

VALUE CITY DEPARTMENT STORES INC /OH
Form DEF 14A
August 23, 2002

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SCHEDULE 14A
(RULE 14A-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement ☐ CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))
- ☒ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12.

VALUE CITY DEPARTMENT STORES, INC.
(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

(NAME OF PERSON(S) FILING PROXY STATEMENT, IF OTHER THAN THE REGISTRANT)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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☐ Fee paid previously with preliminary materials.

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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VALUE CITY DEPARTMENT STORES, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD

SEPTEMBER 26, 2002

AND

PROXY STATEMENT

IMPORTANT

Please complete, sign and date your proxy and promptly return it in the enclosed envelope. No postage is necessary if mailed in the United States.

VALUE CITY DEPARTMENT STORES, INC.
3241 Westerville Road
Columbus, Ohio 43224
614-471-4722

August 26, 2002

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Dear Shareholder:

You are cordially invited to attend the Value City Department Stores, Inc. 2002 Annual Meeting of Shareholders, which will be held at the Radison Airport Hotel, 1375 Cassady Avenue, Columbus, Ohio, on Thursday, September 26, 2002, at 9:30 a.m., local time.

The following pages contain the formal Notice of the Annual Meeting and the Proxy Statement. You will want to review this material for information concerning the business to be conducted at the Annual Meeting.

Your vote is important. Whether you plan to attend the Annual Meeting or not, you are urged to complete, date and sign the enclosed form of proxy and return it in the enclosed envelope. If you attend the Annual Meeting, you may revoke your proxy and vote in person if you wish, even if you have previously returned your proxy.

On behalf of the Board of Directors, we would like to express our appreciation for your continued interest in the affairs of the Company.

Jay L. Schottenstein
Chairman

John C. Rossler
President and Chief Executive Officer

VALUE CITY DEPARTMENT STORES, INC.
3241 Westerville Road
Columbus, Ohio 43224
614-471-4722

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD SEPTEMBER 26, 2002

August 26, 2002

To the Shareholders of
Value City Department Stores, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders (the "Annual Meeting") of Value City Department Stores, Inc., an Ohio corporation (the "Company"), will be held at the Radison Airport Hotel, 1375 Cassady Avenue, Columbus, Ohio, on Thursday, the 26th day of September, 2002, at 9:30 a.m., local time, for the following purposes:

1. To elect eleven directors, each for a term of one year and until their successors are duly elected and qualified;
2. To approve the issuance of warrants to purchase shares of the Company's common stock, initially exercisable for up to 2,954,793 shares of common stock and the issuance of shares of common stock issuable pursuant to the anti-dilution and other provisions of the warrants;

3. To approve the issuance of shares of the Company's common stock as interest on and upon conversion of amounts outstanding under the Amended and Restated Senior Convertible Loan Agreement, as well as any additional shares of common stock issuable pursuant to the terms of the Amended and Restated Senior Convertible Loan Agreement;
4. To amend the Company's 2000 Stock Incentive Plan to increase the number of shares that may be issued thereunder from 3,000,000 to 13,000,000 and to increase the number of shares that may be awarded to an individual in any performance period from 2,500,000 to 3,000,000;
5. To approve the merger of a subsidiary of the Company with and into the Company in order to create a holding company structure (the "Merger");
6. To approve the Company's 2003 Incentive Compensation Plan; and
7. To transact such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on August 9, 2002, are entitled to notice of and to vote at the Annual Meeting and any postponements or adjournments thereof.

By Order of the Board of Directors,

James A. McGrady
Executive Vice President, Chief
Financial Officer, Treasurer
and Secretary

SHAREHOLDERS ARE URGED TO COMPLETE, DATE AND SIGN THE ENCLOSED FORM OF PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE TO WHICH NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES. IF YOU ATTEND THE ANNUAL MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE IN PERSON IF YOU WISH, EVEN IF YOU HAVE PREVIOUSLY RETURNED YOUR PROXY.

VALUE CITY DEPARTMENT STORES, INC.
3241 Westerville Road
Columbus, Ohio 43224
614-471-4722

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
SEPTEMBER 26, 2002

INTRODUCTION

This proxy statement is furnished to the shareholders of Value City Department Stores, Inc., an Ohio corporation (the "Company"), in connection with

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the solicitation of proxies by the Board of Directors of the Company (the "Board"), for the use at the Annual Meeting of Shareholders (the "Annual Meeting") to be held on September 26, 2002, at 9:30 a.m., local time, at the Radison Airport Hotel, 1375 Cassady Avenue, Columbus, Ohio. The Notice of the Annual Meeting, this proxy statement and the accompanying proxy are being mailed to shareholders on or about August 26, 2002. The Company's Annual Report on Form 10-K/A for the fiscal year ended February 2, 2002 was previously mailed to shareholders.

Shareholders of record at the close of business on August 9, 2002 are entitled to notice of and to vote at the Annual Meeting and any postponements or adjournments thereof. At August 9, 2002, the Company had 33,980,723 outstanding shares common stock, net of treasury shares, without par value (the "Common Stock"). Each outstanding share of Common Stock entitles the holder thereof to one vote upon each matter to be voted upon by shareholders at the Annual Meeting.

All shares represented by properly executed proxies received by the Company prior to the meeting will be voted in accordance with the shareholder's directions. In the absence of instructions to the contrary, proxies will be voted FOR each of the proposals herein. A proxy may be revoked, without affecting any vote previously taken, by:

- a written notice mailed to the Company (attention James A. McGrady, Secretary);
- by filing a duly executed later dated proxy; or
- delivery in person at the meeting and voting in person.

The presence, in person or by proxy, of a majority of the outstanding Common Stock is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum. Broker non-votes occur when brokers, who hold their customers' shares in street name, sign and submit proxies for such shares and vote such shares on some matters, but not others. This would occur when brokers have not received any instructions from their customers, in which case the brokers, as the holders of record, are permitted to vote on "routine" matters, which include the election of directors, but not on non-routine matters such as approval of the warrants and the Common Stock issuable upon exercise thereof, approval of the issuance of Common Stock under the Amended and Restated Senior Convertible Loan Agreement, approval of the amendment to the Company's 2000 Stock Incentive Plan, or approval of the Merger.

The election of each director nominee requires the favorable vote of a plurality of all votes cast by the holders of Common Stock at a meeting at which a quorum is present. Proxies that are marked "Withhold Authority" and broker non-votes will not be counted toward such nominee's achievement of a plurality and thus will have no effect.

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The affirmative vote of the holders of a majority of the shares of outstanding Common Stock is required to approve the Merger. For purposes of determining the number of shares of Common Stock voting on the matter, abstentions will be counted and will have the effect of a negative vote; broker non-votes will be counted and thus will have the effect of a negative vote.

Each other matter to be submitted to the shareholders for approval or ratification at the Annual Meeting requires the affirmative vote of the holders

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of a majority of the Common Stock voting on the matter. For purposes of determining the number of shares of Common Stock voting on a matter, abstentions will be counted and will have the effect of a negative vote; broker non-votes will not be counted and thus will have no effect.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

OWNERSHIP OF COMMON STOCK

The following table sets forth, as of July 31, 2002, certain information with regard to the beneficial ownership of the Common Stock by each holder of 5% of such shares, each director and director nominee individually, each executive officer named in the Summary Compensation Table, and all executive officers and directors as a group.

Name of Beneficial Owner -----	Amount and Nature of Beneficial Ownership (1) -----	Percent of Outstanding Share -----
Henry L. Aaron (1)	6,000	
Roger D. Blackwell	10,000	
Raymond L. Blanton (1) (3)	26,961	
Ari Deshe (1) (4) (5) (7)	24,972	
Jon P. Diamond (1) (4) (5)	21,700	
Elizabeth M. Eveillard	--	
William Fields	--	
Marvin Goldstein	--	
Richard Gurian (1) (12)	32,300	
George Kolber (10)		
Edwin J. Kozlowski	80,000	
Dr. Norman Lamm (1) (12)	33,400	
Roger S. Markfield	--	
James A. McGrady (1) (3)	23,000	
John C. Rossler (1) (3)	126,000	
Alan Schlesinger (1) (3)	223,334	
Geraldine Schottenstein (1) (4) (5) (6) (12)	62,000	
Jay L. Schottenstein (1) (4) (5) (6)	230,000	
Robert L. Shook (1) (7) (12)	44,500	
Harvey L. Sonnenberg (7)	20,000	
James L. Weisman (7)	1,300	
All directors and executive officers as a group (17 persons) (1) (3) (4) (5) (6) (7) (12)	738,133	1
Tweedy, Browne Company LLC (8)	3,338,736	8
Dimensional Fund Advisors Inc. (9)	2,115,500	5
Schottenstein Stores Corporation (5)	22,784,184	58
Cerberus Partners, L.P. (11)	3,360,021	9

*Represents less than 1% of outstanding Common Stock, net of treasury shares.

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- (1) Except as otherwise noted, the persons named in this table have sole power to vote and dispose of the shares listed and includes the following number of shares of Common Stock as to which the named person has the right to acquire beneficial ownership upon the exercise of stock options within 60 days of July 31, 2002: Mr. Aaron, 6,000; Mr. Blanton, 6,400; Mr. Deshe, 10,000; Mr. Diamond, 20,000; Mr. Gurian, 32,000; Dr. Lamm, 31,000; Mr. McGrady, 17,000; Mr. Rossler, 11,000; Mr. Schlesinger, 106,667; Mrs. Schottenstein, 31,000; Mr. Schottenstein, 56,000; Mr. Shook, 31,000; and all directors and executive officers as a group, 257,400.
- (2) The percent is based upon the 33,980,723 shares of Common Stock outstanding, net of treasury shares, at July 31, 2002.
- (3) Includes 20,000 shares for Mr. Blanton, 80,000 shares for Mr. Kozlowski, 5,000 shares for Mr. McGrady, 115,000 shares for Mr. Rossler, 116,667 shares for Mr. Schlesinger and 220,000 shares for all directors and executive officers as a group, which are owned subject to a risk of forfeiture on termination of employment with vesting over a period of years pursuant to the terms of Restricted Stock Agreements with the Company.
- (4) Does not include the 22,784,184 shares of Common Stock beneficially owned by Schottenstein Stores Corporation ("SSC") of 1800 Moler Road, Columbus, Ohio 43207. Jay L. Schottenstein is the Chairman and Chief Executive Officer of SSC. Jay L. Schottenstein, Geraldine Schottenstein, Ari Deshe and Jon P. Diamond are members of the Board of Directors of SSC. See "Ownership of SSC" below.
- (5) Includes 3,360,021 shares of Common Stock issuable upon conversion of amounts under Senior Subordinated Convertible Loans (the "Senior Loans") in the principal amount of \$37,500,000 within 60 days of July 31, 2002 and 1,477,397 shares of Common Stock issuable upon the exercise of warrants exercisable within 60 days of July 31, 2002. Does not include 123,372 shares owned by the Jay and Jean Schottenstein Foundation, 62,300 shares held by the Ann and Ari Deshe Foundation, 67,944 shares held by the Jon and Susan Diamond Family Foundation and 40,740 shares held by the Lori Schottenstein Foundation, all being private charitable foundations, and 1,312,500 shares of Common Stock owned by GB Stores, a Pennsylvania limited partnership. Combined, the shares owned by the foundations and GB Stores represent 5.0% of the outstanding Common Stock. SSC owns a 96% limited partnership interest in GB Stores and its corporate general partner is an affiliate of SSC. The sole trustees and officers of the Jay and Jean Schottenstein Foundation are Saul, Geraldine and Jay Schottenstein. The remaining foundations' trustees and officers consist of at least one of the following persons: Geraldine Schottenstein, Jay Schottenstein, Jon Diamond and/or Ari Deshe, in conjunction with other Schottenstein family members.
- (6) Includes 30,000 shares as to which Geraldine Schottenstein and Jay L. Schottenstein share voting and investment power as trustees of a trust which owns the shares. Geraldine Schottenstein is also a beneficiary of the trust.
- (7) Includes 10,000 shares held by Mr. Deshe's minor children; 3,000 shares held by Mr. Shook's spouse and 1,500 shares held by Shook Associates, Inc. of which Mr. Shook is a 50% shareholder; 15,000 shares held by Mr. Sonnenberg's spouse and 500 shares held by Mr. Weisman's spouse.
- (8) By reason of their positions as such, the members of Tweedy, Browne Company LLC ("TBC") may be deemed to control TBC and the managing member of TPK Partners, LLC ("TBK") and Vanderbilt Partners, LLC ("Vanderbilt") may be deemed to control TBK and Vanderbilt, respectively. TPC is the managing member of both TPK and Vanderbilt. The address for TBC is 350 Park Avenue, New York, NY 10022. Based on information contained in a Schedule 13G/A filed by TBC on January 28, 2002.
- (9) Dimensional Fund Advisors Inc. ("Dimensional"), an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are the "funds." In its role as

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investment adviser or manager, Dimensional possesses voting and/or investment power over the securities of the Company that are owned by the funds. Dimensional disclaims beneficial ownership of such securities. The address for Dimensional is 1299 Ocean Avenue, 11th Floor, Santa Monica, CA 90401. Based on information contained in a Schedule 13G/A filed by Dimensional on February 12, 2002.

- (10) Mr. Kolber is no longer with the Company. As a consequence, the Company is unable to determine his beneficial ownership of Common Stock or the percentage of outstanding Common Stock held.
- (11) Cerberus Partners, L.P., a Delaware limited partnership ("Cerberus"), is the holder of Senior Loans in the principal amount of \$37,500,000. The Senior Loans are convertible at any time to the extent any portion of the loan remains outstanding at the option of the holder thereof into shares of the Common Stock. The conversion price of the Senior Loans is \$4.50 per share, subject to certain conversion price adjustments. The issuance of more than 6,720,042 Shares (half of which may be acquired by Cerberus) upon the conversion of the Senior Loans is subject to approval of the Company's shareholders at the Annual Meeting. Further, upon shareholder approval at the Annual Meeting, Cerberus will also be issued a warrant to purchase 1,477,396 Shares (subject to certain conversion price adjustments) in connection with an additional loan to the Company. Stephen Feinberg possesses sole power to vote and direct the disposition of all Common Stock held by Cerberus. Thus, as of June 11, 2002, Stephen Feinberg is deemed to beneficially own 3,360,021 Shares, or 9.0% of the Common Stock as of that date. Upon approval of the Company's shareholders at the Annual Meeting of (i) the issuance of additional Shares issuable upon conversion of the Senior Loans, and (ii) the issuance of additional Shares issuable in connection with the additional financing, Cerberus and Mr. Feinberg would be deemed to beneficially own 9,810,729 Shares, or 22.5% of the Common Stock as of that date. The address for Cerberus and Mr. Feinberg is 450 Park Avenue, 28th Floor, New York, New York 10022. Based on information contained in a Schedule 13D filed by Mr. Feinberg on July 2, 2002.
- (12) Mr. Gurian, Dr. Lamm, Mr. Shook and Ms. Schottenstein are not standing for re-election to the Board.

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OWNERSHIP OF SSC

The following table indicates the shares of SSC common stock beneficially owned by each nominee for election to the Board of the Company and by all directors and officers of the Company as a group, as of July 31, 2002:

	SHARES OF SSC COMMON STOCK -----
Jay L. Schottenstein (1)	299.38139
Geraldine Schottenstein (2)	27.41707
Jon P. Diamond (3)	27.41707
Ari Deshe (4)	27.41707

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Directors and officers as a group (1) (2) (3) (4)

381.6326

-
- (1) Represents sole voting and investment power over 299.38139 shares held in irrevocable trusts for Schottenstein, Diamond and Deshe family members as to which Jay L. Schottenstein is trustee. Under the rules and regulations of the SEC, Mr. Schottenstein may be deemed to be the beneficial owner of these shares.
 - (2) Represents sole voting and investment power over 27.41707 shares held by Geraldine Schottenstein as trustee of an irrevocable trust for family members as to which shares Geraldine Schottenstein may be deemed to be the beneficial owner.
 - (3) Represents sole voting and investment power over 27.41707 shares held by Susan Schottenstein Diamond, the wife of Jon Diamond, as trustee of an irrevocable trust for family members, as to which shares Mr. Diamond may be deemed to be the beneficial owner.
 - (4) Represents sole voting and investment power over 27.41707 shares held by Ann Schottenstein Deshe, the wife of Ari Deshe, as trustee of an irrevocable trust for family members, as to which shares Mr. Deshe may be deemed to be the beneficial owner.

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PROPOSAL ONE: ELECTION OF DIRECTORS

The members of the Board of the Company are elected at the Annual Meeting. The number of members of the Board has been fixed at fourteen by action of the Board pursuant to the Code of Regulations (By-laws) of the Company. The Nominating Committee of the Board has nominated eleven persons to serve as directors. If each of the nominees is elected, three vacancies will exist on the Board. Board members serve until the annual meeting following their election or until their successors are duly elected and qualified.

Set forth below is certain information relating to the nominees for election as directors.

NAME ----	AGE ---	PRINCIPAL OCCUPATION -----
Jay L. Schottenstein	48	Director of the Company since June 1991. Chairman of the Company, American Eagle Outfitters, Inc. and SSC since March 1992 and Chief Executive Officer of the Company from April 1991 to July 1997 and from July 1999 to December 2000. Mr. Schottenstein served as Vice Chairman of SSC from 1986 until March 1992 and a director of SSC since 1982. He served SSC as President of the Furniture Division from 1985 through June 1993 and in various other executive capacities since 1976. (1) (2)
Henry L. Aaron	67	Director of the Company since January 2000. Mr. Aaron presently serves as Senior Vice President of the Atlanta National League

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Baseball Club, Inc. and as Vice President of Business Development for the CNN Airport Network, along with a number of other private business interests.

Roger D. Blackwell	62	Director nominee. Dr. Blackwell has been associated with The Ohio State University since 1965 and is currently a Professor of Marketing in the Fisher College of Business. Dr. Blackwell also has been President and Chief Executive Officer of Roger Blackwell Associates, Inc., a consulting firm in Columbus, Ohio, since 1980. Dr. Blackwell is a board member of Anthony & Sylvan Pools, Inc., a pool builder and designer; The Flex-Funds, a manager and marketer of mutual funds and investment vehicles; AirNet Systems, Inc., a provider of specialty air courier services; Frontstep, Inc., a provider of integrated software solutions; Max & Erma's Restaurants, Inc., a chain of restaurants; Applied Industrial Technologies, an electronic commerce and distribution company; and Diamond Hill Capital Management, Inc., an investment management company.
Ari Deshe	52	Director of the Company since October 1997. Chairman and Chief Executive Officer since 1996 and President and Chief Executive Officer from 1993 to 1996 of Safe Auto Insurance Company, a property and casualty insurance company. Prior to that, Mr. Deshe served as President of Safe Auto Insurance Agency from 1992 to 1993 and President of Employee Benefit Systems, Inc. from 1982 to 1992. (1)
Jon P. Diamond	45	Director of the Company since June 1991. President and Chief Operating Officer since 1996 and Executive Vice President and Chief Operating Officer from 1993 to 1996 of Safe Auto Insurance Company. Mr. Diamond served as Vice President of SSC from March 1987 to March 1993 and served SSC in various management positions since 1983.(1)
Elizabeth M. Eveillard	55	Director of the Company since August 2001. Mrs. Eveillard is an independent financial consultant. Mrs. Eveillard served as Senior Managing Director, Retailing and Apparel Group, Bear, Stearns & Co., Inc. from 2000 until her retirement in April 2002. Prior to that time, Mrs. Eveillard served as the Managing Director, Head of Retailing Industry Group, Paine Webber

Corporation from 1988 to 2000. From 1972 to 1988, Mrs. Eveillard held various executive positions including Managing Director in the Merchandising Group with Lehman Brothers.

William R. Fields	52	Director nominee. Mr. Fields is Chairman and Chief Executive Officer of APEC (China) Asset Management Ltd. Previously, Mr. Fields served as President and Chief Executive Officer of Hudson's Bay Company from 1997 to 1999 and as Chairman and Chief Executive Officer of Blockbuster Entertainment Group, a division of Viacom, Inc. from 1996 to 1997. Mr. Fields has also held numerous positions with Wal-Mart Stores, Inc., which he joined in 1971. He left Wal-Mart in March 1996 as President and Chief Executive Officer of Wal-Mart Stores Division, and Executive Vice President of Wal-Mart Stores, Inc. Mr. Fields is also a director of Lexmark International, Inc., The ADX CompanyCreditMinders.com, Supply Science Inc., Aegis Capital Advisors, LLC and Bonus Stores Inc.
Marvin W. Goldstein	58	Director of the Company since August 2001. Private investor from 1997 to present. Prior to that time, Mr. Goldstein was the Chairman, CEO and President of Pet Food Warehouse from 1995 to 1997. From 1988 through 1994, Mr. Goldstein served as Executive Vice President and General Merchandise Manager, Chairman and CEO, and President and COO of the Department Store Division of Dayton Hudson. Prior to that time, Mr. Goldstein held various senior merchandise positions with R. N. Macy, Carter Hawley Hale and Dayton's. Mr. Goldstein presently serves on the Boards of Directors of Appliance Recycling of America, Cone Mills Corporation, Greenspring Company, Paper Warehouse Inc., and Wilsons the Leather Experts.
Roger S. Markfield	60	Director Nominee. Mr. Markfield has served as President and Chief Merchandising Officer of American Eagle Outfitters since February 1995 and prior thereto as Executive Vice President of Merchandising for American Eagle Outfitters, Inc. and its predecessors since May 1993. Mr. Markfield is also a member of the Board of Directors of American Eagle Outfitters, Inc. Prior to joining American Eagle Outfitters, Inc., he served as Executive Vice President-General Merchandising Manager for the Limited Division of The Limited, Incorporated, a large national specialty retailer from May 1992 to April 1993. From 1969 to 1976 and from 1979 to 1992, he was employed by R.H. Macy & Co., a national retailer operating

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department and specialty stores, as a Buyer in Boys' Wear rising to the office of President of Corporate Buying-Mens. From 1976 to 1979, Mr. Markfield served as Senior Vice President of Merchandising and Marketing for the Gap Stores, Inc.

Harvey L. Sonnenberg	60	Director of the Company since August 2001. Partner in the CPA and consulting firm, M.R. Weiser & Co., LLP, since November 1994. Mr. Sonnenberg is active in a number of professional organizations including the American Institute of CPA's and the New York State Society of CPA's and has long been involved in rendering professional services to the retail and apparel industry.
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James L. Weisman	63	Director of the Company since August 2001. President and a member of the Weisman Goldman Bowen & Gross, LLP, a Pittsburgh, Pennsylvania law firm. He has been practicing law for 37 years and has extensive experience in working with retail clients. His primary areas of practice have been in banking transactions and overseeing and directing litigation.
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- (1) SSC is a controlling shareholder of the Company. For information with respect to the beneficial ownership of the voting stock of SSC by nominees for election to the Board of the Company and beneficial ownership of the Company's Common Stock by such persons and officers of the Company, see "Security Ownership of Certain Beneficial Owners and Management." Geraldine Schottenstein is the mother of Jay L. Schottenstein, and the mother-in-law of Ari Deshe and Jon P. Diamond.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE "FOR" THE ELECTION OF THE SLATE OF DIRECTORS LISTED ABOVE.

INFORMATION CONCERNING BOARD OF DIRECTORS

The Board and five committees of the Board govern the Company. During fiscal 2001, the Board met eight times. Directors discharge their responsibilities throughout the year at Board and committee meetings and also through considerable telephone contact and other communications with the Chairman and other key executives, as well as with external advisors such as legal counsel, outside auditors and investment bankers.

No director, except for Geraldine Schottenstein, Elizabeth Eveillard and Henry Aaron, attended fewer than 75% of the meetings of the Board and of the committees of which the director was a member in 2001.

The following table identifies the current membership of Board committees and states the number of committee meetings held during 2001. A

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summary of each committee's functions follows the table:

DIRECTOR	AUDIT	STOCK OPTION	NOMINATING (1) (2)	OVERS
Jay L. Schottenstein			X	
Henry L. Aaron		X		
Ari Deshe				
Jon P. Diamond			X	
Elizabeth M. Eveillard		X		
Marvin W. Goldstein	X	X		
Richard Gurian	X	X		
Dr. Norman Lamm		X		
Geraldine Schottenstein				
Robert L. Shook	X	X*		
Harvey L. Sonnenberg	X*	X		
James L. Weisman	X	X		
Number of Meetings in fiscal 2001	6	4	0 (3)	0
* Committee Chair				

- (1) Until his resignation, George Kolber served on the Nominating Committee. He also served on the Oversight Committee, for which he was the Committee Chair.

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- (2) Since the inception of the Nominating Committee, a Chairman has never been appointed.
- (3) The Nominating Committee was established in June 2001; the Oversight Committee and the Compensation Committee were established in January 2002.

Directors who are not employees are paid \$2,000 for each Board and committee meeting attended, with a minimum annual compensation of \$8,000, and are automatically granted options each quarter to purchase 1,000 shares of Common Stock pursuant to the 2000 Stock Incentive Plan. Directors who are also employees of the Company do not receive additional compensation for serving as

directors.

AUDIT COMMITTEE

The Audit Committee assists the Board in monitoring:

- the integrity of the financial statements of the Company;
- the Company's system of internal control;
- the independence and performance of the Company's independent public accountants; and
- the compliance by the Company with legal and regulatory requirements.

All members of the Audit Committee are independent as defined in the applicable New York Stock Exchange ("NYSE") listing standards. The members of the Audit Committee have been reviewed by the Board and determined to be independent as defined in Sections 303.01(B)(2)(a) and (3) of the NYSE's listing standards. See "Report of the Audit Committee."

STOCK OPTION COMMITTEE

The Stock Option Committee:

- makes recommendations to the Board regarding the number and terms of any stock options to be granted under the Company's stock option plans; and
- administers the Company's Incentive Compensation Plan, 1991 Stock Option Plan, and 2000 Stock Incentive Plan.

NOMINATING COMMITTEE

The Nominating Committee:

- evaluates the performance of the Board;
- reviews the management organization of the Company and succession plans for the Chairman and Chief Executive Officer;
- makes recommendations to the Board concerning the composition of the Board, the compensation of directors, the election of executive officers, the appointment of the Chairman for each committee of the Board and the procedures for shareholder voting; and
- reviews the Company's corporate governance guidelines.
(Established in June 2001 and did not meet in 2001.)

OVERSIGHT COMMITTEE

The Oversight Committee:

- oversees, monitors, and evaluates the performance of the Chief Executive Officer and other executive officers of the Company.
(Established in January 2002.)

COMPENSATION COMMITTEE

The Compensation Committee:

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- establishes, reviews, and recommends an executive compensation package for the Chief Executive Officer and other executive officers of the Company. (Established in January 2002.)

REPORT OF THE AUDIT COMMITTEE

As described above, one of the Audit Committee's functions is to assist the Board in monitoring the quality and integrity of the Company's accounting, auditing and reporting practices. In fulfilling its responsibilities, the Audit Committee has:

- Reviewed and discussed the Company's audited financial statements with management and Deloitte & Touche LLP, the Company's independent auditors. Management has the primary responsibility for the financial statements and the reporting process;
- Reviewed and discussed, with management and Deloitte & Touche LLP, the selection, application and disclosure of the critical accounting policies;
- Discussed with Deloitte & Touche LLP the matters required to be discussed by Statements on Auditing Standard No. 61 (SAS 61) (Codification of Statements of Auditing Standards, AU Section 380);
- Received the written disclosures and the letter from Deloitte & Touche LLP required by Independence Standards Board Standard No. 1 and discussed with the independent auditors their independence; and
- Considered whether the independent auditors' provision of services beyond the review of the Company's quarterly financial statements and year-end audit of the Company's annual financial statements (financial information systems design and implementation services, if any, and other non-audit services to the Company) is compatible with maintaining such auditors' independence.

The fees paid by the Company to Deloitte & Touche LLP during fiscal 2001 were as follows:

Audit Fees	Financial Information Systems Design and Implementation Fees	All Other
-----	-----	-----
\$448,800	0	\$150,400

Based on its reviews and discussions, and subject to the limitations on the Audit Committee's role and responsibilities as described in its charter, the Audit Committee has recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K/A for the fiscal year ended February 2, 2002, for filing with the Securities and Exchange Commission ("SEC").

The Audit Committee
of the Board of Directors:

Harvey L. Sonnenberg (Chairman)
Marvin Goldstein
Richard Gurian
Robert L. Shook
James L. Weisman

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EXECUTIVE OFFICERS

The following persons are executive officers of the Company. For information regarding executive officers that are also directors, see "Election of Directors." The executive officers of the Company are elected annually by the Board and serve at the pleasure of the Board.

John C. Rossler, age 54, effective February 2002, was elected President of the Company. In March 2002, he became President and Chief Executive Officer of the Company. Mr. Rossler has been President of Shonac Corporation and DSW Shoe Warehouse since December 2000. Mr. Rossler has held various positions with DSW and Shonac since 1982, including Chief Operating Officer, Executive Vice President and Chief Financial Officer. Prior to Shonac Corporation and DSW Shoe Warehouse, he was the managing partner of the Columbus office of Alexander Grant/Grant Thornton International where he was employed for 16 years.

Raymond L. Blanton, age 52, effective February 2002, was elected Senior Vice President and General Merchandise Manager of the Company. Effective May 28, 2002, he was elected Executive Vice President and General Merchandise Manager of the Company. Mr. Blanton was Senior Vice President - Chief Merchandising Officer of Shonac Corporation since 1993. Prior to joining Shonac, he was with Bee Gee Shoe Corporation for 20 years holding several positions including President and Chief Executive Officer.

Edwin J. Kozlowski, age 53, effective February 2002, was elected Executive Vice President and Chief Operating Officer of the Company. Mr. Kozlowski joined the Company in May 2001 as Chief Financial Officer of Shonac Corporation and DSW Shoe Warehouse. Prior to that time, he served in various positions with General Nutrition Companies, Inc. since 1978, including Chief Operating Officer of the retail division of General Nutrition Centers, Executive Vice President and Chief Financial Officer, Treasurer and Controller of GNCI and GNI.

James A. McGrady, age 51, joined the Company in July 2000 as Chief Financial Officer, Treasurer and Secretary. Effective May 28, 2002, he was elected Executive Vice President, Chief Financial Officer, Treasurer and Secretary of the Company. Prior to that time, he served as Vice President and Treasurer of Consolidated Stores Corporation beginning in 1986. From 1979 through 1986, Mr. McGrady was in the practice of public accounting with KPMG Main Hurdman.

Steven E. Miller, age 43, joined the Company in September 2000 as Vice President and Controller. From 1998 to 2000, he served as Chief Financial Officer of Spitzer Management, Inc. From 1993 to 1998, Mr. Miller held various positions with Consolidated Stores Corporation including Director, Assistant Treasurer and Assistant Controller.

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COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and persons who are beneficial owners of more than ten percent of the Company's Common Stock ("reporting persons") to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Reporting persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms filed by them. Based on its review of the copies of Section 16(a) forms received by it, the Company believes that, during fiscal year 2001, all filing requirements applicable to reporting persons were complied with.

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EXECUTIVE OFFICER COMPENSATION

The following table sets forth certain information regarding compensation paid during each of the Company's last three full fiscal years to the Company's Chief Executive Officer and to each of the Company's four most highly compensated executive officers serving at the end of fiscal 2001.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION		LONG TERM COMPENSATION	
		SALARY (1) (\$)	BONUS (\$)	RESTRICTED STOCK AWARD (2) (\$)	OPTIONS/ SARS (#)
Jay L. Schottenstein Chairman	2001	\$250,000	None	None	None
	2000	\$250,000	None	None	None
	1999	\$250,000	None	None	None
John C. Rossler President and Chief Executive Officer	2001	\$404,181	\$497,058	\$21,650	5,000
	2000	\$395,995	\$621,323	None	None
	1999	\$393,766	\$501,272	None	None
Alan R. Schlesinger President and Chief Executive Officer of Filene's Basement	2001	\$816,346	\$500,000	\$216,500	None
	2000	\$753,216	\$228,846	\$345,000	250,000
	1999	None	None	None	None
James A. McGrady Executive Vice President, Chief Financial Officer, Treasurer and Secretary	2001	\$325,000	\$140,000	\$21,650	5,000
	2000	\$155,769	None	None	30,000
	1999	None	None	None	None
Edwin J. Kozlowski Executive Vice President and Chief Operating Officer	2001	\$223,846	\$225,000	None	None
	2000	None	None	None	None
	1999	None	None	None	None
Raymond L. Blanton	2001	\$294,895	\$525,426	None	None

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Executive Vice President and General Merchandise Manager	2000	\$288,922	\$525,426	None	2,000
	1999	\$287,296	\$525,426	None	None
George Kolber (4)	2001	\$900,000	None	None	None
Former Vice Chairman and Chief Executive Officer	2000	\$112,500	None	\$3,450,000	500,000
	1999	None	None	None	None

-
- (1) Includes amounts deferred by the executive officer pursuant to the Deferred Compensation Plan established in 1998, SSC's Associate Profit Sharing and 401(k) Plan (the "401(k) Plan"), which was adopted effective as of August 1, 1989, and in which associates of the Company are eligible to participate. The 401(k) Plan is a prototype defined contribution plan that qualifies for favorable tax treatment under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended. The 401(k) Plan permits eligible associates of the Company to contribute a percentage of their pre-tax wages to the plan and the Company will match the contributions up to a maximum of 3% of covered wages. Effective January 1, 2001, the Company matches up to 4.5% of participants' eligible contributions. The Company also may contribute up to an additional 1.5% of covered wages as a profit sharing contribution. In addition, Mr. Blanton is also a participant in the "Nonqualified Deferred Compensation Plan Agreement." See "Agreements with Key Executives" in this proxy statement for details.
 - (2) The value of the restricted stock is determined by multiplying the total shares held by each named executive by the closing price on the NYSE on February 1, 2002.
 - (3) See Table below for All Other Compensation.
 - (4) Mr. Kolber resigned from the Company effective April 6, 2002.

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ALL OTHER COMPENSATION DETAIL:

	Jay L. Schottenstein	John C. Rossler	Alan R. Schlesinger	James A. McGrady	Edwin J. Kozlowski
	-----	-----	-----	-----	-----
401(k) Plan & Associate Stock Purchase Plan Company Contributions:	----	\$8,760	\$18,350	\$1,801	----
Company Paid Relocation Expenses:	----	----	\$1,672	----	\$98,147
Tax Reimbursement:	----	----	\$54,138	----	----
Auto Reimbursement:	----	\$11,399	\$43,208	\$25,189	\$2,182
Company paid Life, Medical & indemnity Insurances:	----	\$3,926	\$5,059	\$3,966	----

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Cost of Living Adjustments:	----	----	\$43,733	----	----
Sec 79 Cafeteria Health Care Plan:	----	\$4,270	----	\$58	----
Personal Living Expenses:	----	----	\$60,680	----	----
Gift Certificates:	----	\$120	----	----	\$25
Country Club Dues & Membership:	----	\$3,452	----	----	\$4,694
Non-Qualified Deferred Compensation:	----	----	----	----	----
	-----	-----	-----	-----	-----
Total Other Compensation	----	\$31,927	\$226,840	\$31,014	\$105,048
	=====	=====	=====	=====	=====

OPTION/SAR GRANTS IN THE LAST FISCAL YEAR TABLE

The following table provides certain information on option grants during fiscal 2001 by the Company to the Chief Executive Officer and each of the Company's other executive officers named in the Summary Compensation Table.

NAme	Options/ SARs Granted (#)	% of Total Options/SARs Granted to Employees in Fiscal Year (1)	Exercise or Base Price (\$/Sh)	Expiration Date (2)	
-----	-----	-----	-----	-----	-----
Jay L. Schottenstein	None	N/A	N/A	N/A	
John C. Rossler	5,000	0.39%	\$4.48	8/29/11	\$
Alan R. Schlesinger	None	N/A	N/A	N/A	
James A. McGrady	5,000	0.39%	\$4.48	8/29/11	\$
Edwin J. Kozlowski	None	N/A	N/A	N/A	
Raymond L. Blanton	None	N/A	N/A	N/A	
George Kolber	None	N/A	N/A	N/A	

(1) Percentage is based upon 1,284,650 options granted in fiscal 2001.

- (2) All options are exercisable 20% per year, beginning on the first anniversary of the original grant date, on a cumulative basis and expire ten years from the original grant date.
- (3) Represents the potential realizable value of each grant of options assuming that the market price of the Common Stock appreciates in value from the date of grant to the end of the option term at either a 5% or 10% annualized rate, based on the difference between the assumed per share value and the per share option exercise price, multiplied by the total number of option shares.

AGGREGATED OPTION EXERCISES AND FISCAL YEAR-END OPTION VALUE TABLE

The following table provides certain information on the number and value of stock options held by the executive officers named in the Summary Compensation Table at February 2, 2002.

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF UNEXERCISED OPTIONS AT FISCAL YEAR END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE
Jay L. Schottenstein	---	---	56,000	---	---
John C. Rossler	---	---	6,000	9,000	---
Alan R. Schlesinger	---	---	20,000	30,000	---
James A. McGrady	---	---	6,000	29,000	---
Edwin J. Kozlowski	---	---	---	---	---
Raymond L. Blanton	---	---	6,400	5,600	---
George Kolber (2)	---	---	300,000	---	---

- (1) Represents the total gain which would be realized if all in-the-money options held at year end were exercised, determined by multiplying the number of shares underlying the options by the difference between the per share option exercise price and the per share fair market value at year end of \$4.33. An option is in-the-money if the fair market value of the underlying shares exceeds the exercise price of the option.
- (2) Pursuant to an Addendum to his Employment Agreement, Mr. Kolber forfeited rights to 200,000 options which were not vested on April 6, 2002.

EQUITY COMPENSATION PLAN TABLE

The following table sets forth additional information as of July 31, 2002, about shares of Common Stock that may be issued upon the exercise of options and other rights under the Company's existing equity compensation plans and arrangements, divided between plans approved by the Company's shareholders and plans or arrangements not submitted to the shareholders for approval. The information includes the number of shares covered by, and the weighted average exercise price of, outstanding options and other rights and the number of shares remaining available for future grants excluding the shares to be issued upon exercise of outstanding options, warrants, and other rights. The table does not reflect the additional shares covered by an amendment to the 2000 Stock Incentive Plan being submitted for shareholder approval which is discussed in

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Proposal Four of this proxy statement.

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	NUMBER OF SECURITIES TO BE ISSUED FROM EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS -----	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS -----
Equity compensation plans approved by security holders (1)	4,230,130	\$6.31
Equity compensation plans not approved by security holders	N/A	N/A
Total		

(1) Equity compensation plans approved by shareholders include the 1991 Stock Option Plan, as amended, and the 2000 Stock Incentive Plan.

TEN-YEAR OPTION / SAR REPRICING TABLE

The following table provides repricing information on the number and value of stock options held by the executive officers named in the Summary Compensation Table at February 2, 2002.

Name ----	Date ----	Number of Securities Underlying Options / SARs Repriced or Amended (#) (1) -----	Market Price Of Stock At Time of Repricing or Amendment (\$) (2) -----	Exercise Price At Time of Repricing or Amendment (\$) -----
Alan R. Schlesinger	2/02/02	66,667	\$4.28	\$7.13

(1) Effective December 4, 2000, Mr. Schlesinger was elected President and Chief Merchandising Officer of the Company and was granted options to purchase 200,000 shares of Common Stock. Effective February 3, 2002, Mr. Schlesinger was elected President and Chief Executive Officer of Filene's Basement Inc. On February 2, 2002, the 200,000 options were cancelled. A new grant of 66,667 options was made to Mr. Schlesinger on February 3, 2002.

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- (2) Represents the average high and low price per share of the Common Stock on February 1, 2002.

The Stock Option Committee approved the stock option repricing, in light of Mr. Schlesinger's new position with the Company.

Stock Option Committee
Of the Board of Directors

Robert L. Shook (Chairman)
Henry L. Aaron
Elizabeth M. Eveillard
Marvin Goldstein

Richard Gurian
Dr. Norman Lamm
Harvey L. Sonnenberg
James L. Weisman

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AGREEMENTS WITH KEY EXECUTIVES

Mr. Rossler entered into an employment agreement with the Company effective May 1, 1998, with a term originally ending April 30, 2001. Effective May 1, 2002, the agreement was renewed. The agreement provided for an annual salary of \$376,911 with annual increases of 2.5%. On July 24, 2002, Mr. Rossler entered into a new employment agreement with the Company with an effective date of February 3, 2002. The new employment agreement provides for an annual salary of \$700,000 with annual increases of 2.5%. In connection with the execution of the new employment agreement, Mr. Rossler received a signing bonus of \$250,000. Beginning for the fiscal year ending February 1, 2003, and in accordance with the Company's Incentive Compensation Plan, Mr. Rossler will receive an annual cash incentive bonus based upon a predetermined formula of the Company's earnings before interest and taxes. Mr. Rossler was granted 110,000 shares of restricted stock which vest on February 4, 2006, subject to the terms established by the Board. Mr. Rossler was also granted options to purchase up to 840,000 shares of Common Stock at an exercise price of \$4.50. These options vest ratably over five years. Subject to the terms of the Company's Stock Incentive Plan and any applicable performance stock option agreement, the Company granted to Mr. Rossler performance options to purchase 1,590,000 shares of Common Stock that will vest on (1) January 30, 2010 or, if earlier, (2) the later of (A) January 31, 2004 if, (i) for each day of any 60-consecutive trading day period that ends on or before January 31, 2004, the closing price of the Common Stock is at least \$12.00 per share or (ii) the Company has achieved at least 95 percent of the EBIT goal the Board set for the Company for each fiscal year ending after the effective date of Mr. Rossler's employment agreement and on and before January 31, 2004 or (B) the last day of (i) any 60-consecutive trading day period that ends after January 31, 2004 and before January 30, 2010 and on each day of which the closing price of the Common Stock is at least \$12.00 per share or (ii) the Company has achieved at least 95 percent of the EBIT goal the Board set for the Company for each of any three fiscal years ending after the effective date of Mr. Rossler's employment agreement and on and before January 30, 2010.

Mr. Kozlowski entered into an employment agreement with the Company, effective May 1, 2001, for a term ending April 30, 2004. The agreement provides for an annual salary of \$300,000 with minimum annual increases of 2.5%. The contract also provides for guaranteed bonuses and incentive compensation. Guaranteed bonuses are \$225,000 for fiscal year 2001-2002; \$187,500 for fiscal year 2002-2003; \$37,500 for fiscal year 2003-2004. Incentive compensation is

intended to provide for an annual maximum 200% of base salary (reduced by any amount payable under the guaranteed bonus) based upon Board approved, predetermined, performance measures. After fiscal year 2003-2004, the Incentive compensation will solely determine the bonus amount. The Company loaned Mr. Kozlowski funds to close on his Columbus housing. The loan bears interest at the prime rate of National City Bank, Columbus. The Company also loaned Mr. Kozlowski the initiation fee for a country club membership. This loan is being forgiven at a rate of 10 percent for each 12-consecutive month period Mr. Kozlowski remains employed after the date the loan was made, and will be fully forgiven if Mr. Kozlowski dies or becomes disabled before the end of the ten-year period. If Mr. Kozlowski leaves employment with the Company for any reason other than death or disability before the ten-year period has elapsed, he is responsible for the balance of the payment.

On July 24, 2002, Mr. Kozlowski was granted 80,000 shares of restricted stock which vest on February 4, 2006, subject to the terms established by the Board. Additionally, on July 24, 2002, Mr. Kozlowski was granted options to purchase up to 590,000 shares of Common Stock at an exercise price of \$4.50. These options vest ratably over five years. Subject to the terms of the Company's Stock Incentive Plan and any applicable performance stock option agreement, the Company granted to Mr. Kozlowski performance options to purchase 1,130,000 shares of Common Stock that will vest on (1) January 30, 2010 or, if earlier, (2) the later of (A) January 31, 2004 if, (i) for each day of any 60-consecutive trading day period that ends on or before January 31, 2004, the closing price of the Common Stock is at least \$12.00 per share or (ii) the Company has achieved at least 95 percent of the EBIT goal the Board set for the Company for each fiscal year ending after February 2, 2002 and on and before January 31, 2004 or (B) the last day of (i) any 60-consecutive trading day period that ends after January 31, 2004 and before January 30, 2010 and on each day of which the closing price of the Common Stock is at least \$12.00 per share or (ii) the Company has achieved at least 95 percent of the EBIT goal the Board set for the Company for each of any three fiscal years ending after February 2, 2002 and on and before January 30, 2010.

Mr. Blanton entered into an employment agreement with the Company, effective May 1, 1998, with a term originally ending April 30, 2001. The agreement has been renewed on an annual basis. Effective May 1, 2002, the agreement has been renewed. The agreement provides for an annual salary of \$275,000 with annual increases of 2.5%. In addition, Mr. Blanton is also a participant in the "Nonqualified Deferred Compensation Plan Agreement." Under this

agreement, an annual lump sum of \$75,000 is deposited each February. After continuous employment with the Company, Mr. Blanton may elect to retire on or after the first calendar month coinciding with or immediately following his 60th birthday. Mr. Blanton will be considered vested if (i) he furnishes to the Company's President with a one year's prior written notice of resignation after attaining age 60 and (ii) he enters into a confidentially and noncompetition/no solicitation agreement until he reaches the age of 65. If Mr. Blanton retires on or after his 65th birthday, he shall be fully vested on the date of retirement.

On July 24, 2002, Mr. Blanton was granted 20,000 shares of restricted stock which vest on February 4, 2006, subject to the terms established by the Board. Additionally, on July 24, 2002, Mr. Blanton was granted options to purchase up to 140,000 shares of Common Stock at an exercise price of \$4.50. These options vest ratably over five years. Subject to the terms of the

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Company's Stock Incentive Plan and any applicable performance stock option agreement, the Company granted to Mr. Blanton performance options to purchase 430,000 shares of Common Stock that will vest on (1) January 30, 2010 or, if earlier, (2) the later of (A) January 31, 2004 if, (i) for each day of any 60-consecutive trading day period that ends on or before January 31, 2004, the closing price of the Common Stock is at least \$12.00 per share or (ii) the Company has achieved at least 95 percent of the EBIT goal the Board set for the Company for each fiscal year ending after February 2, 2002 and on and before January 31, 2004 or (B) the last day of (i) any 60-consecutive trading day period that ends after January 31, 2004 and before January 30, 2010 and on each day of which the closing price of the Common Stock is at least \$12.00 per share or (ii) the Company has achieved at least 95 percent of the EBIT goal the Board set for the Company for each of any three fiscal years ending after February 2, 2002 and on and before January 30, 2010.

Mr. McGrady entered into an employment agreement with the Company effective June 21, 2000, for a term ending June 21, 2003. The agreement provides for an annual salary of \$300,000 and a bonus of at least 40% of his base salary based upon Board approved, predetermined, performance measures set annually. On July 24, 2002, Mr. McGrady was granted options to purchase up to 540,000 shares of Common Stock at an exercise price of \$4.50. These options vest ratably over five years.

Mr. Kolber entered into an employment agreement with the Company, effective December 4, 2000, for a term ending January 2004. The agreement provided for an annual salary of \$900,000 with \$100,000 increases each year. The contract also provided for the grant of 500,000 shares of restricted stock, which vest equally on the last of each fiscal year ending 2002, 2003 and 2004 provided that the Company has positive income before income taxes. In addition, Mr. Kolber was granted 200,000 options to purchase shares which vested on December 4, 2000, and was also granted an additional 300,000 options to purchase shares of the Company's Common Stock which vest equally on the first, second and third anniversaries of his employment agreement. Effective April 6, 2002, this agreement was terminated. The Company paid a separation payment of \$2,450,000 and will pay COBRA premiums through September 30, 2003.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

In 2002, the Board established a Compensation Committee comprised of Jay L. Schottenstein, Elizabeth Eveillard, Richard Gurian, Dr. Norman Lamm, Richard L. Shook, Harvey L. Sonnenberg and James L. Weisman. The Compensation Committee establishes, reviews, and recommends an executive compensation package for the Chief Executive Officer and other executive officers of the Company. Jay L. Schottenstein is also Chairman and Chief Executive Officer of SSC. For information regarding the relationships between the Company and SSC, see "Relationship with SSC and Its Affiliates" below.

The Stock Option Committee administers and grants options under the Company's 1991 Stock Option Plan and the Company's 2000 Stock Incentive Plan and administers the Company's Incentive Compensation Plan. The members are Henry L. Aaron, Elizabeth L. Eveillard, Marvin W. Goldstein, Richard Gurian, Dr. Norman Lamm, Robert L. Shook, Harvey L. Sonnenberg and James L. Weisman (non-voting member). None of the members of the Stock Option Committee are present or former officers of the Company or are themselves or any of their affiliates, if any, parties to agreements with the Company.

The following Compensation Report and Performance Graph and the Audit Committee Report previously provided shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any of the Company's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

COMPENSATION REPORT OF THE BOARD OF DIRECTORS

General. The Board has delegated to the Compensation Committee the authority to establish the annual compensation of the executive officers of the Company, other than the Chairman's compensation. The key components of the Company's executive officer compensation include both short-term compensation consisting of an annual base salary and annual bonuses under the Company's Incentive Compensation Plan and long-term equity based compensation consisting of grants of restricted stock and stock option awards. The entire Board has made the only grants of restricted stock by the Company. The Stock Option Committee of the Board grants options under the Company's 2000 Stock Incentive Plan.

In fiscal 2002, the Company engaged Hewitt Associates to perform an analysis and make a recommendation to the Board regarding the appropriate compensation to be paid to the Company's key executives. Hewitt reviewed the Company's compensation goals and the compensation packages awarded to executives of other comparable companies. The analysis covered both short-term and long-term incentives and attempted to tie compensation to Company performance.

Hewitt Associates made a presentation to the Company's Compensation Committee and Stock Option Committee in July 2002. Based upon the analysis, the Company entered into a new employment agreement with Mr. Rossler, effective February 3, 2002. For a description of this new employment agreement, see "Agreements with Key Executives" in this proxy statement.

Chairman's Compensation. The Chairman's annual base salary was fixed by action of the Board at the time he was appointed Chairman during fiscal 1992. The Chairman does not receive an annual bonus. The Board did not consider or take any action to change the Chairman's annual base salary during fiscal 2001.

Chief Executive Officer. The compensation of the Chief Executive Officer, Mr. Rossler, is fixed pursuant to the terms of his employment agreement, which was negotiated by the Chairman, with input from a number of the Directors.

Executive Officers' Compensation. The remaining executive officers' base salaries were based on negotiated employment agreements. No bonuses for fiscal 2001 were paid pursuant to the Company's Incentive Compensation Plan, which combines individual and company-wide objectives and performance goals to provide a clear vehicle linking the interests of the executive officers with the financial performance of the Company. A bonus was paid to Mr. Rossler, Mr. Blanton and Mr. Kozlowski pursuant to employment contracts with Shonac Corporation and to Mr. Schlesinger pursuant to an employment contract with Filene's Basement.

Stock Awards. The Company's 1991 Stock Option Plan was adopted at the time the Company went public in 1991 and the Board adopted the Company's 2000 Stock Incentive Plan on December 4, 2000. Both plans were adopted for the purpose of providing long-term incentives to key employees and motivating key employees to improve performance of the Company's stock. Stock options granted under the Company's 1991 Stock Option Plan and the Company's 2000 Stock Incentive Plan are determined and administered by the Stock Option Committee,

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none of the members of which are officers or employees of the Company. In determining the size of a stock option award, the Stock Option Committee considers the total number of shares subject to previously granted stock options held by the individual and, based principally on the recommendation of senior executive officers, the anticipated value of an individual's contribution to the Company's future performance. The options granted during fiscal year 2001 were granted to employees as a long-term incentive designed to encourage them to remain with the Company.

The Budget Reconciliation Act of 1993 amended the Internal Revenue Code of 1986, as amended (the "Code") to add Section 162(m) which bars a deduction to any publicly held corporation for compensation paid to a "covered employee" in excess of \$1,000,000 per year. Generally, the Board intends that compensation paid to covered employees shall be deductible to the fullest extent permitted by law. The Company's 1991 Stock Option Plan, the 2000 Stock Incentive Plan and Incentive Compensation Plan are intended to qualify under Section 162(m).

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The following members of the Board respectively submit this report:

Jay L. Schottenstein (Chairman)#
Henry L. Aaron*
Ari Deshe
Jon P. Diamond

Elizabeth M. Eveillard*#
Marvin Goldstein*#
Richard Gurian*#
Dr. Norman Lamm*#

Geraldine Schott
Robert L. Shook*
Harvey L. Sonnenb
James L. Weisman

*Members of the Stock Option Committee.

#Members of the Compensation Committee.

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PERFORMANCE GRAPH

The following graph compares the performance of the Company with that of the Standard & Poor's General Merchandise Chains Index and the Russell 2000 Index, both of which are published indexes. This comparison includes the period beginning August 2, 1997 through February 2, 2002.

The Standard & Poor's General Merchandise Chains Index is published weekly in the Standard & Poor's Statistical Service and the index value preceding each fiscal year end has been selected for purposes of this comparison. The Russell 2000 Index is a capitalization-weighted index of domestic equity securities traded on the New York and American Stock Exchanges and the Nasdaq that measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Common Stock is traded on the NYSE.

The comparison of the cumulative total returns for each investment assumes that \$100 was invested on August 2, 1997 and that all dividends were reinvested.

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COMPARISON OF 54 MONTH CUMULATIVE TOTAL RETURN*
AMONG VALUE CITY DEPARTMENT STORES, INC., THE RUSSELL 2000 INDEX
AND THE S & P GENERAL MERCHANDISE STORES INDEX

[GRAPH]

\$100 invested on 8/2/97 in stock or on 7/31/97 in index-including reinvestment of dividends.

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RELATIONSHIP WITH SSC AND ITS AFFILIATES

Prior to the completion of its initial public offering on June 18, 1991, the Company was operated as the Department Store Division of SSC. On that date, SSC transferred substantially all of the net assets of the Division to the Company in exchange for 22,500,000 shares of Common Stock. At July 31, 2002, SSC beneficially owned 58.7% of the Company's outstanding Common Stock. So long as SSC owns more than 50% of the Company's voting shares, it will continue to have the power acting alone to approve any action requiring a vote of the majority of the voting shares of the Company and to elect all of the Company's directors. For information with respect to the beneficial ownership of the voting stock of SSC by nominees for election to the Board of the Company and beneficial ownership of Common Stock by such persons and officers of the Company, see "Security Ownership of Certain Beneficial Owners and Management."

REAL ESTATE LEASES AND SUBLEASES

The Company leases or subleases from SSC or affiliates of SSC twenty-eight store locations, seven warehouses and a parcel of land. Generally, the agreements require the Company to pay for insurance, taxes, common area maintenance and other costs associated with the properties on a "triple net" basis for freestanding locations, and on a pro rata share basis for locations that are part of a larger parcel.

SSC leases to the Company five store locations under the terms of a Master Store Lease Agreement. The Master Store Lease, as amended, provides for certain base rentals, including a guaranteed amount, which approximate to \$3.46 per square foot. The Master Store Lease also provides for the payment of percentage rent equal to 2% of gross total sales in excess of the base rent. For fiscal 2001, the Company recorded rent expense to SSC, including contingent rent, of \$1,684,560 pursuant to the Master Store Lease.

SSC subleases to the Company two store locations that are owned by affiliates of SSC under a Master Sublease. The Master Sublease provides for an annual base rent of the greater of 2% of gross sales or minimum rent of \$2.39 and \$2.29 per square foot. For fiscal 2001, the Company recorded rent expense to SSC, including contingent rent, of \$688,794 pursuant to the Master Sublease.

Both the Master Lease and the Master Sublease have a term of five years that began in June 2001, and are renewable thereafter, by individual location, at the option of the Company, for four additional renewal terms of five years

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each. Each renewal term in the aforementioned leases and subleases will be on the same terms as the initial term, except for rent. The Master Store Lease and Master Sublease provide for an increase in minimum percentage rent of \$0.50 per square foot in each succeeding five-year renewal term. In no event, commencing fiscal 1997, shall total rent be less than 2% of total sales.

The Company also leases or subleases seven warehouse facilities and a trailer yard from SSC or affiliates of SSC. The warehouse facilities consist of approximately 1,998,000 square feet for base rentals of \$1.75 to \$3.11 per square foot with lease terms ranging from 2004 through 2037. Generally, the lease renewal terms are at the same terms and conditions as the original term except rent, which increases by \$0.25 to \$0.50 per square foot for each renewal term. The Company also leases, from an affiliate of SSC, a trailer yard of approximately 19 acres with lease control through April 2009 having rents that range from \$25,000 to \$30,000 per year during the period of lease control. During fiscal 2001, the Company recorded net rent expenses to SSC and affiliates of SSC of \$4,077,850 pursuant to these leases and assignments.

Additionally, the Company leases nineteen store locations from SSC or affiliates of SSC. Generally, the leases provide for percentage rent equal to 2% of total sales in excess of a specified sales level or base rent with base rents ranging from \$2.36 to \$20.00 per square foot for the initial term and provide lease terms ranging from 2007 through 2040. Generally, the renewal terms are at the same terms and conditions as the original term except rent, which may increase for the renewal terms. During fiscal 2001, the Company recorded rent expenses in the aggregate to SSC and affiliates of SSC of \$10,346,478 pursuant to these leases.

In addition to the foregoing, SSC subleases one store location to the Company under an agreement that provides for the payment of additional rent to SSC in order for SSC to recover the costs of the initial acquisition of the leasehold interest. The sublease has a term expiring in fiscal 2004 and provides for rent in the amount of 2% of total sales, with a minimum rent equal to \$2.00 per square foot and provides four additional five-year renewal terms. During fiscal 2001, the Company recorded rent expenses in the aggregate to SSC of \$196,560 pursuant to this sublease.

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The Company also subleases from SSC a store location. The sublease expires December 31, 2007 and provides for percentage rent equal to 2% of total sales in excess of a minimum base rent of \$4.69 per square foot with three additional renewal terms of five years each. During fiscal 2001, the Company recorded rent expenses to SSC of \$496,966 for this sublease.

SSC operates a chain of furniture stores, five of which operate in separate space subleased from the Company at five of its store locations. Three of these furniture store subleases (the "Furniture Subleases") are for a term concurrent with the respective lease between the Company and a third party landlord. These Furniture Subleases provide for the payment by SSC of base rent and other charges in amounts at least equal to its pro rata share based on square footage and its pro rata share of any percentage rent based on its gross sales. Two additional furniture store subleases are for periods shorter than the Company's lease. For fiscal 2001, SSC paid to the Company an aggregate of \$1,308,671 pursuant to these subleases.

LICENSE AGREEMENTS WITH AFFILIATES

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In July 1997, the Company entered into agreements to form a 50/50 joint venture with Mazel Stores, Inc. to create VCM, Ltd. ("VCM") to operate the Company's health and beauty care and toys and sporting goods departments as licensed departments. Beginning in fiscal 2000, VCM also operated the food department. Pursuant to operating agreements between VCM and the Company, VCM paid annual license fees to the Company based on 5% and 11% of net sales and reimbursed the Company 2% and 4% of its sales for advertising and 2.9% and 1% of its sales for administrative expenses for the health and beauty care and the toys and sporting goods departments, respectively. The Company also provided certain personnel, administrative and service functions for which it received a monthly fee from VCM to cover the related costs. The aggregate license fees paid by VCM to the Company for fiscal 2001 were \$9,698,000. Effective with the close of business on February 2, 2002, by acquisition of Mazel Stores, Inc.'s interest in VCM for \$8,375,000, the Company now owns 100% of VCM and operates the health and beauty care, toy, sporting goods and food departments in the Value City stores.

MERCHANDISE TRANSACTIONS WITH AFFILIATES

The Company from time to time purchases merchandise from affiliates of SSC. Some of such affiliates manufacture, import and wholesale apparel as their principal business. The members of the Company's merchandising staff use these sources and make their purchasing decisions in the same manner as with unaffiliated sources. Any merchandise purchased from such sources is on terms at least as favorable to the Company as could be obtained in an arm's-length transaction with an unaffiliated third party, and in certain instances, the Company is given terms preferential to those available to unaffiliated customers. Total purchases by the Company from SSC and affiliates for fiscal 2001 were \$16,396,000, representing 1.3% of the Company's total purchases during the fiscal year.

VCM and certain affiliates of SSC from time to time purchase merchandise from the Company, in some instances, on a regular basis. Such purchases are generally made from merchandise in the Company's warehouse inventory at prices equal to the Company's cost plus a handling fee of up to 15.0%.

The Company will from time to time purchase merchandise on behalf of and ship it directly to affiliates, at cost plus delivery charges. Most transactions of this nature are done with VCM. No such purchases were made during fiscal 2001.

In May 2001, SSC and the Company entered into a deferred purchase arrangement for the sale of Bugle Boy products that SSC purchased for approximately \$11.9 million. As part of the agreement, the Company agreed to purchase at SSC's cost plus a handling fee any unsold Bugle Boy merchandise owned by SSC on February 2, 2002. On February 6, 2002, the final payment was made to SSC.

In October 2001, SSC and Filene's Basement, Inc. entered into a deferred purchase arrangement for the sale of products that SSC purchased for approximately \$2.9 million. As part of the agreement, Filene's agreed to purchase the products at SSC's cost plus a handling fee. On May 13, 2002, the final payment was made to SSC.

The Company shares with SSC and its affiliates certain incidental support personnel and services for the purpose of achieving economies of scale and cost savings. These shared services include certain architectural, legal, advertising and administrative services. The Company and SSC have entered into a Corporate Services Agreement, which was amended and restated in June 2002, that sets forth the terms for payment of the costs of these shared services. The Company believes that it is able to obtain such services at a cost, which is equal to or below the cost of providing such services by itself or obtaining such services from unaffiliated third parties. For fiscal 2001, the Company paid SSC or its affiliates \$1,444,392 for such services.

The Corporate Services Agreement also provides for participation by the Company in the self-insurance program maintained by SSC. Under that program, the Company is self-insured for purposes of personal injury and property damage, motor vehicle and Ohio workers' compensation claims up to various specified amounts, and for casualty losses up to \$100,000. Claims and losses in excess of the specified amounts are covered by stop-loss or excess liability policies maintained by SSC, which include the Company as a named insured. SSC maintains reserves and pays claims for self-insured amounts under the program and will continue to do so with respect to the Company's participation in the program. SSC charges its affiliates, divisions and the Company premiums based, among other factors, on loss experience and its actual payroll and related costs for administering the program. For fiscal 2001, the Company paid SSC \$12,326,000 for participation in the program.

The Company also provided certain administrative and service functions for VCM. These functions included accounting, MIS and merchandise delivery. For fiscal 2001, the Company charged VCM \$2,148,341 for these services.

DEBT AGREEMENTS

To supplement operating cash requirements, the Company entered into a \$100.0 million subordinated secured credit facility with SSC (the "Old Term Loan"). Outstanding advances under the Old Term Loan were subordinated to the Company's then existing bank credit agreement and were subject to a junior lien on assets securing the Company's then existing bank credit agreement. The interest rate and terms of the Old Term Loan were generally the same as the Company's then existing bank credit agreement. The Old Term Loan was paid off as part of the \$525.0 million refinancing completed June 12, 2002.

DESCRIPTION OF FEES PAID TO LENDERS UNDER NEW TERM LOANS AND CONVERTIBLE FACILITY

On June 11, 2002, the Company and its principal subsidiaries entered into a new three-year \$100.0 million term loan facility of which \$50.0 million is designated Term Loan B and \$50.0 million is designated Term C (the "Term Loans") each of which were provided equally by Cerberus and SSC (the "Lenders"). All obligations under the Term Loans are senior debt, ranking pari passu with the Company's \$350.0 million revolving credit facility agent by National City Commercial Finance, Inc., Fleet Retail Finance Inc., Wells Fargo Retail Finance, LLC, The CIT Group/Business Credit, Inc., and General Electric Capital Corporation (the "Revolving Credit Agreement"). 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 paid in kind ("PIK") option is elected by the Company. During the first two years of the Term Loans, the Company may pay all of the interest by PIK. During the final year of the Term Loans, the stated rate of interest is 15% 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 2,957,793 of the shares of Common Stock, at an initial exercise price of \$4.50 per share. One half of the Warrants will be issued to SSC. 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 tenth 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 the exercise of the Warrants. The issuance of the Warrants and Common Stock issuable upon exercise of the Warrants is subject to shareholder approval. SSC has agreed to vote its shares of Company common stock in favor of the approval of the issuance of the Warrants and the Common Stock issuable upon exercise of the Warrants.

DISCLOSURE OF THE TERM OF THE CONVERTIBLE FACILITY

The Company previously entered into a \$75.0 million Senior Subordinated Convertible Loan Agreement ("Senior Facility"), dated as of March 15, 2000. The Senior Facility bore interest at various rates. The interest rate increased an additional 50 basis points every 90 days following the first anniversary date. The Senior Facility was due in September 2003. In December 2000, pursuant to the terms of the Senior Facility, SSC purchased the outstanding balance under the same continuing terms. On June 11, 2002, the Company entered into an Amended and Restated Senior Convertible Loan Agreement, which was further amended by Amendment No. 1 to the Amended and Restated Senior Convertible Loan Agreement ("Amended Senior Facility") pursuant to which Cerberus, purchased half of SSC's interest in the Amended Senior Facility and became successor agent for itself and SSC (the "Lenders") under the Amended Senior Facility. The aggregate principal amount advanced under the Amended Senior Facility, all of which is outstanding, is \$75.0 million. Borrowings under the Amended Senior Facility 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 Amended Senior Facility is guaranteed by all of the Company's principal subsidiaries and is secured by a lien on assets junior to liens granted in favor of Revolving Credit Agreement and the Term Loans. The Amended Senior Facility is not prepayable for five years from the closing date. The agent has the right to designate two observers to the Board 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 advances initially made by it. Subject to shareholder approval, amounts outstanding under the Amended Senior Facility are convertible at the option of the Lenders into shares of Common Stock at a initial conversion price of \$4.50. The conversion price is subject to adjustment upon the occurrence of specified events. The Company has granted the Lenders registration rights with respect to the shares issuable as interest on and upon conversion of amounts outstanding under the Amended Senior Facility. SSC, as Lender of one-half of the amounts under the Amended Senior Facility, is entitled to one-half of such Common Stock and has registration rights with respect thereto. The conversion of amounts outstanding under the Amended Senior Facility into shares representing in excess of 19.9% of the shares of the Common Stock currently outstanding on June 11, 2002, is subject to shareholder approval. SSC has agreed to vote its Common Stock in favor of approval of such conversion rights.

The Company recorded \$7,109,480 in interest expense for the Old Term Loan and the Senior Facility, of which \$4,736,720 was paid during fiscal 2001.

PROPOSAL TWO: APPROVAL OF THE ISSUANCE OF WARRANTS TO PURCHASE SHARES OF COMMON STOCK INITIALLY EXERCISABLE FOR UP TO 2,954,793 SHARES OF COMMON STOCK AND THE ISSUANCE OF SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE THEREOF, AS WELL AS ANY ADDITIONAL SHARES OF COMMON STOCK ISSUABLE PURSUANT TO THE ANTI-DILUTION AND OTHER PROVISIONS OF THE WARRANTS

On June 11, 2002, the Company entered into a new three-year \$100.0 million term loan facility (the "Term Loans") provided equally by the Lenders. Pursuant to the Term Loans the Company agreed, subject to shareholder approval, to issue warrants (the "Warrants") initially exercisable for up to 2,954,793 shares of Common Stock. The Common Stock is listed on the NYSE, and, therefore, shareholder approval is required for the issuance of the Warrants and the shares issuable upon exercise of the Warrants because SSC is an affiliate of the Company and will receive one half of the Warrants.

The following is a summary of the material terms of the form of Warrant, a copy of which is attached as Appendix A. We urge you to read the form of Warrant carefully.

PRINCIPAL TERMS OF THE WARRANTS

UNDERLYING SECURITIES

As of July 31, 2002, there were 2,954,793 shares of common stock, without par value per share, underlying the Warrants.

EXERCISE PERIOD AND PRICE

The Warrants may be exercised by the holders thereof, in whole or in part, at any time prior to the expiration date. The Warrants expire ten years from the date of issuance. The exercise price shall initially be \$4.50 per share, subject to adjustment and readjustment from time to time.

ADJUSTMENT TO EXERCISE PRICE

The exercise price may be adjusted under the following circumstances:

- if the Company issues or sells additional shares of Common Stock without consideration, or for a consideration per share less than the exercise price in effect immediately prior to such issuance or sale (additional shares of Common Stock shall be deemed issued if the Company issues, sells, grants, assumes, or fixes the record for the determination of holders of, any class of securities of the Company entitled to receive options or convertible securities), then the exercise price shall be decreased to the consideration per share for which such additional shares of Common Stock are issued or sold;
- if the Company declares or pays any dividend on the Common Stock payable in common stock, effects a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock, or effects any combination or consolidation of the outstanding shares of Common Stock into a lesser number of shares of Common Stock, then adequate provision must be made so that the holder shall receive upon exercise of the Warrant a pro rata share of such dividend or other distribution;

- if the Company sells additional shares of Common Stock for a consideration per share less than the current market price, but greater than the exercise price in effect immediately prior to such issue or sale, then the exercise price shall be decreased based on a weighted average anti-dilution formula; or
- if the consolidated EBITDA of the Company and its subsidiaries for the fiscal year ending February 1, 2003, is less than \$90,000,000 or the combined, unconsolidated EBITDA of each of the Company (excluding subsidiaries), Value City Limited Partnership, Value City of Michigan, Inc., GB Retailers, Inc., Gramex Retail Stores, Inc., VCM, Ltd., and any person acquired after the date of the Warrants that operates Value City department stores is less than \$35,000,000 in the aggregate, then the exercise price shall be decreased to \$4.00 per share.

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For purposes of adjusting the exercise price due to the issuance of additional shares of common stock, "additional shares of common stock" shall mean all shares of common stock issued or sold by the Company other than the following:

- shares issued upon the exercise of the Warrants;
- additional shares that become issuable upon the exercise of the Warrants by reason of adjustments required pursuant to the anti-dilution provisions applicable to the Warrants;
- up to 7,153,000 shares of common stock (and, following June 11, 2007, up to an additional 5,000,000 shares of common stock) that are issued to persons other than affiliates of the Company; and
- shares of common stock issued upon conversion of the Amended Senior Facility and such additional number of shares as may become issuable upon the exercise of any such securities by reason of adjustments required pursuant to anti-dilution provisions.

ADJUSTMENT OF NUMBER OF SHARES

Upon the adjustment of the exercise price as described above, except to the extent that the exercise price is adjusted based on EBITDA, a Warrant shall thereafter evidence the right to receive that number of shares of common stock obtained by dividing (i) the product of the aggregate number of shares covered by the warrant immediately prior to such adjustment and the exercise price in effect immediately prior to such adjustment of the exercise price by (ii) the exercise price in effect immediately after such adjustment of the exercise price.

In the event that the Company issues any share of common stock upon the conversion of convertible securities outstanding on the effective date of the Warrants, the number of shares of Common Stock issuable upon the exercise of a Warrant shall automatically be increased by an amount equal to 8.75% of the shares of Common Stock issued upon such conversion, and the exercise price shall not be adjusted in connection with such increase.

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FAILURE TO APPROVE ISSUANCE OF THE WARRANTS

If shareholder approval of the issuance of the Warrants is not obtained on or prior to October 31, 2002 (or December 31, 2002 in the event that the meeting of shareholders is delayed as a result of a unilateral action taken by SSC or a shareholder of SSC), the Term Loans shall bear interest on the principal amount thereof, until the date such requisite approval is obtained, at an interest rate per annum equal to the interest rate otherwise in effect pursuant to the terms of the Term Loans plus five percent (5%).

SSC, who beneficially owns more than 50% of the Company's outstanding shares of Common Stock, has provided an irrevocable proxy to vote in favor of this proposal. Thus, the passage of the proposal is assured.

IMPACT ON CAPITALIZATION

As a result of the issuance of Common Stock upon conversion of the Warrants, the holders of Common Stock will experience dilution. As of the date of this proxy statement, the exercise all of the Warrants would result in the issuance of an aggregate of approximately 2,954,793 shares of Common Stock, equal to approximately 8.7% of the Company's outstanding equity. The number of shares of Common Stock issuable to the Lenders is subject to adjustment and readjustment from time to time as described above.

REGISTRATION RIGHTS

Each holder of the Warrants shall have the right to request in writing that the Company register all or part of such holder's registrable securities by filing with the SEC a demand registration statement up to three times. The registration statement shall include (i) the registrable securities intended to be disposed of and (ii) the registrable securities intended to be disposed of by any other holder thereof which shall have made a written request for inclusion in such registration within 30 days after the receipt of written notice. Following a request, the Company shall use its reasonable best efforts to cause to be filed with the SEC a registration statement providing for the registration under the Securities Act of the registrable securities which the Company has been so requested to register by all such holders. The

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Company shall use its reasonable best efforts to have such registration statement declared effective by the SEC as soon as practicable thereafter and to keep such registration statement continuously effective until such time as all of such registrable securities have been disposed of in accordance with the intended methods of disposition by the seller(s) thereof set forth in such registration statement. Additionally, the holders of the Warrants have the right to register shares held by them in connection with other registrations made by the Company, subject to specific limitations.

EFFECT OF THE MERGER

If the Merger proposed in proposal five of this proxy statement is consummated, pursuant to the terms of the Warrants, each Warrant will be exchanged for a warrant to purchase an equal number of shares of common stock of the new holding company on the same terms and conditions set forth in the form of Warrant.

REQUIRED VOTE

The affirmative vote of the holders of a majority of shares of Common Stock present and entitled to vote at the shareholder meeting is required to approve this proposal.

SSC, who beneficially owns more than 50% of the Company's outstanding shares of Common Stock, has provided an irrevocable proxy to vote in favor of this proposal. Thus, the passage of the proposal is assured.

THE BOARD RECOMMENDS THAT THE SHAREHOLDERS VOTE "FOR" THE ISSUANCE OF WARRANTS TO PURCHASE SHARES OF COMMON STOCK INITIALLY EXERCISABLE FOR UP TO 2,954,793 SHARES OF COMMON STOCK AND THE ISSUANCE OF SHARES OF COMMON STOCK UPON EXERCISE THEREOF, AS WELL AS ANY ADDITIONAL SHARES OF COMMON STOCK ISSUABLE PURSUANT TO THE ANTI-DILUTION AND OTHER PROVISIONS OF THE WARRANTS.

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PROPOSAL THREE: APPROVAL OF THE ISSUANCE OF SHARES OF COMMON STOCK AS INTEREST ON AND UPON CONVERSION OF AMOUNTS OUTSTANDING UNDER THE AMENDED AND RESTATED SENIOR CONVERTIBLE LOAN AGREEMENT, AS WELL AS ANY ADDITIONAL SHARES OF COMMON STOCK ISSUABLE PURSUANT TO THE TERMS OF THE AMENDED AND RESTATED SENIOR CONVERTIBLE LOAN

The Company is asking you to approve the issuance of shares of Common Stock as interest and upon the conversion of amounts outstanding under the Amended and Restated Senior Convertible Loan Agreement dated June 11, 2002, as amended.

On June 11, 2002, the Company entered into the Amended and Restated Senior Convertible Loan Agreement with SSC which amended and restated and the original Senior Convertible Loan Agreement, as amended, entered into with Prudential Securities Credit Corp., LLC, on March 15, 2000, and subsequently purchased by SSC (the "Senior Facility"). The Amended and Restated Senior Convertible Loan Agreement was further amended by Amendment No. 1 to the Amended and Restated Senior Convertible Loan Agreement (the "Amended Senior Facility") pursuant to which Cerberus purchased one half of SSC's interest in the Amended Senior Facility and became successor agent for itself and SSC (the "Lenders") under the Amended Senior Facility. The aggregate principal amount advanced under the Amended Senior Facility, all of which is outstanding, is \$75 million.

The Amended Senior Facility permits the Lenders to convert principal and interest advanced to the Company under the Amended Senior Facility into shares of Common Stock. As of July 31, 2002, the conversion price was \$4.50 per share, subject to adjustment as described below. If the Company issues shares of Common Stock upon conversion of amounts due under the Amended Senior Facility, the amount due under the Amended Senior Facility will be reduced by an amount equal to the aggregate conversion price.

Because the Common Stock is listed on the NYSE, shareholder approval must be obtained prior to issuing Common Stock or securities that are convertible into, or exercisable for, Common Stock in one transaction or a series of related transactions if:

- the Common Stock has, or will have upon issuance, voting power equal to or in excess of 20% of the voting power outstanding before the issuance of such stock or securities convertible into or exercisable for Common Stock; or

- the number of shares of Common Stock to be issued, is or will be upon issuance, equal to or in excess of 20% of the number of shares of Common Stock outstanding before the issuance of the Common Stock or of securities convertible into or exercisable for Common Stock.

Due to the limited time available to consummate the Amended Senior Facility described above, the Company did not have sufficient time to hold a special meeting of shareholders to obtain prior approval of the terms and issuance of Common Stock upon the conversion of amounts outstanding under the Amended Senior Facility. As a result, the Company entered into the Amended Senior Facility and limited its conversion to an aggregate of 19.9% of the Common Stock outstanding prior to such issuance, until shareholder approval is obtained for the issuance of more than 19.9% of the Common Stock outstanding prior to such issuance. Therefore, the Company may only issue up to 6,720,042 shares of Common Stock pursuant to the terms of the Amended Senior Facility at this time.

The Company agreed with the agent for the Lenders under the Amended Senior Facility to seek shareholder approval of the issuance of Common Stock upon the conversion of amounts outstanding under the Amended Senior Facility. Accordingly, this matter is being submitted for approval at the upcoming Annual Meeting. Under the terms of the Amended Senior Facility, the Company cannot issue shares of Common Stock upon conversion of amounts outstanding under the Amended Senior Facility in excess of the 19.9% threshold until the shareholder approval contemplated by this proposal is received.

The following is a summary of the material terms of the Amended Senior Facility, a copy of which is attached as Appendix B. We urge you to read the Amended Senior Facility closely.

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PRINCIPAL TERMS OF THE AMENDED SENIOR FACILITY

CONVERSION

To the extent any portion of the Amended Senior Facility remains outstanding, any Lender may, at its option, convert all or any portion of its pro rata share of the loan into fully paid and nonassessable shares of Common Stock at the conversion price in effect at such time. The number of shares of Common Stock into which Lenders may convert amounts outstanding under the Amended Senior Facility is calculated by dividing the principal amount of the portion of the Lenders pro rata share of the loan to be converted plus all accrued and unpaid interest thereon by the conversion price. The conversion price is initially equal to \$4.50 per share, subject to certain adjustments described below.

ADJUSTMENTS TO THE CONVERSION PRICE AND NUMBER OF SHARES

The conversion price may be adjusted under the following circumstances:

- if the consolidated EBITDA of the Company and its subsidiaries for the fiscal year ending February 1, 2003, is less than \$90,000,000 or the combined, unconsolidated EBITDA of each of the Company (excluding subsidiaries), Value City Limited Partnership, Value City of Michigan, Inc., GB Retailers, Inc., Gramex Retail Stores, Inc., VCM, Ltd., and any person acquired after the date

of the Amended Senior Facility that operates Value City department stores is less than \$35,000,000 in the aggregate, then effective as of the close of business on February 1, 2003, the conversion price shall be reduced to \$4.00 per share;

- in the event the outstanding shares of common stock are combined or consolidated into a lesser number of shares of common stock; or
- in the event that the Company issues additional shares of common stock without consideration or for a consideration per share less than the conversion price in effect on the date of and immediately prior to such issuance.

For purposes of adjustments to the conversion price the following events shall be deemed the issuance of additional shares of Common Stock:

- the issuance of any options or convertible securities, or the fixing of a record date for the determination of holders of any class of securities entitled to receive any such options or convertible securities; and
- the payment of any dividend or any other distribution on the common stock payable in common stock, or the subdivision of the outstanding shares of Common Stock.

For purposes of adjusting the conversion price due to the issuance of additional shares of common stock, "additional shares of common stock" shall mean any or all shares of common stock issued by the Company after the effective date of the Amended Senior Facility, other than the following:

- shares issued upon the conversion of the amounts outstanding under the Amended Senior Facility;
- additional shares that become issuable upon the conversion of amounts outstanding under the Amended Senior Facility by reason of adjustments required pursuant to the anti-dilution provisions then in effect;
- up to 7,153,000 shares of common stock (and following the fifth anniversary of the effective date of the Amended Senior Facility, up to an additional 5,000,000 shares of common stock) that are issued to persons other than affiliates of the Company; and
- shares of common stock issued upon the exercise of the Warrants.

No adjustment in the number of shares of common stock into which amounts outstanding under the Amended Senior Facility are convertible shall be made unless the consideration per share for an additional share of Common Stock issued is less than the greater of the current market price and the fair market value on the date of issue of such additional share of Common Stock.

INTEREST

Borrowings under the Amended Senior Facility will bear interest at 10% per annum. At the Company's option, interest may be PIK from the closing date to

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the second anniversary thereof, and thereafter, at the option of the Company, up to 50% of the interest due may be PIK until maturity.

IMPACT ON CAPITALIZATION

In considering the dilutive effect of the issuance of Common Stock as interest on and upon the conversion of amounts outstanding under the Amended Senior Facility and otherwise pursuant to the terms of the Amended Senior Facility, you should keep in mind that the actual number of shares of common stock that the Lenders under the Amended Senior Facility are entitled to receive is currently limited by the listing requirements of the NYSE to 6,720,042, or 19.9% of the number of shares of Common Stock outstanding on June 11, 2002 (the effective date of the Amended Senior Facility).

As a result of the issuance of Common Stock upon conversion of amounts outstanding under the Amended Senior Facility, the holders of Common Stock will experience dilution. As of the date of this proxy statement, the conversion at \$4.00 per share of the entire amount due under the Amended Senior Facility would result in the issuance of an aggregate of approximately 18,750,000 shares of Common Stock, equal to approximately 35.7% of the Company's outstanding equity. The conversion at \$4.50 per share of the entire amount due under the Amended Senior Facility would result in the issuance of approximately 16,666,666.7 shares of Common Stock, equal to approximately 33% of the Company's outstanding equity. The number of shares of Common Stock into which Lenders may convert amounts outstanding under the Amended Senior Facility is calculated by dividing the principal amount of the portion of the Lenders' pro rata share of the loan to be converted plus all accrued and unpaid interest thereon by the conversion price. The conversion price is initially equal to \$4.50 per share, subject to adjustment and readjustment from time to time as provided in Section 13 of the Amended Senior Facility as described above.

FAILURE TO OBTAIN SHAREHOLDER APPROVAL

If shareholder approval for the issuance of shares of Common Stock is not obtained and all of the conversion shares are not approved for listing on the NYSE on or prior to October 31, 2002 (or December 31, 2002 in the event that the meeting of shareholders is delayed as a result of a unilateral action taken by SSC or a shareholder of SSC), the Amended Senior Facility shall bear interest on the principal amount thereof, from June 11, 2002 until the date such requisite approval is obtained, at an interest rate per annum equal to the interest rate otherwise in effect pursuant to the terms of the Amended Senior Facility plus five percent (5%).

In the event that shareholder approval of the issuance of the Common Stock is not approved, the Company may still issue up to 6,720,042 shares of Common Stock, representing 19.9% of the Company's outstanding Common Stock on the effective date of the Amended Senior Facility, to the Lenders.

SSC, who beneficially owns more than 50% of the Company's outstanding shares of Common Stock, has provided an irrevocable proxy to vote in favor of this proposal. Thus, the passage of the proposal is assured.

REGISTRATION RIGHTS

Each of the Lenders has the right to request in writing that the Company register all or part of its registrable securities by filing with the SEC a demand registration statement up to three times. The Company shall include in the registration statement: (i) the registrable securities intended to be disposed of and (ii) the registrable securities intended to be disposed of by any other holder thereof which shall have made a written request for inclusion thereof in such registration within 30 days after the receipt of written notice. Following a request, the Company shall use its reasonable best efforts to cause

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to be filed with the SEC a registration statement providing for the registration under the Securities Act of the registrable securities which the Company has been so requested to register by all such holders. The Company shall use its reasonable best efforts to have such registration statement declared effective by the SEC as soon as practicable thereafter and to keep such registration statement continuously effective until such time as all of such registrable securities have been disposed of in accordance with the intended methods of disposition by the seller(s)

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thereof set forth in such registration statement. Additionally, the Lenders have the right to register shares held by them in connection with other registrations made by the Company, subject to specified limitations.

LIMITATIONS ON THE RIGHTS OF THE LENDERS TO CONVERT

Until shareholder approval of this proposal is obtained and so long as the Common Stock is listed on the NYSE, the Lenders under the Amended Senior Facility may not convert amounts outstanding under the Amended Senior Facility into more than an aggregate of 19.9% of the Common Stock outstanding as of June 11, 2002 (the effective date of the Amended Senior Facility), or 6,720,042 shares of Common Stock (adjusted for stock splits and similar transactions).

EFFECT OF THE MERGER

If the Merger proposed in proposal five of this proxy statement is consummated,