (IN THOUSANDS):

	VALUE CITY	DSW	FILENE'S	CORPOR
Net sales	$363,100	$101,139	$64,007	-
Operating (loss) profit	(2,371)	6,151	3,332	-
Capital expenditures	16,916	3,709	476	-
Depreciation and amortization	6,706	931	620	$927

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VALUE CITY DEPARTMENT STORES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED AUGUST 4, 2001 AND JULY 29, 2000
(unaudited)

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SIX-MONTH PERIOD ENDED AUGUST 4, 2001 (IN THOUSANDS):

	VALUE CITY	DSW	FILENE'S	CORPOR
Net sales	$681,499	$252,666	$132,426	-
Operating (loss) profit	(13,487)	3,716	4,303	-
Identifiable assets	682,094	107,818	109,575	$27,0
Capital expenditures	7,847	6,567	952	-
Depreciation and amortization	17,816	2,718	3,205	1,5

SIX-MONTH PERIOD ENDED JULY 29, 2000 (IN THOUSANDS):

	VALUE CITY	DSW	FILENE'S	CORPOR
Net sales	$710,907	$189,526	$89,866	-
Operating (loss) profit	(2,023)	9,142	5,729	-
Identifiable assets	850,979	79,424	86,338	$29,3
Capital expenditures	28,175	5,829	476	-
Depreciation and amortization	14,686	1,406	1,000	1,8

8. SUBSEQUENT EVENT

In August 2001, the Company entered into a non-binding letter of intent with SSC whereby SSC may acquire all of the outstanding stock or assets of Shonac Corporation, DSW Shoe Warehouse, Inc. and Filene's Basement, Inc. (the "Businesses") for an aggregate purchase price of $275 million, comprised of $200 million in cash and the assumption of the $75 million Senior Subordinated Convertible Loan held by SSC.

The non-binding letter of intent allowed the Company to solicit third party preliminary non-binding indications of interest for one or more of the Businesses through August 31, 2001 and to terminate the letter of intent or any definitive purchase agreement with SSC pursuant to a superior proposal for one or more of the Businesses through the later of October 15, 2001, or the execution of a definitive agreement with SSC, subject to the payment of a termination fee of $8.45 million.

As part of the consideration, in September 2001 SSC agreed to increase immediately the line of credit under the Value City Subordinated Credit Agreement from $50 million to $100 million under the same terms as set forth in the Subordinated Credit Agreement..

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.

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 MONTHS ENDE	
	AUGUST 4, 2001	JULY 29, 2000	AUGUST 4, 2001	JULY
Net sales	100.0%	100.0%	100.0%	
Gross profit	38.3	37.9	38.2	
Selling, general and administrative expenses	(39.4)	(37.3)	(39.4)	
License fees from affiliates and other operating income	0.8	0.7	0.7	
Operating (loss) profit	(0.3)	1.3	(0.5)	
Interest expense, net, and gain on disposals	(1.5)	(1.3)	(1.6)	
Equity in loss of joint venture	-	-	(0.1)	
(Loss) income before income taxes	(1.8)	-	(2.2)	
Benefit (provision) for income taxes	0.7	-	0.9	
Net (loss) income	(1.1)%	0.0%	(1.3)%	

THREE MONTHS ENDED AUGUST 4, 2001 COMPARED TO THREE MONTHS ENDED JULY 29, 2000

The Company's net sales increased $8.3 million, or 1.6%, from $528.2 million to $536.5 million. Fiscal 2001 includes sales of $68.9 million for Filene's Basement which was acquired in March 2000. The prior year second quarter sales for Filene's Basement were $64.0 million. Comparable stores sales for the quarter decreased 4.5%. By segment, comparable store sales were:

	2001	2000
Value City Department Stores	(7.2)%	(1.0)%
DSW	1.3%	26.8%
Filene's Basement	2.8%	N/A
TOTAL	(4.5)%	3.2%

Value City's non-apparel comparable sales decreased 5.2% while apparel sales decreased 7.8%. Children's had a comparable store sales increase of 6.4% while men's and ladies decreased 3.1% and 15.8%, respectively.

DSW sales were $130.9 million, a 29.4% increase in the quarter which includes a net increase of 25 stores.

Gross profit increased $5.3 million from $200.3 million to $205.6 million, and increased as a percentage of sales from 37.3% to 39.4% due primarily to a decrease in the level of markdowns as a percentage of sales. Gross profit as a percent of sales by segment in the second quarter were:

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

	2001	2000
Value City Department Stores	38.8%	37.8%
DSW	38.3%	39.9%
Filene's Basement	36.0%	35.4%
TOTAL	38.3%	37.9%

Selling, general and administrative expenses ("SG&A") increased $14.2 million from $197.1 million to $211.3 million, and increased as a percentage of sales from 37.3% to 39.4%. The percentage increase was due in part to the weak sales performance in our Value City department stores. $1.2 million of this increase is attributable to Filene's Basement operations and $10.0 million is associated with new stores in operation at DSW. SG&A as a percent of sales by segment in the second quarter were:

	2001	2000
Value City Department Stores	41.1%	38.6%
DSW	39.7%	35.8%
Filene's Basement	30.3%	31.9%
TOTAL	39.4%	37.3%

License fees from affiliates and other operating income increased $0.3 million from $3.9 million to $4.2 million and increased as a percentage of sales from 0.7% to 0.8%.

Operating profit decreased $8.6 million from $7.1 million to a loss of $1.5 million and decreased as a percentage of sales from 1.3% to a loss of 0.3%. It has been the Company's experience that new stores generally achieve profitability and contribute to net income after the first full year of operations. 15 department stores opened less than twelve months had an operating loss of $4.4 million for the current three-month period.

Interest expense, net of interest income, increased $0.1 million from $8.0 million to $8.1 million and remained at 1.5% of sales. This increase is attributable to higher weighted average borrowings offset by lower effective interest rates.

Equity in the (loss) income of the joint venture represents the Company's fifty percent interest in a joint venture with Mazel Stores, Inc. and decreased from income of $0.1 million to a loss of $0.3 million. Pursuant to terms of the Operating Agreement on July 19, 2001, the Company informed Mazel Stores, Inc. of its intention to terminate the joint venture. The Company is in discussion with Mazel regarding the notice of termination.

SIX MONTHS ENDED AUGUST 4, 2001 COMPARED TO SIX MONTHS ENDED JULY 29, 2000

The Company's net sales increased $76.3 million, or 7.7%, from $990.3 million to $1,066.6 million. Fiscal 2001 includes sales of $132.4 million for Filene's Basement which was acquired in March 2000. The prior year first quarter sales for Filene's Basement were $89.9 million. Comparable stores sales for the six-month period decreased 4.2%. By segment comparable store sales were:

	2001	2000
Value City Department Stores	(6.8)%	1.3%
DSW	1.8%	23.6%
Filene's Basement	6.3%	N/A
TOTAL	(4.2)%	4.8%

Value City's non-apparel comparable sales increased 1.4% while apparel sales decreased 9.5%. Children's had a comparable stores sales decrease of 0.3% while the men's division was down 5.8% and the ladies division was down 15.3%.

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

DSW sales were $252.7 million, a 33.3% increase in the six-month period which includes a net increase of 25 stores.

Gross profit increased $29.5 million from $378.0 million to $407.5 million, and remained at 38.2% of sales. Gross profit as a percent of sales by segment in the six-month period quarter were:

	2001	2000
Value City Department Stores	38.4%	38.1%
DSW	39.0%	38.9%
Filene's Basement	35.8%	37.6%
TOTAL	38.2%	38.2%

Selling, general and administrative expenses ("SG&A") increased $48.5 million from $371.3 million to $419.8 million, and increased as a percentage of sales from 37.5% to 39.4%. The percentage increase was due in part to the weak sales performance in our Value City department stores. $46.5 million of the increase in SG&A is associated with new DSW stores and Filene's Basement stores. New store pre-opening expenses for the six-month period were $3.0 million less than last year. SG&A as a percent of sales by segment in the six-month period were:

	2001	2000
Value City Department Stores	41.2%	38.5%
DSW	37.6%	35.7%
Filene's Basement	33.4%	33.1%

TOTAL	39.4%	37.5%

License fees from affiliates and other operating income increased $0.7 million from $6.1 million to $6.8 million and increased from 0.6% to 0.7% as a percentage of sales.

Operating profit decreased $18.3 million from $12.8 million to a loss of $5.5 million and decreased as a percentage of sales from a profit of 1.3% to a loss of 0.5%. 15 department stores opened less than twelve months had an operating loss of $8.4 million for the current six-month period and 25 DSW stores opened less than twelve months had an operating loss of $5.8 million, including $4.5 million of pre-opening expenses.

Interest expense, net of interest income, increased $3.2 million from $13.3 million to $16.5 million and increased as a percentage of sales from 1.3% to 1.6%. This increase is attributable to higher weighted average borrowings offset by lower effective interest rates.

Equity in the loss of the joint venture represents the Company's fifty percent interest in a joint venture with Mazel Stores, Inc. The loss increased from $0.2 million to $1.2 million. Pursuant to terms of the Operating Agreement on July 19, 2001, the Company informed Mazel Stores, Inc. of its intention to terminate the joint venture. The Company is in discussion with Mazel regarding the notice of termination.

The effective tax rate for fiscal 2001 is 41.5% versus 40.2% for fiscal 2000. The increase is due primarily to the allocation of taxable income to the various taxing jurisdictions.

LIQUIDITY AND CAPITAL RESOURCES

Net working capital was $273.9 million at August 4, 2001 compared to $279.2 million at July 29, 2000. Current ratios at those dates were each 1.93 and 1.72, respectively.

Net cash used in operating activities totaled $30.1 million and $58.1 million for the six months ended August 4, 2001 and July 29, 2000, respectively. Net income, adjusted for depreciation and amortization, provided $11.7 million of operating cash flow for the six months ended August 4, 2001. This was decreased by $49.8 million representing an increase in inventories net of an increase in accounts payable. Other changes in working capital assets and liabilities provided $8.0 million. Earnings before interest, taxes, depreciation and amortization (EBITDA) for the six months ended August 4, 2001 was $18.6 million.

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Net cash used for capital expenditures was $15.4 million and $34.5 million for the six months ended August 4, 2001 and July 29, 2000, respectively. During the six months ended August 4, 2001, capital expenditures included $2.0 million for new stores, $4.8 million on existing stores, $2.9 million for relocation of office, warehousing and operations of our shoe business and $5.7 million for other capital expenditures.

At August 4, 2001, we had a $300 million Amended and Restated Credit Agreement (Credit Agreement), dated as of March 15, 2000. The Credit Agreement, which expires on March 15, 2003, provides for revolving and overnight loans and issuance of letters of credit. Outstanding advances are secured by a lien on assets and are subject to a monthly borrowing base of eligible inventories and receivables, as defined. Terms of the Credit Agreement require compliance with certain restrictive covenants, including limitations on dividends, the incurrence of additional debt and financial ratio tests. Additionally, the Company has provided an unconditional guarantee of 50% of amounts outstanding on VCM, Ltd's ("VCM") $25.0 million revolving line of credit. At August 4, 2001, $18.0 million was available under the Credit Agreement. The Credit Agreement provides for various borrowing rates, currently equal to 275 basis points over LIBOR. The LIBOR rate on $75.0 million has been locked in at a fixed annual rate of 6.99% through March 2003 under a swap agreement.

To supplement operating cash requirements the Company has a $50.0 million Subordinated Credit Agreement with Schottenstein Stores Corp. ("SSC Facility"). Outstanding advances under the SSC Facility are subordinated to the Credit Agreement and are subject to a junior lien on assets securing the Credit Agreement. At August 4, 2001, $20.0 million was outstanding. The interest rate and terms of the SSC Facility are generally the same as the Credit Agreement. In September 2001, the SSC Facility was increased to $100 million.

The Company has a $75.0 million Senior Subordinated Convertible Loan Agreement (Senior Facility), dated as of March 15, 2000. The Senior Facility bears interest at various rates, currently equal to 250 basis points over LIBOR. The interest rate increases an additional 50 basis points every 90 days after the first anniversary date. The Senior Facility is due in September 2003, and is due to Schottenstein Stores Corp. ("SSC") The terms provide that if prior to August 5, 2001, the balance outstanding thereunder is not repaid from the proceeds of an equity offering or other subordinated debt acceptable to lenders under the Credit Agreement, then after that date SSC, as the lender, has the right to convert the debt into common stock at a price equal to 95% of the 20-day average of high and low sales prices reported on the New York Stock Exchange at the time of conversion. SSC was paid a one-time fee of 200 basis points, or $1.5 million, in December 2000 as consideration for entering into a Put Agreement associated with the Senior Facility.

In the first quarter of fiscal 2001 a major factor reduced our availability of credit and indicated that the Company needed to strengthen its liquidity and increase its credit availability from other sources. Future limitations of credit availability by factors and/or vendors will restrict the ability of the Company to obtain merchandise and services and may impair operating results. Although operating results in the first six fiscal months of 2001 were below plan management believes that cash generated by operations, along with the available proceeds from our Credit Agreement, SSC Facility and other sources of financing will be sufficient to meet our obligations for working capital, capital expenditures, and debt service requirements. However, there is no assurance that we will be able to meet our projections. Further, there is no assurance that extended financing will be available to us in the future if we fail to meet our projections.

SUBSEQUENT EVENT

In August 2001, the Company entered into a non-binding letter of intent with SSC whereby SSC may acquire all of the outstanding stock or assets of Shonac Corporation, DSW Shoe Warehouse, Inc. and Filene's Basement, Inc. (the "Businesses") for an aggregate purchase price of $275 million, comprised of $200 million in cash and the assumption of the $75 million Senior Subordinated Convertible Loan held by SSC.

The non-binding letter of intent allows the Company to continue to solicit third party preliminary non-binding indications of interest for one or more of the Businesses through August 31, 2001 and to terminate the letter of intent or any definitive purchase agreement with SSC pursuant to a superior proposal for one or more of the Businesses through the later of October 15, 2001, or the execution of a definitive agreement with SSC, subject to the payment of a termination fee of $8.45 million.

As part of the consideration, in September 2001 SSC agreed to increase immediately the line of credit under the Value City Subordinated Credit Agreement from $50 million to $100 million under the same terms as set forth in the Subordinated Credit Facility.

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 our fiscal year.

Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company's adoption of SFAS 133 effective February 4, 2001 did not have a significant impact on the financial position, results of operations, or cash flows of the Company.

The Company utilizes interest rate swap agreements to manage its interest rate risks on borrowings under its $300 million variable rate credit agreement. The Company does not hold or issue derivative financial instruments for trading purposes. The Company does not have derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions.

In July 2001, the FASB issued SFAS 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". The guidance in SFAS No. 141 supercedes APB 16 and is applicable to business combinations initiated after June 30, 2001. Upon adoption of SFAS No. 142, goodwill will cease to be amortized and will instead be subject to periodic impairment reviews as set forth in the new standard. The Company is currently evaluating the Statement's impairment provisions and has not yet determined what effect, if any, they might have on the consolidated financial position and results of operations of the Company.

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, 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 2001 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 2001 business plan, expected cash from operations, vendor and their factor relations, flow of merchandise, compliance with the credit agreement, our ability to strengthen our liquidity and increase our credit availability, 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 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.

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

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, which permits borrowings up to $300 million. To minimize the effect of interest rate fluctuations, the Company has entered into a $75 million interest rate swap arrangement. Under this agreement, the Company pays a fixed rate of interest on a portion of the outstanding balance.

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.

A. The Company held its fiscal 2000 Annual Meeting of Shareholders on August 29, 2001. Holders of 31,019,616 Common Shares of the Company were present representing 92% of the Company's 33,650,632 Common Shares issued and outstanding and entitled to vote at the meeting.

B. The following persons were elected as members of the Company's Board of Directors to serve until the annual meeting following their election or until their successors are duly elected and qualified. Each person received the number of votes for or the number of votes with authority withheld indicated below.

NAME	VOTES FOR	VOTES WITHHELD
Henry L. Aaron	29,046,190	1,973,426
Ari Deshe	29,042,902	1,976,714
Jon P. Diamond	29,038,891	1,980,725
Martin Doolan	29,046,308	1,973,308
Elizabeth M. Eveillard	29,048,443	1,971,173
Marvin Goldstein	29,045,820	1,973,796
Richard Gurian	29,047,043	1,972,573
George Kolber	27,948,666	3,070,950
Dr. Norman Lamm	29,006,751	2,012,865
Geraldine Schottenstein	27,533,936	3,485,680
Jay L. Schottenstein	27,920,498	3,099,118
Robert L. Shook	29,040,343	1,979,273
Harvey L. Sonnenberg	29,048,390	1,971,226
James L. Weisman	28,980,039	2,039,577

C. The proposal to approve the Company's 2000 Stock Incentive Plan passed with 23,051,208 shares voting in favor, 4,551,161 shares voting against and 8,675 shares abstaining.

ITEM 5. OTHER INFORMATION. Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

Part A Exhibits

Exhibit 10.1.3 Amendment No. 3 dated as of May 21, 2001 to Amended and Restated Credit Agreement dated as of March 15, 2000.

Exhibit 10.1.4 Amendment No. 4 dated as of July 23, 2001 to Amended and Restated Credit Agreement dated as of March 15, 2000.

Exhibit 10.3.2 Waiver and Amendment dated as of December 11, 2000 to Senior Subordinated Convertible Loan Agreement dated as of March 15, 2000.

Exhibit 10.3.3 Second Amendment dated as of January 1, 2001 to Senior Subordinated Convertible Loan Agreement dated as of March 15, 2000.

Exhibit 10.3.4	Third Amendment dated as of March 14, 2001 to Senior Subordinated Convertible Loan Agreement dated as of March 15, 2000.

Part B Reports on Form 8-K

Forms 8-K were filed on August 24, 2001 and on July 12, 2001 relating to Item 5 - "Other Items".

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 17, 2001 By: /s/ James A. McGrady

James A. McGrady,
Chief Financial Officer and Treasurer