



smart looks,
smart prices!

2002 annual report

Elder-Beerman

A Defined Niche

Elder-Beerman continues to own and define our niche in smaller to midsize markets as a department store retailer offering a fine selection of family fashion apparel, accessories and shoes including premier brands, along with women's intimate apparel, better cosmetics and fine fragrances. For the home, we carry linens, cookware, china, gifts and furniture, all with an emphasis on style, quality and value.

about Elder-Beerman



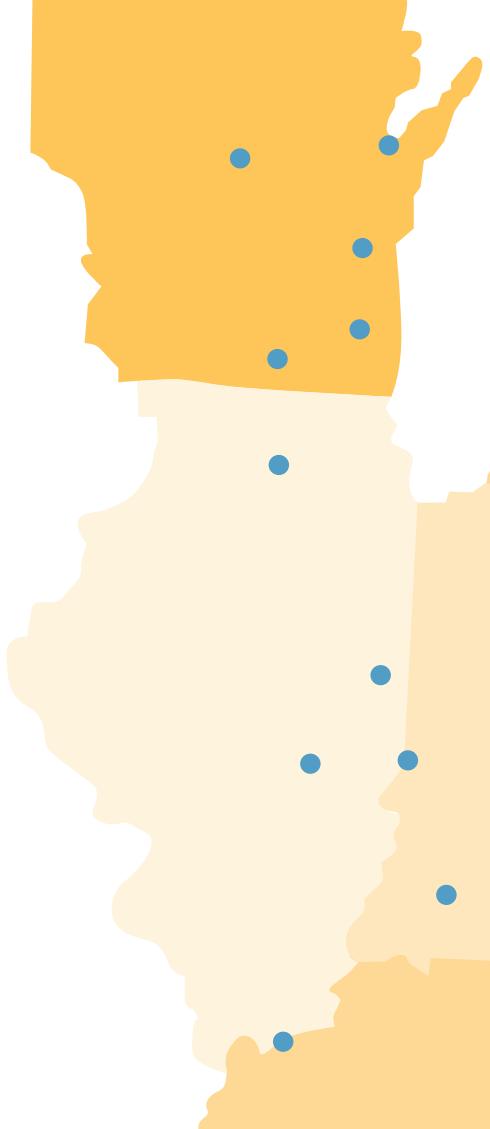
Elder-Beerman operates where being local matters. We locate our stores in malls, strip-centers and freestanding buildings in smaller to midsize markets where we can be the number one market share department store. Perceived as a home-town merchant, we are as resourceful as a national chain, a strength that makes us unique. Elder-Beerman operates 66 department stores and two furniture galleries across eight states. Stores range in size from 40,000 to 217,000 square feet. By knowing our customers and staying close to our communities, we strive to be the number one destination department store in our target markets for our target customers.

Our Mission

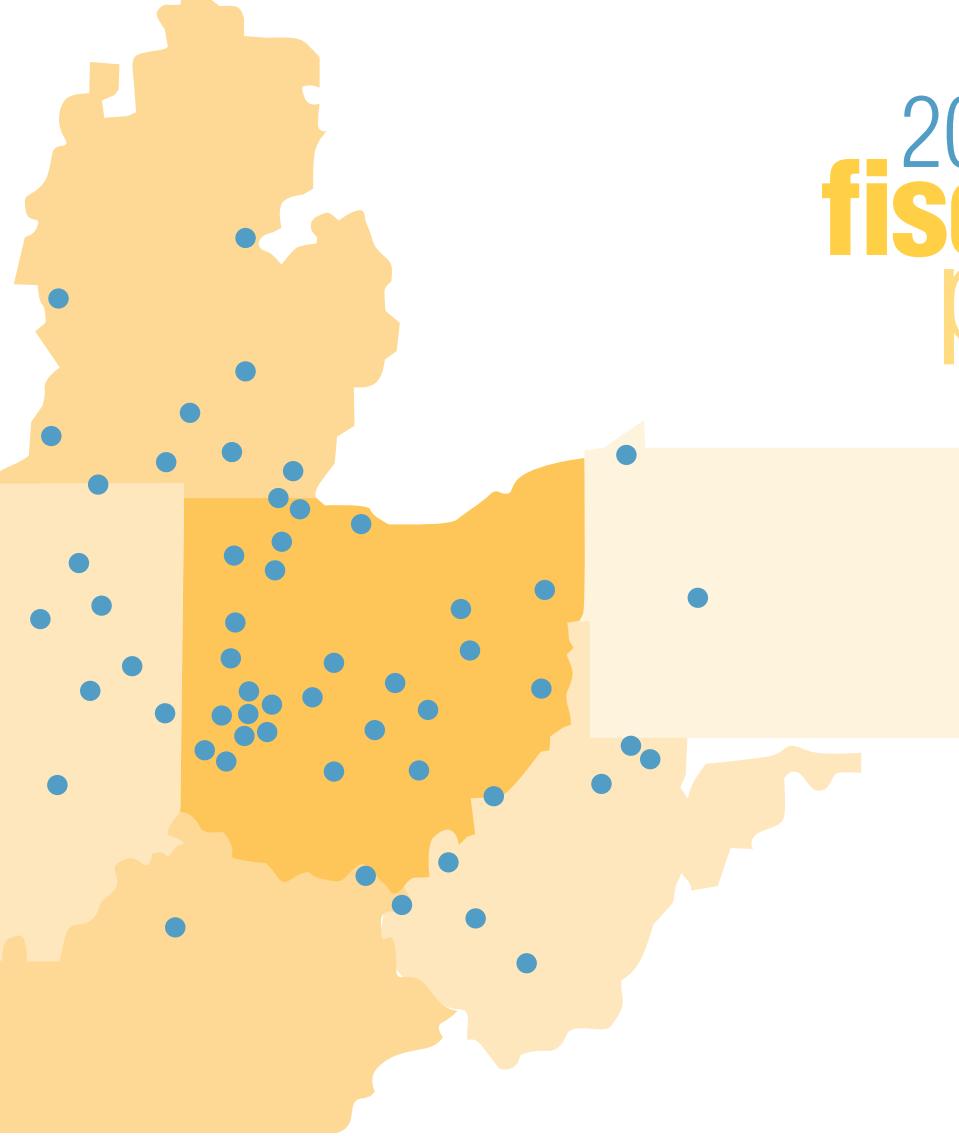
To be successful, we will remain enthusiastically and meticulously focused on three core competencies:

- Quality, value and selection in our merchandise offerings
- Convenient, attractive store locations
- Friendly capable service

By executing our objectives, we will create value for our shareholders, customers, associates and the communities we serve.



2002



2002 fiscal performance

Total revenues were \$670.6 million compared to \$673.5 million in 2001, a decrease of 0.4%. Net sales for 2002 were \$639.8 million compared to \$643.1 million in 2001, a 0.5% decrease. Comparable store sales decreased 2.4%.

Income before the cumulative effect of changes in accounting principles was \$0.9 million or \$0.08 per diluted share for the 2002 fiscal year ended February 1, 2003 compared to a loss of \$0.9 million or \$0.08 per diluted share for the 2001 fiscal year. The net loss including the cumulative effect of changes in accounting principles for fiscal year 2002 was \$14.2 million or \$1.24 per diluted share. At fiscal year ended February 1, 2003, Elder-Beerman operated 68 stores.

financial highlights

Fiscal Year (Dollars in Thousands)	2002	2001	2000
Total Revenues	\$670,618	\$673,516	\$687,630
Earnings (Loss) before Discontinued Operations and Cumulative Effect of Changes in Accounting Principles	\$945	(\$920)	(\$6,824)
Total Assets	\$411,048	\$451,062	\$455,317
Long Term Obligations	\$115,127	\$148,489	\$165,632

Fellow Shareholders,

Elder-Beerman made significant progress in 2002 despite an uncertain national economy, lagging consumer confidence and a difficult retail climate. Through our strategic vision, merchandising innovations, productivity gains, expense controls, and the hard work of every associate in this organization, we have made Elder-Beerman a stronger company financially. We are well positioned to increase enterprise value and shareholders returns.

Financial Progress in a Challenging Environment

We reported a profit of \$0.08 per diluted share before the cumulative effect of changes in accounting principles, compared to a loss of \$0.08 per diluted share last year. Net gains in productivity, along with other expense initiatives, helped us to reduce SG&A for the year by \$6.0 million to 27.4% of sales, an 80 basis point improvement over 2001.

We increased the productivity of our inventories lowering overall inventory levels and improving merchandise presentation and assortments. In 2002, year-end inventory levels were 8.6% lower than 2001. Retail inventory turnover increased 16% to 2.2 times. Inventory freshness (i.e., goods received in the past 90 days) improved by 11% over 2001. In-stock on basic merchandise improved to 93% from 89% in 2001.

We upgraded our real estate portfolio in 2002. We opened our 10th new format store in Coldwater, Michigan and closed an underperforming store in downtown Dayton, Ohio.

Our proprietary charge card program provided opportunities to strengthen



2002 made us a

relationships with our customers while generating revenue and profits. During 2002, despite the lowest level of consumer finance rates in recent history, we grew finance revenues by 1.1% to \$27.6 million. Credit penetration increased over 300 basis points to 46.5% of sales from 43.1% in 2001. Our Customer Relationship Marketing tool (CRM) gave us a more targeted marketing approach to appeal to our charge card customers' individual needs.

In a fast-moving industry like ours, the ability to react to business trends is

essential. Our management of expenses and working capital, most notably inventory management, and disciplined capital spending provided free cash flow to reduce long term debt by \$33.4 million. Year-end revolver borrowings were the lowest in three years at \$6.0 million, reduced from \$36.7 million last year.

Our efforts in 2002 made Elder-Beerman a stronger company financially. This strength gives us the ability to react quickly to the challenges of the marketplace in 2003 while we continue to solidify our niche in that marketplace.

Looking Ahead

The past few years have shown nearly every company, and certainly ours, that while there may be circumstances and events outside of our control, we *can* control how we manage our business. At Elder-Beerman we will focus on two main initiatives in 2003 to improve profitability: top-line sales growth and return on sales.

To generate sales growth, we will focus on offering more updated assortments, such as our "Attitudes" women's apparel classification. This gives our current target customer more of a reason to update her wardrobe and at the same time attracts a new customer to Elder-Beerman.

We will continue to develop focused and deep assortments and a streamlined vendor structure to be more meaningful to our customers. We want our customers to know what we stand for when they walk in the door. We want them to find the styles,

desirable to the customer. They are supported by strong visual displays in the stores and we promote key items heavily in our advertising. "Smart Buys" are selected high-profile items at competitive, everyday low prices, an alternative to our high/low promotional strategy.

To optimize selling square feet in our larger stores we are looking at adding new businesses. As an example, we have added mattress departments to several stores, a high gross margin business with minimal inventory requirements.

Advertising is an essential tool for us. We will maintain our cost effective advertising expense at the same expense rate as 2002. Ours is a competitive business and we must continue to deliver a strong, consistent marketing message to our customers.

To improve the return on sales, we will continue to focus on expense control.

our debt low, so that we can react to business trends as they develop. We will continue to spend capital strategically and only where it can improve sales or profits.

In 2003, we continue to improve our real estate portfolio. In April 2003, we opened our 11th new format store in DeKalb, Illinois. At the end of April 2003, we closed a suburban Cincinnati store that did not fit into our strategy of smaller to mid-sized market where we can be the number 1 or 2 market share department store. We have announced the Fall season opening of the Muscatine store, our 12th new format store and our first store in Iowa. The new format stores as a group have better productivity per selling square foot than our larger mature stores.

I recently celebrated my first anniversary with Elder-Beerman. It was a satisfying year both personally and professionally. The energy and teamwork of our associates made 2002 successful. Their dedication and commitment will allow us to continue to improve performance in 2003. I am pleased to be a part of this team as we improve Elder-Beerman. I am excited and pleased with Elder-Beerman's results to date and look forward to another year of progress.

To the associates of Elder-Beerman with whom I work every day, the thousands of customers who shop in our stores, the communities where we live and work and to you, our shareholders, I extend my thanks for your support.

Sincerely,



Byron L. Bergren
President and Chief Executive Officer

stronger company financially

colors and sizes they want at an excellent value.

We will further increase merchandise turnover. Our customer is a frequent shopper and we need to show her fresh merchandise every time she enters our store.

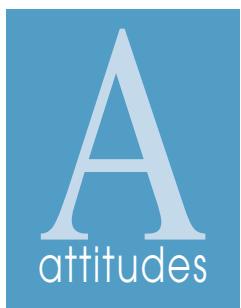
We will continue our key item and Smart Buy programs. "Key items" are highly

It has become part of our culture and key to our long range profit goals. Today's competitive environment will always put some pressure on gross margins. Expense control will keep profits in line.

We will maintain our focus on fresher and lower inventories that turn faster. This should positively impact gross margin, improve cash flow and allow us to keep

In 2002, we got attitude, and the early results are exciting. "Attitudes," a younger, more contemporary fashion business, tested last fall and rolled out this spring to all our stores. It targets the customer who spends more money on women's apparel than any other market segment: women between the ages of 35 and 55. They make up about one-third of the population, but control approximately 50% of consumers pending. In Elder-Beerman's markets, this demographic group is even larger.

we've got a
new
attitude





With a household income of \$50,000+, our educated, working, technically savvy target customer:

- thinks 10 years younger than she is and wants to look that way.
- stays physically active, knows she looks good, is comfortable with who she is and wants to have fun.
- enjoys shopping, but her busy lifestyle demands convenience and efficiency.

We want Elder-Beerman to be her first-choice shopping destination. To that end, we'll continue to devote our energy and imagination to create a store environment that focuses on attributes that matter to our target customer: fashion, selection, convenience, price/value and service.

But if we have attitude, so does our target customer. She demands something new and different every time she enters our doors. To generate excitement, we'll build on the strength of our premier cosmetic lines, and in Fall of 2003, we will introduce a new private label apparel program. Our private label women's apparel line will roll out in Fall 2003, and provide an organized, updated and value-oriented solution to her working wardrobe and casual wear needs.

In 2003, we will aggressively brand and promote "Attitudes" in our marketing campaigns and highlight the business in our stores.

a new store



New Store, New Territory

On April 9, 2003, Elder-Beerman celebrated the grand opening of a new format store in DeKalb, Illinois—our 11th new format store since the first two opened in 1999. The new format stores, tailored to fit the needs of the market, have proved to be more productive. Like its predecessors, DeKalb makes use of new visual presentation techniques and navigation improvements such as wider aisles for shopping carts and strollers and a circular "race track" layout that gives the customer a panoramic view of the entire store and provides the attractive, convenient shopping environment our busy customer demands.

The DeKalb store incorporates all our best practices as we continue to tweak and perfect new innovations. We are expanding operations into a ninth state when our Muscatine, Iowa, department store opens in the 2003 Fall season. With a smaller footprint of 44,000 square feet, we will continue to reinvent the department store model to provide an innovative shopping environment that is attractive, convenient and tailored to the demands of the market.



Speed and agility enhance profitability

One of Elder-Beerman's great strengths is our ability to leverage infrastructure to realize gains in productivity, provide service benefits to our customers and serve as a platform for growth. Our strategies for marketing, merchandising, supply chain management, customer service and credit operations are all executed through the wise use of technology. We use enterprise-wide online transaction processing to eliminate paperwork, improve accuracy and speed the flow of information to our decision makers.

We further increased productivity by upgrading our scanning sorter system, which automatically reads cartons as they arrive at the distribution center, updates the purchase order management system, directs the cartons to their appropriate stores, and creates a workload manifest so store managers can schedule merchandise receipts. Our merchandise is moving to the selling floor faster and at lower cost.



Buyers and merchandise planners get immediate feedback on sales and promotions from our proprietary point-of-sale system. Armed with this feedback, they react speedily to sales trends.

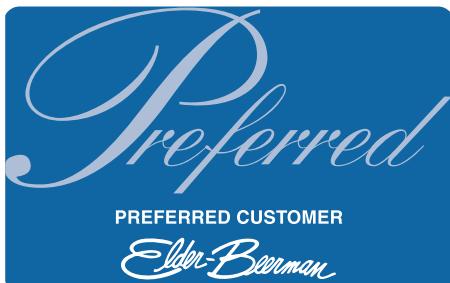
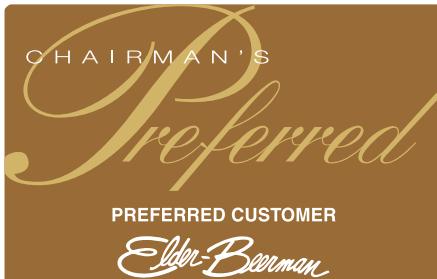
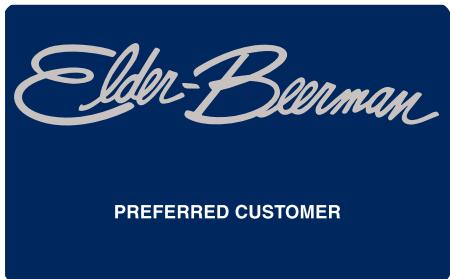
In 2002, we increased productivity at our distribution center by 30% over 2001 by continuing to embrace Electronic Data Interchange (EDI) with our vendors, along with floor-ready merchandise shipping standards, and an effective vendor management program.

This upgraded and thoughtful use of technology has given us a great foundation: We can react quickly to sales trends and put the right merchandise in the store, we can know when our customers will be in the store based on historical data and sales projections and we can match sales associate hours to customer demand as determined by our automated and integrated time/attendance/scheduling system. We drive productivity gains, service gains and growth all across the board.



a growing

revenue stability and profitability



business Elder-Beerman gift cards

Emphasis on gifts

We continue to focus our creative energy on protecting our niche as *the* gift store. We inspire our shoppers by emphasizing merchandise geared to gift-giving holidays and events, such as weddings. A trained bridal consultant in every store registers brides and grooms in Elder-Beerman's Wedding & Gift Registry, handily accessible at our web site.

Gift Cards

In 2002, we replaced traditional gift certificates with our gift card, with the intent to improve customer loyalty and boost future sales. We are pleased with how rapidly our customers have accepted this new format. Our gift card business grew more than 4% in 2002 over the previous year's gift certificate program. Available in any denomination from \$5 to \$1000, our new gifts cards significantly reduce the transaction time for redemption, a convenience for customer and store alike.

Charge card gains ground

In 2002, Elder-Beerman's proprietary charge card business grew by \$20 million as penetration rates increased to 46.5% of net sales from 43.1% in 2001. Thanks to promotions via direct marketing, in-store credit sales, deferred billing on select promotions and loyalty reward programs—as well as the active partnership of our store associates—we opened nearly 300,000 new accounts in 2002. Our active accounts, purchasers during the past 12 months, grew by 2.8% over 2001 to over 900,000 at year-end.

Playing a vital supporting role in the success of our charge card business was our instant credit processing. We now process instant credits for new charge customers online at point-of-sale with an approval response rate of 15 to 20 seconds, a major time-saver for both customer and sales associate.

In addition to its stable revenue stream and profitability, the Elder-Beerman charge card deepens our identity and provides a way to form an alliance with the customer. We reward frequent card users through our tiered Preferred program, which offers special privileges and promotions to those who spend at certain levels during the year.

Through our proprietary point-of-sale system, we can track charge purchases and gather a high level of customer information. By modeling shopping patterns, we can segment information by market and use it to develop marketing and merchandising programs tailored to each segment.

expanding our private label

Apparel is the gateway to our target customer. We are expanding Elder-Beerman's private label program. A new brand will roll out to the stores in the Fall of 2003. This sportswear line for misses, petites, women and men will answer our target customers' working and casual wear needs.

Developed in close cooperation with a key supplier, the label gives us the ability to respond quickly to fashion trends and deliver quality merchandise at competitive prices. It offers updated and easily coordinated classic looks,

consistent in quality and value. Focused assortments will make it easy for our customers to find the sizes, styles and colors they want at a great value. We are planning to grow our private label into other businesses, such as home. Elder-Beerman will strive to make our private label a primary brand and a household name in our markets.



corporate citizenship



Elder-Beerman has long believed in supporting the communities where we do business and we continue to support our schools, nonprofit organizations and hospitalized children.

Twice a year, we sponsor Community Day to help raise money for local school and nonprofit organizations. In 2002, more than 1,800 organizations participated in this event. In addition, our Education Bonus Plan raises money for local schools through the purchase of Elder-Beerman Gift Cards.

Each new store opening gives us the opportunity to sponsor a special fundraising event to benefit a nonprofit group chosen by the community. For special holidays, we sell promotional merchandise to purchase Beerman Bears, plush toys that give cuddly comfort to children in local hospitals.

And in 2002, we sponsored fundraising events for United Way, the American Red Cross, the American Heart Association, the Artemis Center for Domestic Violence and the Community Blood Center.

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President and Chief Executive Officer
The Elder-Beerman Stores Corp.

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Mike Azad
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board of directors

Safe Harbor Statement:

This Annual Report may contain "forward-looking statements," including predictions of future operating performance, events or developments such as our future sales, profits, expenses, income and earnings per share. In addition, words such as "expects," "anticipates," "intends," "plans," "believes," "hopes," and "estimates," and variations of such words and similar expressions, are intended to identify forward-looking statements.

Because forward-looking statements are based on a number of beliefs, estimates and assumptions by management that could ultimately prove inaccurate, there is no assurance that forward-looking statements will prove to be accurate. Many factors could materially affect our actual future operations and results. Factors that could materially affect performance include the following: increasing price and product competition; fluctuations in consumer demand and confidence, especially in light of current general economic conditions; the availability and mix of inventory; fluctuations in costs and expenses; consumer response to the Company's merchandising strategies, advertising, marketing and promotional programs; the timing and effectiveness of new store openings, particularly its new stores opened in Spring Season 2002 (Coldwater, MI) and opening Spring Season 2003; weather conditions that affect consumer traffic in stores; the continued availability and terms of bank and lease financing and trade credit; the outcome of pending and future litigation; consumer debt levels and paydown rates on consumer debts, including amounts owed to the Company; the impact of any new consumer bankruptcy laws; and inflation and interest rates and the condition of the capital markets. National security threats and U.S. involvement in Iraq could magnify some of those factors.

Elder-Beerman undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Stock Exchange Listing

The company's common stock trades on the NASDAQ Stock Market under the symbol EBSC.

Independent Auditors

Deloitte & Touche, LLP

Corporate Counsel

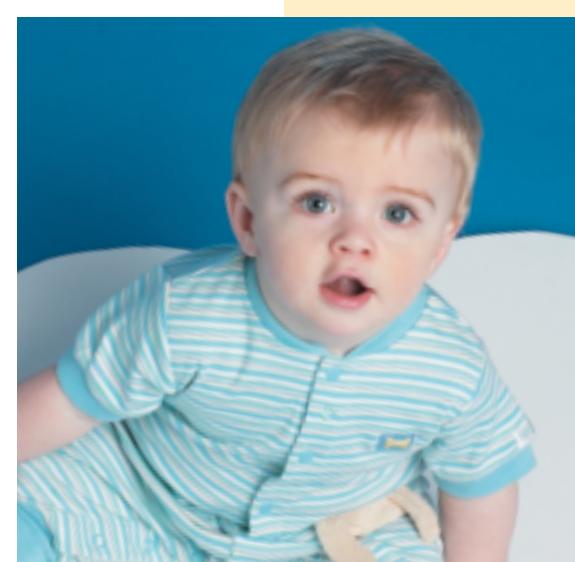
Thompson Hine, LLP

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