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SAFE HARBOR STATEMENT: This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected as they are subject to various risks and uncertainties. These include general economic conditions, competition, consumer apparel and footwear trends, and political and economic conditions in Brazil and China, which are significant footwear sourcing countries. These factors are listed and further discussed in the Company's Annual Report on Form 10-K.

RESULTS OF OPERATIONS

1999 COMPARED TO 1998

Brown Shoe Company, Inc. had an impressive year in fiscal 1999, posting a 48% increase in earnings per share compared to fiscal 1998. The Company's Famous Footwear and Brown Pagoda divisions both achieved record earnings.

The Company's net sales of \$1.593 billion in fiscal 1999 were 3.5% higher than the \$1.539 billion in fiscal 1998. The increased net sales reflect higher sales at Famous Footwear and the wholesale operations. Net earnings in fiscal 1999 reached \$35.5 million compared to net earnings of \$23.7 million in fiscal 1998. Net earnings in fiscal 1999 include a \$0.7 million loss related to the withdrawal from the Pagoda International marketing division compared to a \$7.5 million loss in fiscal 1998. Excluding the Pagoda International results, net earnings of the Company increased 16.0% to \$36.2 million in fiscal 1999 versus \$31.2 million in fiscal 1998, and sales increased 5.2%.

Famous Footwear achieved its fourth consecutive year of improved earnings. Net sales of \$927.6 million in fiscal 1999 increased 7.7% from \$861.3 million in fiscal 1998. In fiscal 1999, same-store sales increased 2.2% and 40 net new stores were added while sales per square foot increased 4.2%, reflecting improved store productivity from the new stores opened versus those stores closed in the past year. Operating earnings for fiscal 1999 increased 14.4% to \$54.0 million as a result of increased sales, stable gross margins, aggressive expense control and strong execution. At the end of fiscal 1999, 867 stores were in operation compared to 827 stores in fiscal 1998. During the year, 77 stores were opened and 37 stores were closed, with plans for fiscal 2000 including the net addition of 25 to 30 stores.

The Company's wholesale operations—Brown Branded, Brown Pagoda and Canadian Wholesale divisions—had net sales of \$469.2 million in fiscal 1999, representing a 2.9% increase over fiscal 1998. Sales of the Naturalizer brand increased 5.0% in 1999, reflecting good customer acceptance of the rejuvenated product line. In addition, fiscal 1999 sales included a strong performance of Barbie, Star Wars, and Dr. Scholl's licensed products. Operating earnings of \$32.8 million in fiscal 1999 were slightly lower than fiscal 1998's \$33.5 million, due to a change in the method of determining the level of profit to be earned on intersegment sales to the Naturalizer Retail operations. Excluding the impact of this change, operating earnings for the wholesale operations would have increased 5.2% in fiscal 1999, primarily due to the sales gains and improved execution in the developing and sourcing of footwear.

In the Company's Naturalizer Retail operations, which include stores in both the United States and Canada, net sales of \$186.6 million in fiscal 1999 declined slightly from \$187.2 million in fiscal 1998. Same-store sales in fiscal 1999 decreased 4.1% and 2.7% in the United States and Canada, respectively. An operating loss of \$3.7 million was incurred in fiscal 1999 compared to an operating profit of \$0.8 million in fiscal 1998. The decrease in operating earnings resulted from same-store sales declines, reflecting missed product opportunities, and increased marketing expenses to promote the Naturalizer brand's new image. At the end of fiscal 1999, 486 stores were in operation including 347 stores in the United States and 139 stores in Canada. Domestically, the Company had a net increase of 16 stores in fiscal 1999, while Canada had a net increase of 8 stores.

Consolidated gross profit as a percent of sales of 39.3% in 1999 was lower than the 39.9% achieved in 1998. The decrease reflected competitive pressures at both retail and wholesale and higher markdowns.

Selling and administrative expenses as a percent of sales improved to 35.1% in 1999 versus 35.9% rate in 1998 due to strong expense control throughout the Company and additional leverage of the expense base at Famous Footwear.

Interest expense of \$17.3 million in fiscal 1999 decreased from \$19.4 million in fiscal 1998 due to lower average borrowings and the payments of \$25.0 million due on long-term debt. The lower average borrowings resulted from positive cash flow from operations and foreign cash repatriation of approximately \$26 million in fiscal 1999.

Other income of \$2.2 million in fiscal 1999 primarily resulted from the gain recognized from the sale of the le coq sportif footwear and apparel business. This compared to an expense of \$4.5 million in fiscal 1998 primarily from the write-off of \$1.9 million in intangible assets and additional charges of \$2.0 million associated with withdrawal from the Pagoda International marketing business.

The Company's tax provision of \$16.3 million in fiscal 1999 represented an effective tax rate of 31.4% as compared to 37.1% in fiscal 1998. Fiscal 1998 results included a higher level of Pagoda International losses on which no tax benefit was realized. See Note 5 to the consolidated financial statements for a further explanation and a reconciliation of the effective tax rates to the statutory rates.

1998 COMPARED TO 1997

The Company's net sales of \$1.539 billion in fiscal 1998 were \$28 million lower than the \$1.567 billion in fiscal 1997. Net sales were impacted by withdrawal from the Pagoda International marketing division and the sale of Famous Footwear's fixtures manufacturing business at the end of fiscal 1997. Adjusting for these items, net sales increased 3.1%, led primarily by Famous Footwear. Net earnings of \$23.7 million in fiscal 1998 compared to a net loss of \$20.9 million in fiscal 1997. The net loss in fiscal 1997 included \$45.6 million of Pagoda International restructuring charges and operating losses compared to a loss of \$7.5 million incurred in fiscal 1998. Excluding the Pagoda International results and the after-tax loss of \$1.5 million incurred on the sale of the Famous Fixtures business in fiscal 1997, net earnings of the Company's core businesses were \$31.2 million in fiscal 1998 compared to \$26.2 million in fiscal 1997.

Net sales at Famous Footwear increased 1.3% in fiscal 1998 to \$861.3 million and increased 3.9% adjusting for the sale of the Famous Fixtures business. Same-store sales increased 0.4% and 12 net new stores were added in fiscal 1998. Sales per square foot increased 3.2% in fiscal 1998 reflecting improved store productivity from the new stores opened versus those stores closed in the prior year. At the end of fiscal 1998, 827 stores were in operation compared to 815 stores in fiscal 1997. During the year, 60 stores were opened and 48 stores were closed. Excluding the effect of the sale of the fixtures business, operating earnings for fiscal 1998 increased 24.5% to \$47.2 million as a result of higher gross margins, good expense management and successful merchandising strategies to overcome a decline in athletic footwear sales.

The Company's wholesale operations—Brown Branded, Brown Pagoda and Canadian Wholesale divisions—had a net sales increase of 1.7% during fiscal 1998 to \$455.9 million. Sales of the Naturalizer brand increased 8.7% in 1998 reflecting consumer acceptance and new retail distribution of the brand. Operating earnings of \$33.5 million increased 4.8% in fiscal 1998 resulting from improved margins and well-controlled operating expenses.

In the Company's Naturalizer Retail operations, net sales of \$187.2 million increased 3.1% in fiscal 1998. Same-store sales in fiscal 1998 increased 2.6% and 1.2% in the United States and Canada, respectively. At the end of fiscal 1998, 462 stores were in operation including 331 stores in the United States and 131 stores in Canada. Domestically, the Company had a net decrease of 10 stores in fiscal 1998 while Canada had a net increase of 8 Naturalizer stores. Even though the Canadian operations performed at record levels, total Natu-

ralizer Retail operations had operating earnings of \$0.8 million in fiscal 1998, compared to \$2.3 million in fiscal 1997. Operations in the United States stores were adversely impacted by higher store operating costs.

Consolidated gross profit as a percent of sales of 39.9% in 1998 was higher than the 37.9% in 1997, which excluded the impact of the Pagoda International restructuring charge of \$14.7 million. The improvement in gross profit rate reflected increases at Famous Footwear and the wholesale operations.

Selling and administrative expenses as a percent of sales of 35.9% in 1998 were higher than the 35.2% in 1997, excluding the impact of the Pagoda International restructuring charge. The increase in the selling and administrative expense rate in 1998 was due to a higher mix of retail sales versus wholesale sales as well as a higher level of retail expenses in 1998 compared to 1997.

Interest expense of \$19.4 million in fiscal 1998 decreased from \$21.8 million in fiscal 1997, primarily as a result of lower average borrowings for the year due to positive cash flow provided from operations.

Other expense of \$4.5 million in fiscal 1998 varied from other income of \$0.5 million in 1997 as a result of environmental remediation costs of \$2.3 million and the write-off of certain intangible assets of \$1.9 million.

The Company's tax provision of \$13.9 million in fiscal 1998 represented an effective tax rate of 37.1%. The 1997 tax provision of \$18.7 million included an \$8.0 million provision for taxes due on the foreign cash to be repatriated as a result of the decision to withdraw from the Pagoda International marketing division. In addition, fiscal 1997 results included a high level of Pagoda International losses on which no tax benefit was realized.

PAGODA INTERNATIONAL RESTRUCTURING

In fiscal 1997, the Company made the decision to withdraw from the Pagoda International marketing division in Latin America and Europe. The restructuring plan included the sale of the remaining Brazilian inventory of licensed products and the shift of European inventory ownership and marketing of its licensed footwear to other parties. In addition, plans were developed to repatriate foreign cash previously available to support international operations. Aftertax charges of \$33.0 million were recorded to cover the following costs: \$14.7 million for inventory markdowns and royalty agreements' shortfall; \$7.3 million for bad debts, severance and other administrative costs; \$3.0 million for other costs associated with the restructuring; and \$8.0 million for income taxes associated with the United States taxes owed on the foreign cash anticipated to be repatriated. As of January 29, 2000, withdrawal

from the division's operations had been completed, as the inventory has been sold and all licenses either terminated or assigned to other parties.

A cumulative summary of activity in the restructuring reserve is as follows (in millions):

Establishment of reserve	\$	33.0
Inventory markdowns and royalty agreements' shortfall		(14.7)
Bad debt write-offs, severance and other costs		(10.3)
Utilization of tax provision		(8.0)
Remaining reserve at January 29, 2000	\$	—

The reserve activity had a \$4.8 million and \$5.4 million negative cash flow impact on fiscal 1999 and fiscal 1998, respectively.

IMPACT OF INFLATION

The effects of inflation on the Company have been minor over the last several years and are not expected to have a significant impact in the foreseeable future.

LIQUIDITY AND CAPITAL RESOURCES

During fiscal 1999, the Company's borrowing level continued to decrease as cash flow from operations exceeded capital expenditures and dividends. As a result, total debt decreased from \$197.0 million at the end of fiscal 1998 to \$172.0 million at the end of fiscal 1999. The Company's ratio of total debt-to-total capitalization decreased from 47.6% at the end of fiscal 1998 to 40.8% at the end of fiscal 1999. Favorable cash flow from operations in fiscal 1999 as well as cash repatriation amounting to approximately \$26 million from Canada and other foreign operations impacted the ratio. In addition, the Company realized approximately \$9.5 million in fiscal 1999 from the sale of the le coq sportif footwear and apparel business.

Working capital at the end of fiscal 1999 was \$270.0 million, which was \$19.1 million higher than at the end of fiscal 1998. The Company's current ratio, the relationship of current assets to current liabilities, increased from 2.0 to 1 at the end of fiscal 1998, to 2.2 to 1 at the end of fiscal 1999. The increase in the current ratio was primarily due to lower levels of accounts payable and current maturities of long-term debt.

Cash provided by operating activities in 1999 of \$39.1 million was significantly lower than in 1998 as a result of lower trade accounts payable with inventories remaining stable in fiscal 1999. Fiscal 1998 was favorably impacted from decreased inventories and receivables primarily at the Company's wholesale operations.

Cash used by investing activities in fiscal 1999 of \$19.1 million included capital expenditures of \$28.7 million partially offset by the proceeds received from the sale of the le coq sportif business. Capital expenditures were \$22.7 million in fiscal 1998 and in both years were primarily for new store openings and remodelings at Famous Footwear and Naturalizer Retail.

The Company's debt agreements contain various covenants which, among other things, require the maintenance of certain financial ratios related to fixed charge coverage and debt-to-total capitalization, establish minimum levels of net worth, and limit the sale of assets and the level of liens and certain investments. The Company was in compliance with all of its covenants during fiscal 1999 and at fiscal year-end, and expects to continue to be in compliance based on current estimates for fiscal 2000. The Company's current borrowing capacity under the revolving bank Credit Agreement is believed to be adequate to fund its operational needs and long-term debt maturities in 2000.

The Company's long-term debt is rated Baa2 by Moody's Investors Service, BB by Standard & Poor's Corporation, and BB+ by Fitch Investors Service. In fiscal 1999, Standard & Poor's Corporation revised its outlook on the Company to stable from negative as a result of the continuing improvement in financial performance.

Brown Shoe Company, Inc. paid a dividend of \$0.40 per share in fiscal 1999 and fiscal 1998. The 1999 dividend marked the 77th year of consecutive quarterly dividends.

FINANCIAL INSTRUMENTS

The market risk inherent in the Company's financial instruments and positions represents the potential loss arising from adverse changes in foreign currency exchange rates and interest rates. To address these risks, the Company enters into various hedging transactions to the extent described below. All decisions on hedging transactions are authorized and executed pursuant to the Company's policies and procedures, which do not allow the use of financial instruments for trading purposes. The Company also is exposed to credit-related losses in the event of nonperformance by counterparties to these financial instruments; however, counterparties to these agreements are major international financial institutions, and the risk of loss due to nonperformance is believed to be minimal.

A description of the Company's accounting policies for derivative financial instruments is included in Note 10 to the consolidated financial statements.

FOREIGN CURRENCY EXCHANGE RATES

In the normal course of business, the Company is exposed to foreign currency exchange rate risks as a result of having assets, liabilities and inventory purchase commitments outside the United States. The Company employs an established foreign currency hedging strategy to protect earnings and cash flows from the adverse impact of exchange rate movements. A substantial portion of inventory sourced from foreign countries is purchased in United States dollars and is, accordingly, not subject to exchange rate fluctuations. However, where the purchase price is to be paid in a foreign currency, the Company enters into foreign exchange contracts or option contracts with maturity periods normally less than one year to reduce its exposures to foreign exchange risk. The level of outstanding contracts during the year is dependent on the seasonality of the Company's business and on demand for footwear from various locations throughout the world. The changes in market value of foreign exchange contracts have a high correlation to the price changes in the currency of the related hedged transactions. The potential loss in fair value of the Company's net currency positions at January 29, 2000 resulting from a hypothetical 10% adverse change in all foreign currency exchange rates would not be material.

Assets and liabilities outside the United States are primarily located in Canada and Hong Kong. The Company's investments in foreign subsidiaries with a functional currency other than the United States' dollar are generally considered long-term, and thus generally are not hedged. The net investment in foreign subsidiaries translated into dollars using the year-end exchange rates was approximately \$34 million at January 29, 2000. The potential loss in fair value resulting from a hypothetical 10% adverse change in foreign exchange rates would be approximately \$3 million. Any loss in fair value would be reflected as a cumulative translation adjustment in Other Comprehensive Income and would not impact earnings.

INTEREST RATES

The Company's financing arrangements include both fixed and variable rate debt in which changes in interest rates will impact the fixed and variable rate debt differently. A change in the interest rate of fixed rate debt will only impact the fair value of the debt, whereas a change in the interest rates on the variable rate debt will impact interest incurred and cash flows. The Company had no interest rate derivative instruments outstanding at year-end and has not elected to enter into any derivative instruments based upon cost/benefit considerations.

The revolving bank Credit Agreement, the Company's only variable rate debt, had no outstanding borrowings as of January 29, 2000. A hypothetical 10% adverse

change in interest rates on the average outstanding borrowings for fiscal 1999 would not be material to the Company's net earnings and cash flows.

At January 29, 2000, the fair value of the Company's total debt is estimated at approximately \$165 million, based upon the borrowing rate currently available to the Company for financing arrangements with similar terms and maturities. Market risk is viewed as the potential change in fair value of the Company's debt resulting from a hypothetical 10% adverse change in interest rates and would be approximately \$6 million at January 29, 2000.

YEAR 2000 COMPLIANCE

In prior years, the Company discussed the nature and progress of its plans to become Year 2000 compliant. In late fiscal 1999, the Company completed its remediation and testing of systems. As a result of those planning and implementation efforts, the Company experienced no significant disruptions in mission critical information technology and non-information technology systems and believes those systems successfully responded to the Year 2000 date change. The Company is not aware of any material problems resulting from Year 2000 issues, either with its internal systems or the products and services of third parties. The Company will continue to monitor its critical computer applications and those of its suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.

ENVIRONMENTAL MATTERS

The Company is involved in environmental remediation and ongoing compliance at several sites, including its closed New York tannery and its owned facility in Colorado. In addition, various federal and state authorities have identified the Company as a potentially responsible party for remediation at certain landfills from the sale or disposal of solvents and other by-products from the closed tannery and shoe manufacturing facilities. While the Company currently operates no domestic manufacturing facilities, prior operations included numerous manufacturing and other facilities for which the Company may have responsibility under various environmental laws for the remediation of conditions that may be identified in the future. At January 29, 2000, the accrued environmental liabilities for all sites total approximately \$3.9 million. See Note 13 to the consolidated financial statements for a further description of specific properties.

FIVE-YEAR SUMMARY

THOUSANDS, EXCEPT PER SHARE AMOUNTS	1999 (52 WEEKS)	1998 (52 WEEKS)	1997 (52 WEEKS)	1996 (52 WEEKS)	1995 (53 WEEKS)
OPERATIONS					
Net sales	\$ 1,592,532	\$ 1,538,530	\$ 1,567,202	\$ 1,525,052	\$ 1,455,896
Cost of goods sold	967,161	925,190	988,530	958,288	948,925
Gross profit	625,371	613,340	578,672	566,764	506,971
Selling and administrative expenses	558,436	551,877	559,536	521,553	494,098
Interest expense	17,349	19,383	21,756	19,327	15,969
Other (income) expense, net	(2,179)	4,477	(452)	(1,341)	1,630
Earnings (loss) from continuing operations					
before income taxes	51,765	37,603	(2,168)	27,225	(4,726)
Income tax (provision) benefit	(16,264)	(13,934)	(18,728)	(6,910)	5,423
Earnings (loss) from continuing operations	35,501	23,669	(20,896)	20,315	697
Credit for disposal of discontinued operations, net of income taxes	—	—	—	—	2,600
Net earnings (loss)	\$ 35,501	\$ 23,669	\$ (20,896)	\$ 20,315	\$ 3,297
Returns from continuing operations:					
Return on net sales	2.2%	1.5%	(1.3%)	1.3%	0.1%
Return on beginning shareholders' equity	16.3%	11.9%	(8.8%)	8.8%	0.3%
Return on average invested capital	7.9%	5.3%	(4.2%)	4.1%	0.2%
Dividends paid	\$ 7,295	\$ 7,223	\$ 15,323	\$ 17,956	\$ 23,325
Capital expenditures	28,688	22,747	21,727	21,044	26,939
PER COMMON SHARE					
Basic earnings (loss) from continuing operations	\$ 1.99	\$ 1.34	\$ (1.19)	\$ 1.16	\$.04
Basic net earnings (loss)	1.99	1.34	(1.19)	1.16	.19
Diluted earnings (loss) from continuing operations	1.96	1.32	(1.19)	1.15	.04
Diluted net earnings (loss)	1.96	1.32	(1.19)	1.15	.19
Dividends paid	.40	.40	.85	1.00	1.30
Shareholders' equity	13.69	11.95	11.04	13.19	12.92
FINANCIAL POSITION					
Receivables, net	\$ 68,236	\$ 67,815	\$ 77,355	\$ 90,246	\$ 86,417
Inventories, net	365,989	362,274	380,177	398,803	342,282
Working capital	270,005	250,939	260,437	301,020	209,399
Property and equipment, net	84,600	82,178	82,744	85,380	87,720
Total assets	650,338	655,232	694,988	722,375	661,056
Long-term debt and capitalized lease obligations	162,034	172,031	197,027	197,025	105,470
Shareholders' equity	249,945	217,174	199,190	237,037	231,636
Average common shares outstanding—Basic	17,859	17,692	17,591	17,531	17,483
Average common shares outstanding—Diluted	18,125	17,943	17,841	17,725	17,637

All data presented reflects the fiscal year ended on the Saturday nearest to January 31.

CONSOLIDATED BALANCE SHEETS

THOUSANDS, EXCEPT NUMBER AND PER SHARE AMOUNTS	JANUARY 29, 2000	JANUARY 30, 1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 34,158	\$ 45,532
Receivables, net of allowance of \$8,088 in 1999 and \$9,820 in 1998	68,236	67,815
Inventories, net of adjustment to last-in, first-out cost of \$11,709 in 1999 and \$13,424 in 1998	365,989	362,274
Deferred income taxes	9,376	9,381
Prepaid expenses and other current assets	10,015	12,381
Total Current Assets	487,774	497,383
Prepaid pension costs	39,028	34,825
Other assets	38,936	40,846
Property and equipment, net	84,600	82,178
	\$ 650,338	\$ 655,232
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	\$ 113,820	\$ 124,921
Employee compensation and benefits	35,727	36,935
Other accrued expenses	53,820	53,146
Income taxes	4,402	6,442
Current maturities of long-term debt	10,000	25,000
Total Current Liabilities	217,769	246,444
OTHER LIABILITIES		
Long-term debt, including capitalized lease obligations	162,034	172,031
Deferred income taxes	8,416	6,086
Other liabilities	12,174	13,497
Total Other Liabilities	182,624	191,614
SHAREHOLDERS' EQUITY		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized; no shares outstanding	—	—
Common stock, \$3.75 par value, 100,000,000 shares authorized; 18,262,990 and 18,168,340 shares outstanding	68,486	68,131
Additional capital	49,153	48,243
Unamortized value of restricted stock	(3,566)	(4,058)
Accumulated other comprehensive loss	(6,034)	(8,842)
Retained earnings	141,906	113,700
Total Shareholders' Equity	249,945	217,174
	\$ 650,338	\$ 655,232

See notes to consolidated financial statements.

CONSOLIDATED EARNINGS

THOUSANDS, EXCEPT PER SHARE AMOUNTS	1999	1998	1997
NET SALES	\$ 1,592,532	\$ 1,538,530	\$ 1,567,202
Cost of goods sold	967,161	925,190	988,530
Gross profit	625,371	613,340	578,672
Selling and administrative expenses	558,436	551,877	559,536
Interest expense	17,349	19,383	21,756
Other (income) expense, net	(2,179)	4,477	(452)
EARNINGS (LOSS) BEFORE INCOME TAXES	51,765	37,603	(2,168)
Income tax provision	(16,264)	(13,934)	(18,728)
NET EARNINGS (LOSS)	\$ 35,501	\$ 23,669	\$ (20,896)
BASIC NET EARNINGS (LOSS) PER COMMON SHARE	\$ 1.99	\$ 1.34	\$ (1.19)
DILUTED NET EARNINGS (LOSS) PER COMMON SHARE	\$ 1.96	\$ 1.32	\$ (1.19)

See notes to consolidated financial statements.

CONSOLIDATED CASH FLOWS

THOUSANDS	1999	1998	1997
OPERATING ACTIVITIES:			
Net earnings (loss)	\$ 35,501	\$ 23,669	\$ (20,896)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	25,547	26,943	26,686
Loss on disposal or impairment of facilities and equipment	1,567	961	1,475
Provision for losses on accounts receivable	2,234	2,772	5,145
Changes in operating assets and liabilities, net of business sold:			
Receivables	(3,769)	6,768	7,746
Inventories	(3,715)	17,903	18,626
Prepaid expenses and other current assets	2,761	9,100	6,178
Trade accounts payable and accrued expenses	(12,627)	2,904	16,349
Income taxes	(4,949)	(5,553)	7,990
Other, net	(3,410)	(6,587)	(10,615)
Net Cash Provided by Operating Activities	39,140	78,880	58,684
INVESTING ACTIVITIES:			
Capital expenditures	(28,688)	(22,747)	(21,727)
Proceeds from sale of le coq sportif	9,538	—	—
Proceeds from sales of fixed assets	14	58	401
Net Cash Used by Investing Activities	(19,136)	(22,689)	(21,326)
FINANCING ACTIVITIES:			
Decrease in short-term notes payable	—	(54,000)	(8,000)
Debt issuance costs	—	—	(678)
Principal payments of long-term debt	(25,000)	—	(2,000)
Proceeds from issuance of common stock	917	428	93
Dividends paid	(7,295)	(7,223)	(15,323)
Net Cash Used by Financing Activities	(31,378)	(60,795)	(25,908)
(Decrease) Increase in Cash and Cash Equivalents	(11,374)	(4,604)	11,450
Cash and Cash Equivalents at Beginning of Year	45,532	50,136	38,686
Cash and Cash Equivalents at End of Year	\$ 34,158	\$ 45,532	\$ 50,136

See notes to consolidated financial statements.

CONSOLIDATED SHAREHOLDERS' EQUITY

THOUSANDS, EXCEPT NUMBER OF SHARES AND PER SHARE AMOUNTS	COMMON STOCK		ADDITIONAL CAPITAL	UNAMORTIZED VALUE OF RESTRICTED STOCK	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
	SHARES	DOLLARS					
BALANCE FEBRUARY 1, 1997	17,969,977	\$ 67,387	\$ 46,310	\$ (5,700)	\$ (4,433)	\$133,473	\$237,037
Net loss						(20,896)	(20,896)
Currency translation adjustment					(3,994)		(3,994)
Comprehensive loss							(24,890)
Dividends (\$0.85 per share)						(15,323)	(15,323)
Stock issued under employee benefit plans	6,350	24	69				93
Stock issued under restricted stock plan, net	73,000	274	657	(931)			—
Amortization of deferred compensation under restricted stock plan				2,273			2,273
BALANCE JANUARY 31, 1998	18,049,327	67,685	47,036	(4,358)	(8,427)	97,254	199,190
Net earnings						23,669	23,669
Currency translation adjustment					(415)		(415)
Comprehensive income							23,254
Dividends (\$0.40 per share)						(7,223)	(7,223)
Stock issued under employee benefit plans	27,138	102	326				428
Stock issued under restricted stock plan, net	91,875	344	881	(1,225)			—
Amortization of deferred compensation under restricted stock plan				1,525			1,525
BALANCE JANUARY 30, 1999	18,168,340	68,131	48,243	(4,058)	(8,842)	113,700	217,174
Net earnings						35,501	35,501
Currency translation adjustment					2,808		2,808
Comprehensive income							38,309
Dividends (\$0.40 per share)						(7,295)	(7,295)
Stock issued under employee benefit plans	56,150	210	707				917
Stock issued under restricted stock plan, net	38,500	145	203	(348)			—
Amortization of deferred compensation under restricted stock plan				840			840
BALANCE JANUARY 29, 2000	18,262,990	\$ 68,486	\$ 49,153	\$ (3,566)	\$ (6,034)	\$141,906	\$249,945

See notes to consolidated financial statements.

[1] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Brown Shoe Company, Inc., (the "Company") founded in 1878, is a footwear retailer and wholesaler. In fiscal 1999, the shareholders of the Company approved a change in the Company's name to Brown Shoe Company, Inc. from Brown Group, Inc. The Company's shares trade under the "BWS" symbol on the New York and Chicago Stock Exchanges.

The Company provides a broad offering of branded, licensed and private label casual, athletic and dress footwear products to women, children and men. Footwear is sold at a variety of price points through multiple distribution channels both domestically and internationally. The Company currently operates 1,353 retail shoe stores in the United States and Canada primarily under the Famous Footwear, Naturalizer and F.X. LaSalle names. In addition, through its Brown Branded, Brown Pagoda and Canadian Wholesale divisions, the Company designs, sources and markets footwear to retail stores domestically and internationally, including department stores, mass merchandisers and specialty shoe stores. In 1999, approximately 70% of the Company's sales were at retail, compared to 68% in 1998 and 66% in 1997. See Note 6 for additional information regarding the Company's business segments.

CONSOLIDATION

The consolidated financial statements include the accounts of Brown Shoe Company, Inc. and its wholly-owned subsidiaries, after the elimination of intercompany accounts and transactions. The accounts of the Brown Pagoda division are consolidated as of December 31.

ACCOUNTING PERIOD

The Company's fiscal year is the 52 or 53-week period ending the Saturday nearest to January 31. Fiscal years 1999, 1998 and 1997 ended on January 29, 2000, January 30, 1999, and January 31, 1998, respectively. Fiscal years 1999, 1998 and 1997 each included 52 weeks.

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company considers all short-term investments with maturities of three months or less when purchased to be cash equivalents.

INVENTORIES

All inventories are valued at the lower of cost or market, with 93% of consolidated inventories using the last-in, first-out (LIFO) method. If the first-in, first-out (FIFO) method had been used, inventories would have been \$11.7 million and \$13.4 million higher at January 29, 2000 and January 30, 1999, respectively.

COMPUTER SOFTWARE COSTS

In fiscal 1998, the Company adopted AICPA Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which requires the capitalization of certain costs, including internal payroll costs, incurred in connection with the development or acquisition of software for internal use. The adoption of this standard resulted in an increase in net earnings of approximately \$1.3 million or \$0.07 per diluted share for fiscal 1998. No restatement of prior year results was required.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation and amortization of property and equipment are provided over the estimated useful lives of the assets, or the remaining term of leases where applicable, using the straight-line method.

REVENUE RECOGNITION

Retail sales are recorded, net of returns, and exclude sales tax. Wholesale sales are recorded, net of returns, when the merchandise has been shipped and legal title has passed to the customer.

INCOME TAXES

Provision is made for the tax effects of timing differences between financial and tax reporting. These differences relate principally to employee benefit plans, bad debt reserves and inventory.

EARNINGS PER SHARE

Basic earnings per share is calculated using only the outstanding shares of common stock. Diluted earnings per share is calculated using all outstanding shares, unvested restricted stock and the dilutive effect, if any, of stock options.

COMPREHENSIVE INCOME

In fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130), which reports Comprehensive Income and its components within the Statement of Consolidated Shareholders' Equity. Comprehensive Income includes all changes in equity except those resulting from investments by owners and distributions to owners. The Accumulated Other Comprehensive Loss for the Company is composed solely of cumulative foreign currency translation adjustments.

STOCK BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and accordingly recognizes compensation expense related to stock appreciation units, stock performance plan and restricted stock grants. No compensation expense is recorded for stock options granted at market value. The Company has elected to apply the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), by making pro forma disclosures of net earnings and earnings per share to reflect the fair value of stock options as if SFAS No. 123 had been adopted.

RECLASSIFICATIONS

Certain reclassifications have been made in the footnote amounts for fiscal 1998 and 1997 to conform to the fiscal 1999 presentation.

[2] EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per share (in thousands except per share amounts):

	1999	1998	1997
NUMERATOR:			
Net earnings (loss)	\$ 35,501	\$ 23,669	\$ (20,896)
DENOMINATOR (SHARES):			
Denominator for basic earnings (loss) per share	17,859	17,692	17,591
Dilutive effect of unvested restricted stock and stock options	266	251	—
Denominator for diluted earnings (loss) per share	18,125	17,943	17,591
Basic earnings (loss) per share	\$ 1.99	\$ 1.34	\$ (1.19)
Diluted earnings (loss) per share	\$ 1.96	\$ 1.32	\$ (1.19)

The fiscal 1997 denominator for diluted earnings (loss) per share excludes the potential effect of dilutive securities in accordance with SFAS No. 128 because the inclusion of such shares in the computation are anti-dilutive in a period in which a loss was recognized.

[3] RETIREMENT AND OTHER BENEFIT PLANS

The Company's pension plan covers substantially all full-time United States employees. Under the plan, salaried, management and certain hourly employees' pension benefits are based on the employee's highest consecutive five years of compensation during the ten years before retirement; hourly employees' and union members' benefits are based on stated amounts for each year of service. The Company's funding policy for all plans is to make the minimum annual contributions required by applicable regulations.

In addition to providing pension benefits, the Company sponsors unfunded defined benefit postretirement health and life insurance plans that cover both salaried and hourly employees who had become eligible for benefits by January 1, 1995. The postretirement health care plans are offered on a shared-cost basis only to employees electing early retirement. This coverage ceases when the employee reaches age 65 and becomes eligible for Medicare. The retirees' contributions are adjusted annually and the Company intends to continue to increase retiree contributions in the future. The life insurance plans provide coverage ranging from \$1,000 to \$50,000 for qualifying retired employees.

The following table sets forth the plans' changes in benefit obligations and plan assets and amounts recognized in the Company's Consolidated Balance Sheets at January 29, 2000 and January 30, 1999 (in thousands):

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	1999	1998	1999	1998
Benefit obligation at beginning of year	\$ 120,904	\$ 100,275	\$ 6,691	\$ 6,887
Service cost	4,626	4,009	5	4
Interest cost	7,316	7,300	378	447
Plan participants' contributions	—	—	329	380
Plan amendments	47	1,225	—	—
Actuarial (gain) loss	(18,737)	16,101	(682)	164
Gross benefits paid	(14,800)	(8,006)	(1,055)	(1,191)
Benefit obligation at end of year	\$ 99,356	\$ 120,904	\$ 5,666	\$ 6,691
Fair value of plan assets at beginning of year	\$ 157,707	\$ 146,722	\$ —	\$ —
Actual return on plan assets	3,982	18,960	—	—
Employer contributions	4,225	31	727	811
Plan participants' contributions	—	—	328	380
Gross benefits paid	(14,800)	(8,006)	(1,055)	(1,191)
Fair value of plan assets at end of year	\$ 151,114	\$ 157,707	\$ —	\$ —
Funded status at end of year	\$ 51,758	\$ 36,803	\$ (5,666)	\$ (6,691)
Unrecognized net actuarial gain	(13,238)	(2,520)	(1,708)	(1,589)
Unrecognized prior service cost	508	542	(1)	(2)
Net amount recognized at end of year	\$ 39,028	\$ 34,825	\$ (7,375)	\$ (8,282)
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost	\$ 43,769	\$ 41,849	\$ —	\$ —
Accrued benefit cost	(4,741)	(7,024)	(7,375)	(8,282)
Net amount recognized at end of year	\$ 39,028	\$ 34,825	\$ (7,375)	\$ (8,282)

Net periodic benefit cost (income) for 1999, 1998 and 1997 included the following components (in thousands):

	PENSION BENEFITS			OTHER POSTRETIREMENT BENEFITS		
	1999	1998	1997	1999	1998	1997
Service cost	\$ 4,626	\$ 4,009	\$ 3,494	\$ 5	\$ 4	\$ 4
Interest cost	7,316	7,300	6,876	378	447	523
Expected return on assets	(12,859)	(11,884)	(10,759)	—	—	—
Amortization of:						
Actuarial (gain) loss	108	—	—	(562)	(939)	(1,321)
Prior service cost	80	16	74	(1)	(9)	(31)
Transition asset	—	(547)	(635)	—	—	—
Settlement cost	750	700	—	—	—	—
Total net periodic benefit cost (income)	\$ 21	\$ (406)	\$ (950)	\$ (180)	\$ (497)	\$ (825)

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	1999	1998	1999	1998
WEIGHTED-AVERAGE ASSUMPTIONS:				
Discount rate	7.75%	6.25%	7.75%	6.25%
Expected return on plan assets	9.50%	9.50%	n/a	n/a
Rate of compensation increase	4.75%	4.50%	n/a	n/a

For measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered health care benefits was assumed. A one-percentage-point change in assumed health care cost trend rates would not have a material impact on service and interest cost and the postretirement benefit obligation.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$7.9 million, \$4.7 million and \$0, respectively, as of January 29, 2000 and \$9.4 million, \$7.0 million and \$0 as of January 30, 1999.

The Company's defined contribution 401(k) plan covers salaried, management and certain hourly employees. Company contributions represent a partial matching of employee contributions generally up to a maximum of 3.5% of the employee's salary. The Company's expense for this plan was \$2.7 million in 1999, \$2.8 million in 1998 and \$2.0 million in 1997.

[4] RESTRUCTURING CHARGES

Included in net loss for fiscal 1997 is an aftertax charge of \$31.0 million for the cost of withdrawal from the Company's Pagoda International marketing division in Latin America and Europe. The total charge included \$14.7 million reflected in cost of goods sold for inventory markdowns and anticipated royalty payment shortfalls. Costs for bad debts, severance and other restructuring costs of \$7.3 million are reflected in selling and administrative expenses. Other expense (income) included \$1.0 million primarily for the disposal of fixed assets. In addition, an \$8.0 million provision for income taxes was recorded for the anticipated repatriation of foreign cash to the United States. Taxes were not previously provided on these accumulated earnings as they were considered to be permanently reinvested in the

Company's international operations. The total charge resulted in a reduction in earnings of \$1.76 per basic share for fiscal 1997.

In fiscal 1998, the Company provided \$2.0 million, which is reflected in other expense, to cover additional costs related to the restructuring. As of January 29, 2000, withdrawal from the division's operations had been completed, as all of the inventory has been sold and all licenses either terminated or assigned to other parties.

Through January 29, 2000, the reserve has been fully utilized: \$14.7 million for inventory markdowns and royalty agreements; \$10.3 million of bad debt write-offs, severance and other costs; and \$8.0 million for taxes related to cash repatriations.

[5] INCOME TAXES

The components of earnings (loss) before income taxes consisted of domestic earnings before income taxes of \$28.8 million, \$25.2 million, and \$14.1 million in 1999, 1998 and 1997, respectively, and foreign earnings (loss) before income taxes of \$23.0 million, \$12.4 million, and \$(16.3) million in 1999, 1998 and 1997, respectively.

The components of income tax expense (benefit) are as follows (in thousands):

	1999	1998	1997
FEDERAL			
Currently payable	\$ 9,391	\$ 9,373	\$ 6,158
Deferred	1,920	(662)	7,313
	11,311	8,711	13,471
STATE	913	1,626	614
FOREIGN	4,040	3,597	4,643
Total income tax expense	\$ 16,264	\$ 13,934	\$ 18,728

The Company made federal, state and foreign tax payments of \$15.4 million, \$13.7 million and \$4.9 million in fiscal 1999, 1998 and 1997, respectively.

The differences between the tax expense reflected in the financial statements and the amounts calculated at the federal statutory income tax rate of 35% are as follows (in thousands):

	1999	1998	1997
Income taxes at statutory rate	\$ 18,117	\$ 13,161	\$ (759)
State income taxes, net of federal tax benefit	593	1,057	399
Foreign tax in excess of (less than) domestic rate	(4,843)	(2,913)	574
Foreign operating losses with no benefit provided	603	2,347	9,390
Provision for foreign cash repatriation	1,200	—	8,000
Other	594	282	1,124
	\$ 16,264	\$ 13,934	\$ 18,728

Significant components of the Company's deferred income tax assets and liabilities are as follows (in thousands):

	JANUARY 29, 2000	JANUARY 30, 1999
DEFERRED TAX ASSETS		
Employee benefits, compensation, and insurance	\$ 5,943	\$ 7,364
Allowance for doubtful accounts	2,835	3,289
Inventory capitalization and inventory reserves	4,365	4,185
Postretirement and postemployment benefit plans	3,095	3,525
Other	9,232	9,703
Total deferred tax assets	25,470	28,066
DEFERRED TAX LIABILITIES		
Excess depreciation	—	(1,874)
Retirement plans	(13,833)	(12,319)
LIFO inventory valuation	(8,978)	(8,663)
Other	(1,699)	(1,915)
Total deferred tax liabilities	(24,510)	(24,771)
Net deferred tax asset	\$ 960	\$ 3,295

No deferred tax valuation allowance was recorded at the end of fiscal 1999 based on management's assessment it is more likely than not all the net deferred tax assets will be realized through future taxable earnings.

As of January 29, 2000, no deferred taxes have been provided on the undistributed earnings of the Company's Canadian subsidiary. It is anticipated no additional United States tax would be incurred if the accumulated Canadian earnings were distributed given the current United States and Canadian income tax rates. The accumulated unremitted earnings from the Company's other foreign subsidiaries as of January 29, 2000 on which deferred taxes have not been provided are indefinitely reinvested. In the event these other foreign entities' earnings were distributed, it is estimated U.S. taxes, net of available foreign tax credits, of approximately \$19.2 million would be due.

[6] BUSINESS SEGMENT INFORMATION

The Company has four reportable segments: Famous Footwear, Wholesale Operations, Naturalizer Retail, and Pagoda International.

Famous Footwear, which represents the Company's largest operating unit, consists of an 867-store chain that sells branded footwear for the entire family.

Wholesale Operations include Brown Branded, Brown Sourcing, Brown Pagoda and Canada Wholesale divisions. These operating units source and market branded, licensed and private label footwear primarily to mass-merchandisers, department stores and company-owned concept stores and Famous Footwear.

Naturalizer Retail specialty store operations include 347 Naturalizer Retail stores in the United States and 139 stores in Canada.

Pagoda International was the Company's international marketing division that sold footwear products to retailers in Europe, Latin America, and the Far East. In fiscal 1997, the Company made a decision to reduce its investment in this division, and the liquidation of the division was completed by the end of 1999.

The "Other" segment includes the Scholze Tannery business and Corporate assets and general and administrative expenses, which are not allocated to the operating units. At the end of fiscal 1999, the Company sold the Scholze Tannery business at approximately book value.

The Company's reportable segments are operating units that market to different customers and are each managed separately as they distribute their products on a retail or wholesale basis. An operating segment's performance is evaluated and resources allocated based on operating profit. Operating profit represents gross profit less general and administrative expenses and other

operating income or expense. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales are generally recorded at a profit to the selling division. All intersegment profits related to inventory on hand at the purchasing division are eliminated against the earnings of the selling division.

In fiscal 1999, the Company revised its method of determining the level of profit to be earned on intersegment sales from the Wholesale Operations to Naturalizer Retail. The change resulted in an increase to operating profit of \$2.4 million in fiscal 1999 for Naturalizer Retail and a corresponding decrease to operating profit for the Wholesale Operations.

THOUSANDS	FAMOUS FOOTWEAR	WHOLESALE OPERATIONS	NATURALIZER RETAIL	PAGODA INTERNATIONAL	OTHER	TOTAL
FISCAL 1999						
External sales	\$ 927,626	\$ 469,188	\$ 186,621	\$ 505	\$ 8,592	\$ 1,592,532
Intersegment sales	—	170,834	—	—	—	170,834
Depreciation and amortization	16,030	3,464	4,340	30	1,683	25,547
Operating profit (loss)	54,022	32,791	(3,655)	(664)	(14,823)	67,671
Operating segment assets	332,680	194,910	76,334	—	46,414	650,338
Capital expenditures	18,287	1,762	8,309	—	330	28,688
FISCAL 1998						
External sales	\$ 861,329	\$ 455,935	\$ 187,201	\$ 25,825	\$ 8,240	\$ 1,538,530
Intersegment sales	—	188,969	—	—	—	188,969
Depreciation and amortization	13,902	5,961	3,972	187	2,921	26,943
Operating profit (loss)	47,235	33,480	784	(7,307)	(13,293)	60,899
Operating segment assets	316,628	208,779	76,896	9,872	43,057	655,232
Capital expenditures	14,794	1,968	5,864	—	121	22,747
FISCAL 1997						
External sales	\$ 849,917	\$ 448,369	\$ 181,622	\$ 78,330	\$ 8,964	\$ 1,567,202
Intersegment sales	—	189,463	—	—	—	189,463
Depreciation and amortization	14,697	4,064	3,800	353	3,772	26,686
Restructuring charges	—	—	—	23,000	—	23,000
Operating profit (loss)	32,047	31,951	2,264	(36,583)	(8,604)	21,075
Operating segment assets	322,113	229,767	71,998	31,306	39,804	694,988
Capital expenditures	12,259	3,028	5,860	432	148	21,727

	1999	1998	1997
RECONCILIATION OF OPERATING PROFIT TO CONSOLIDATED PRETAX EARNINGS (LOSS):			
Total operating profit	\$ 67,671	\$ 60,899	\$ 21,075
Interest expense	17,349	19,383	21,756
Non-operating other (income) expense	(1,443)	3,913	1,487
Total consolidated pretax earnings (loss)	\$ 51,765	\$ 37,603	\$ (2,168)

For geographic purposes, the domestic operations include the wholesale distribution of branded, licensed and private label footwear to a variety of retail customers, and operation of the Famous Footwear and Naturalizer nationwide chains of footwear stores.

The Company's foreign operations primarily consist of wholesale distribution operations in the Far East, and wholesaling and retailing in Canada. The Far East operations include "first-cost" operations, where footwear is sold at foreign ports to customers who then import the footwear into the United States.

A summary of the Company's net sales and long-lived assets by geographic area follows (in thousands):

	1999	1998	1997
NET SALES			
United States	\$1,280,468	\$1,221,904	\$1,208,878
Far East	236,451	223,986	242,100
Canada	75,340	74,503	76,716
Latin America, Europe and Other	1,980	25,728	66,583
Inter-Area Transfers	(1,707)	(7,591)	(27,075)
	\$1,592,532	\$1,538,530	\$1,567,202
LONG-LIVED ASSETS			
United States	\$ 138,651	\$ 127,636	\$ 122,840
Far East	12,045	12,622	15,332
Canada	11,709	10,894	11,080
Latin America, Europe and Other	159	6,697	7,206
	\$ 162,564	\$ 157,849	\$ 156,458

Long-lived assets consist primarily of property and equipment, prepaid pension costs, goodwill, trademarks and other assets.

[7] PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

	JANUARY 29, 2000	JANUARY 30, 1999
Land and buildings	\$ 30,493	\$ 30,338
Leasehold improvements	57,458	48,128
Furniture, fixtures, and equipment	143,121	138,588
	231,072	217,054
Allowances for depreciation and amortization	(146,472)	(134,876)
	\$ 84,600	\$ 82,178

Under the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," charges included in selling and administrative expense for impaired assets of \$1.3 million, \$0.1 million and \$0.7 million were recognized in fiscal 1999, 1998 and 1997, respectively. Fair value was based on estimated future cash flows to be generated by retail stores, discounted at a market rate of interest.

[8] LONG-TERM AND SHORT-TERM FINANCING ARRANGEMENTS

Long-term debt, including capitalized lease obligations, net of unamortized discounts, consists of the following (in thousands):

	JANUARY 29, 2000	JANUARY 30, 1999
9.5% Senior Notes due 2006	\$ 100,000	\$ 100,000
7.36% Senior Notes, payments of \$10,000 due annually through 2003	40,000	50,000
7.07%-8.83% Debentures due 2002	18,547	18,545
7.125% Debentures due 2003	10,000	10,000
8.45%-8.6% Debentures due 1999	—	15,000
Capitalized lease obligations	3,487	3,486
	\$ 172,034	\$ 197,031

Maturities of long-term debt and capitalized lease obligations for 2000 through 2004 are: 2000—\$10.0 million; 2001—\$10.0 million; 2002—\$28.6 million; 2003—\$20.0 million and 2004—\$0.5 million.

The Company's 9.5% Senior Notes are due 2006. These Notes are redeemable at the option of the Company, in whole or in part, at any time on or after October 15, 2001.

The Company's revolving bank Credit Agreement, which provides \$155.0 million in committed working capital and letter of credit financing, expires January 2001. Interest on borrowings under the Credit Agreement is at varying rates and at the Company's option based on one of the following: the LIBOR rate, the Bank of America corporate base rate, or the Federal funds rate. A facility fee, 0.25% at January 29, 2000, based on the Company's leverage ratio, is payable on the entire amount of the facility. At January 29, 2000, the Company had no short-term borrowings outstanding and approximately \$11.2 million in letters of credit outstanding under the revolving bank Credit Agreement.

The Company's Canadian operations maintain uncommitted lines of credit totaling approximately \$5.5 million, with letters of credit outstanding of approximately \$1.7 million as of January 29, 2000.

The Company's debt agreements contain various covenants which, among other things, require the maintenance of certain financial ratios related to fixed charge coverage and total debt to capital, establish minimum levels of net worth, establish limitations on indebtedness, certain types of payments, including dividends, liens and investments, and limit the use of

proceeds of asset sales. The 9.5% Senior Notes, the revolving bank Credit Agreement, and the 7.36% unsecured Senior Notes are guaranteed by certain wholly-owned domestic subsidiaries of the Company.

The maximum amount of short-term borrowings under the revolving bank credit arrangements at the end of any month was \$38.0 million in 1999 and \$76.0 million in 1998. The average short-term borrowings during the year were \$15.8 million in 1999 and \$21.5 million in 1998. The weighted average interest rates approximated 6.8% in 1999 and 7.1% in 1998.

Cash payments of interest for fiscal 1999, 1998, and 1997 were \$18.0 million, \$20.1 million, and \$22.5 million, respectively.

[9] LEASES

The Company leases substantially all of its retail locations and certain other equipment and facilities. Over 60 percent of the retail store leases are subject to renewal options for varying periods.

In addition to minimum rental payments, certain of the retail store leases require contingent payments based on sales levels.

Rent expense from continuing operations for operating leases amounted to (in thousands):

	1999	1998	1997
Minimum payments	\$ 90,366	\$ 87,473	\$ 86,132
Contingent payments	2,844	2,489	2,665
	\$ 93,210	\$ 89,962	\$ 88,797

Future minimum payments under noncancelable operating leases with an initial term of one year or more were as follows at January 29, 2000 (in thousands):

2000	\$ 90,458
2001	82,928
2002	71,317
2003	58,592
2004	45,335
Thereafter	97,700
Total minimum lease payments	\$ 446,330

The Company is contingently liable for lease commitments of approximately \$34 million which primarily relate to Cloth World and Meis specialty retailing chains, which were sold.

[10] FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to reduce its exposure to market risks from changes in interest rates and foreign exchange rates. The instruments primarily used are foreign exchange contracts and foreign currency options. Periodically, interest rate swaps and interest rate futures are utilized. The Company is exposed to credit-related losses in the event of nonperformance by counterparties to these financial instruments; however, counterparties to these agreements are major international financial institutions, and the risk of loss due to nonperformance is believed to be minimal.

The Company enters into foreign exchange instruments to hedge foreign currency transactions on a continuous basis for periods consistent with its committed exposures. The terms of these instruments are generally less than a year. The primary purpose of the foreign currency hedging activities is to protect the Company from the risk that the eventual cash outflows resulting from the purchases of inventory from foreign suppliers will be adversely affected by changes in exchange rates.

The United States dollar equivalent of contractual amounts of the Company's financial instruments consist of the following (in thousands):

	JANUARY 29, 2000	JANUARY 30, 1999
DELIVERABLE FINANCIAL INSTRUMENTS		
Italian Lira	\$ 10,700	\$ 5,100
Canadian Dollars	4,500	12,800
French Francs and Other Currencies	1,900	10,000
NON-DELIVERABLE FINANCIAL INSTRUMENTS		
New Taiwanese Dollars	7,300	7,800
Brazilian Real and Other Currencies	—	5,000
	\$ 24,400	\$ 40,700

The unrealized losses related to these instruments, based on dealer-quoted prices, were \$0.6 million and \$0.3 million at January 29, 2000, and January 30, 1999, respectively.

Realized gains and losses on financial instruments used as hedges of inventory purchases are included in the basis of the inventory and are recognized in income as a component of cost of goods sold in the period in

which the related inventory is sold. Material gains and losses on financial instruments hedging forecasted purchases are recorded in income in the period the value of the instruments change.

The Company had no interest rate derivative instruments outstanding at January 29, 2000 and January 30, 1999.

[11] FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Company's financial instruments at January 29, 2000 and January 30, 1999 are (in thousands):

	1999		1998	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
LIABILITIES				
Long-term debt, including current maturities	\$172,034	\$165,304	\$197,031	\$198,475

The fair value of the Company's long-term debt was based upon the borrowing rates currently available to the Company for financing arrangements with similar terms and maturities.

Carrying amounts reported on the balance sheet for cash, cash equivalents and receivables approximate fair value due to the short-term maturity of these instruments.

[12] CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to significant concentration of credit risk consist primarily of cash, cash equivalents and trade accounts receivable.

The Company maintains cash and cash equivalents and certain other financial instruments with various financial institutions. The financial institutions are located throughout the world, and the Company's policy is designed to limit exposure to any one institution or geographic region. The Company's periodic evaluations of the relative credit standing of these financial institutions are considered in the Company's investment strategy.

The Company's footwear wholesaling businesses sell primarily to department stores, mass merchandisers, and independent retailers across the United States and Canada. Receivables arising from these sales are not collateralized; however, a portion is covered by documentary letters of credit. Credit risk is affected by conditions or occurrences within the economy and the

retail industry. The Company maintains an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

[13] COMMITMENTS AND CONTINGENCIES

The Company is involved in environmental remediation and ongoing compliance activities at several sites. The Company is remediating a residential area adjacent to owned property in Colorado, under the oversight of Colorado authorities. This residential area has been affected by types of solvents previously used at the facility. Monitoring of the residential area continues. The Company also has begun remediation on the owned property. During fiscal 1999 and 1998, the Company incurred charges of \$1.8 million and \$2.3 million, respectively, related to this site.

At its closed New York tannery and two associated landfills, the Company has completed its remediation efforts, and in 1995 state environmental authorities reclassified the status of the site to one that has been properly closed and requires only continued maintenance and monitoring over the next 24 years. In addition, various federal and state authorities have identified the Company as a potentially responsible party for remediation at certain landfills from the sale or disposal of solvents and other by-products from the closed tannery and shoe manufacturing facilities.

Based on information currently available, the Company is carrying an accrued liability of \$3.9 million, as of January 29, 2000, to complete the clean up at all sites. The ultimate cost may vary.

While the Company currently operates no domestic manufacturing facilities, prior operations included numerous manufacturing and other facilities for which the Company may have responsibility under various environmental laws for the remediation of conditions that may be identified in the future.

The Company is also involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, after consulting with legal counsel, the outcome of such proceedings and litigation currently pending will not have a materially adverse effect on the Company's results of operations or financial position.

[14] COMMON STOCK

The Company's Common Stock has a par value of \$3.75 per share and 100,000,000 shares are authorized. At January 29, 2000 and January 30, 1999, there were 18,262,990 shares and 18,168,340 shares, net of 3,742,907 shares and 3,837,557 shares held in treasury, outstanding, respectively. The stock is listed and traded on the New York and Chicago Stock Exchanges (symbol BWS). There were approximately 6,200 shareholders of record at February 26, 2000.

The Company has a Shareholder Rights Plan, under which each outstanding share of the Company's common stock carries one Common Stock Purchase Right. The rights may only become exercisable under certain circumstances involving acquisition of the Company's common stock by a person or group of persons without the prior written consent of the Company. Depending on the circumstances, if the rights become exercisable, the holder may be entitled to purchase shares of the Company's common stock or shares of common stock of the acquiring person at discounted prices. The rights will expire on March 18, 2006 unless they are earlier exercised, redeemed or exchanged.

[15] STOCK OPTION AND STOCK RELATED PLANS

The Company has stock option, stock appreciation, restricted stock and stock performance plans under which certain officers and employees and members of the board of directors are participants.

All stock options are granted at market value. Stock appreciation units, while the Company discontinued issuing in 1999, have also been granted in tandem with options. Such units entitle the participant to receive an amount, in cash and/or stock, equal to the difference between the current market value of a share of stock at the exercise date and the option price of such share of stock. The options and appreciation units become exercisable one year from the date of the grant at a rate of 25% per year and are exercisable for up to 10 years from

date of grant. Since the stock appreciation rights are issued in tandem with stock options, the exercise of either cancels the other. As of January 29, 2000, 653,700 additional shares of common stock were available to be granted in the form of options, restricted stock or stock performance.

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related Interpretations in accounting for its employee stock options instead of the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1999, 1998 and 1997, respectively: risk-free interest rates of 5.8%, 5.2% and 6.0%; dividend yields of 2.2%, 2.4% and 4.3%; volatility factors of the expected market price of the Company's common stock of .36, .34 and .33; and a weighted-average expected life of the option of 7 years. The weighted average fair value of options granted during 1999, 1998 and 1997 was \$6.76, \$5.81 and \$4.35 per share, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands except for per share amounts):

	1999	1998	1997
Net income (loss) as reported	\$ 35,501	\$ 23,669	\$ (20,896)
Pro forma net income (loss)	33,666	22,641	(21,513)
Basic earnings (loss) per share as reported	1.99	1.34	(1.19)
Pro forma basic earnings (loss) per share	1.89	1.28	(1.22)
Diluted earnings (loss) per share as reported	1.96	1.32	(1.19)
Pro forma diluted earnings (loss) per share	1.86	1.26	(1.22)

The following summary sets forth the Company's stock option and stock appreciation rights activity for the three years ended January 29, 2000:

	NUMBER OF		WEIGHTED AVERAGE EXERCISE PRICE
	OPTION SHARES	APPRECIATION UNITS	
Outstanding			
February 1, 1997	923,496	110,785	\$ 22
Granted	501,000	101,488	15
Exercised	(2,000)	—	14
Terminated	(80,578)	—	30
Outstanding			
January 31, 1998	1,341,918	212,273	19
Granted	371,000	82,724	17
Exercised	(15,250)	(22,330)	15
Terminated	(252,574)	(16,629)	24
Outstanding			
January 30, 1999	1,445,094	256,038	17
Granted	555,300	—	19
Exercised	(50,750)	—	16
Terminated	(98,399)	(39,005)	21
Outstanding			
January 29, 2000	1,851,245	217,033	\$ 18

Following is a summary of stock options outstanding as of January 29, 2000, which have exercise prices ranging from \$14 to \$38:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING LIFE
OPTIONS OUTSTANDING:			
Price under \$15	531,500	\$ 14	8
Price \$15 or over	1,319,745	19	8
	1,851,245	\$ 18	8
OPTIONS EXERCISABLE:			
Price under \$15	296,125	\$ 14	7
Price \$15 or over	504,245	20	6
	800,370	\$ 18	6

At January 30, 1999, 550,420 options with a weighted average exercise price of \$19 were exercisable. At January 31, 1998, 596,294 options with a weighted average exercise price of \$21 were exercisable.

Under the Company's restricted stock program, common stock of the Company may be granted at no cost to certain officers and key employees. Plan participants are entitled to cash dividends and to vote their respective shares. Restrictions limit the sale or transfer of these shares during an eight-year period whereby the restrictions lapse on 50% of these shares after 4 years, 25% after 6 years and the remaining 25% after 8 years. Upon issuance of stock under the plan, unearned compensation equivalent to the market value at the date of grant is charged to shareholders' equity and subsequently amortized to expense over the eight-year restriction period. Restricted shares granted, net of forfeitures, were 38,500, 91,875 and 73,000 in 1999, 1998 and 1997, respectively, and compensation expense was \$0.8 million, \$1.5 million and \$2.3 million in 1999, 1998, and 1997, respectively.

In fiscal 1999, the Company adopted a stock performance plan under which common stock will be awarded at the end of the performance period at no cost to certain officers and key employees if certain financial goals are met. Compensation expense is recorded over the performance period based on the anticipated number and market value of shares to be awarded. For fiscal 1999, compensation expense for performance shares was \$0.3 million. The Company has currently reserved 84,500 shares as eligible to be awarded to participants upon meeting certain financial goals; however, the actual number of shares ultimately earned may vary.

[16] SUPPLEMENTARY INFORMATION**BALANCE SHEET**

Cash equivalents of \$31.8 million and \$37.7 million at January 29, 2000 and January 30, 1999, respectively, are stated at cost, which approximates fair value.

STATEMENT OF CONSOLIDATED EARNINGS

Advertising and marketing costs totaled \$52.5 million, \$54.9 million, and \$61.0 million in 1999, 1998 and 1997, respectively.

Other Expense (Income) consisted of the following (in thousands):

	1999	1998	1997
Interest income	\$ (1,884)	\$ (1,730)	\$ (1,427)
Restructuring charges	—	1,950	1,000
Royalty income	(1,599)	(1,377)	(2,127)
Amortization of intangibles	893	3,488	1,731
Environmental charges	1,790	2,344	—
Gain on sale of le coq sportif	(2,334)	—	—
Other, net	955	(198)	371
Total	\$ (2,179)	\$ 4,477	\$ (452)

[17] IMPACT OF NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). The statement is effective for the Company beginning fiscal 2001. SFAS 133 requires all derivative instruments be recorded on the balance sheet at their fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of

derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in Other Comprehensive Income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet assessed what the impact of SFAS 133 will be on the Company's future earnings or financial position.

[18] CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The 9.5% Senior Notes, the revolving bank Credit Agreement, and the 7.36% Senior Notes, described in Note 8, are unconditionally and jointly and severally guaranteed by certain wholly-owned domestic subsidiaries of the Company. The non-guarantor subsidiaries are predominantly foreign subsidiaries of the Company. Accordingly, condensed consolidating balance sheets as of January 29, 2000 and January 30, 1999, and the related condensed consolidating statements of earnings and cash flows for each of the three years in the period ended January 29, 2000, are provided. These condensed consolidating financial statements have been prepared using the equity method of accounting in accordance with the requirements for presentation of such information. Management believes that this information, presented in lieu of complete financial statements for each of the guarantor subsidiaries, provides meaningful information to allow investors to determine the nature of the assets held by, and the operation and cash flow of, each of the consolidating groups.

CONDENSED CONSOLIDATING BALANCE SHEET AS OF JANUARY 29, 2000

THOUSANDS	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTALS
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 8,851	\$ 885	\$ 24,422	\$ —	\$ 34,158
Receivables, net	33,265	11,675	23,296	—	68,236
Inventory, net	48,066	311,051	18,393	(11,521)	365,989
Other current assets	(5,429)	18,846	1,977	3,997	19,391
Total Current Assets	84,753	342,457	68,088	(7,524)	487,774
Other assets	52,535	19,121	6,312	(4)	77,964
Property and equipment, net	14,627	63,437	6,536	—	84,600
Investment in subsidiaries	247,218	34,880	—	(282,098)	—
Total Assets	\$ 399,133	\$ 459,895	\$ 80,936	\$ (289,626)	\$ 650,338
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts payable	\$ 5,020	\$ 85,515	\$ 23,285	\$ —	\$ 113,820
Accrued expenses	25,684	48,474	10,938	4,451	89,547
Income taxes	1,702	1,528	1,234	(62)	4,402
Current maturities of long-term debt	10,000	—	—	—	10,000
Total Current Liabilities	42,406	135,517	35,457	4,389	217,769
Long-term debt and capitalized lease obligations	162,034	—	—	—	162,034
Other liabilities	21,272	(1,342)	660	—	20,590
Intercompany payable (receivable)	(76,524)	73,388	9,939	(6,803)	—
Shareholders' equity	249,945	252,332	34,880	(287,212)	249,945
Total Liabilities and Shareholders' Equity	\$ 399,133	\$ 459,895	\$ 80,936	\$ (289,626)	\$ 650,338

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS FOR THE FISCAL YEAR ENDED JANUARY 29, 2000

THOUSANDS	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTALS
Net Sales	\$ 251,585	\$ 1,283,088	\$ 323,047	\$ (265,188)	\$ 1,592,532
Cost of goods sold	181,608	789,074	261,667	(265,188)	967,161
Gross profit	69,977	494,014	61,380	—	625,371
Selling and administrative expenses	67,448	452,018	40,504	(1,534)	558,436
Interest expense	17,160	61	128	—	17,349
Intercompany interest (income) expense	(13,606)	13,654	(48)	—	—
Other (income) expense, net	649	(3,091)	(1,271)	1,534	(2,179)
Equity in (earnings) loss of subsidiaries	(36,509)	(17,842)	—	54,351	—
Earnings (Loss) Before Income Taxes	34,835	49,214	22,067	(54,351)	51,765
Income tax provision	666	(12,705)	(4,225)	—	(16,264)
Net Earnings (Loss)	\$ 35,501	\$ 36,509	\$ 17,842	\$ (54,351)	\$ 35,501

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE FISCAL YEAR ENDED JANUARY 29, 2000

THOUSANDS	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTALS
Net Cash Provided (Used) by Operating Activities	\$ 29,351	\$ (3,427)	\$ 5,836	\$ 7,380	\$ 39,140
Investing Activities:					
Capital expenditures	(1,376)	(25,323)	(1,989)	—	(28,688)
Proceeds from sale of le coq sportif	—	9,538	—	—	9,538
Other	10	—	4	—	14
Net Cash Used by Investing Activities	(1,366)	(15,785)	(1,985)	—	(19,136)
Financing Activities:					
Repayments of long-term debt	(25,000)	—	—	—	(25,000)
Proceeds from issuance of common stock	917	—	—	—	917
Dividends paid	(7,295)	—	—	—	(7,295)
Intercompany financing	58	15,359	(8,037)	(7,380)	—
Net Cash Provided (Used) by Financing Activities	(31,320)	15,359	(8,037)	(7,380)	(31,378)
Increase (Decrease) in Cash and Cash Equivalents	(3,335)	(3,853)	(4,186)	—	(11,374)
Cash and Cash Equivalents at Beginning of Period	12,186	4,738	28,608	—	45,532
Cash and Cash Equivalents at End of Period	\$ 8,851	\$ 885	\$ 24,422	\$ —	\$ 34,158

CONDENSED CONSOLIDATING BALANCE SHEET AS OF JANUARY 30, 1999

THOUSANDS	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTALS
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 12,186	\$ 4,738	\$ 28,608	\$ —	\$ 45,532
Receivables, net	35,779	10,823	21,213	—	67,815
Inventory, net	52,458	300,009	22,358	(12,551)	362,274
Other current assets	(5,597)	17,456	5,511	4,392	21,762
Total Current Assets	94,826	333,026	77,690	(8,159)	497,383
Other Assets					
Property and equipment, net	45,723	18,076	11,986	(114)	75,671
Investment in subsidiaries	15,156	60,200	6,822	—	82,178
Investment in subsidiaries	229,896	35,900	—	(265,796)	—
Total Assets	\$ 385,601	\$ 447,202	\$ 96,498	\$ (274,069)	\$ 655,232
LIABILITIES & SHAREHOLDERS' EQUITY					
Current Liabilities					
Accounts payable	\$ 5,745	\$ 92,943	\$ 26,233	\$ —	\$ 124,921
Accrued expenses	27,145	51,023	15,546	(3,633)	90,081
Income taxes	(5,042)	10,913	564	7	6,442
Current maturities of long-term debt	25,000	—	—	—	25,000
Total Current Liabilities	52,848	154,879	42,343	(3,626)	246,444
Long-term debt and capitalized lease obligations					
Long-term debt and capitalized lease obligations	172,031	—	41	(41)	172,031
Other liabilities	20,130	(716)	238	(69)	19,583
Intercompany payable (receivable)	(76,582)	58,029	17,976	577	—
Shareholders' equity	217,174	235,010	35,900	(270,910)	217,174
Total Liabilities and Shareholders' Equity	\$ 385,601	\$ 447,202	\$ 96,498	\$ (274,069)	\$ 655,232

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS FOR THE FISCAL YEAR ENDED JANUARY 30, 1999

THOUSANDS	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTALS
Net Sales	\$ 262,498	\$ 1,223,024	\$ 326,529	\$ (273,521)	\$ 1,538,530
Cost of goods sold	184,622	752,497	261,592	(273,521)	925,190
Gross profit	77,876	470,527	64,937	—	613,340
Selling and administrative expenses	74,129	425,959	53,426	(1,637)	551,877
Interest expense	19,287	5	91	—	19,383
Intercompany interest (income) expense	(14,123)	14,067	56	—	—
Other (income) expense, net	(310)	279	2,871	1,637	4,477
Equity in (earnings) loss of subsidiaries	(24,829)	(5,980)	—	30,809	—
Earnings (Loss) Before Income Taxes	23,722	36,197	8,493	(30,809)	37,603
Income tax provision	(53)	(11,368)	(2,513)	—	(13,934)
Net Earnings (Loss)	\$ 23,669	\$ 24,829	\$ 5,980	\$ (30,809)	\$ 23,669

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE FISCAL YEAR ENDED JANUARY 30, 1999

THOUSANDS	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTALS
Net Cash Provided (Used) by Operating Activities	\$ 37,645	\$ 51,971	\$ (6,925)	\$ (3,811)	\$ 78,880
Investing Activities:					
Capital expenditures	(837)	(19,717)	(2,193)	—	(22,747)
Other	13	25	20	—	58
Net Cash Used by Investing Activities	(824)	(19,692)	(2,173)	—	(22,689)
Financing Activities:					
Decrease in short-term notes payable	(54,000)	—	—	—	(54,000)
Proceeds from issuance of common stock	428	—	—	—	428
Dividends paid	(7,223)	—	—	—	(7,223)
Intercompany financing	34,712	(34,384)	(4,179)	3,851	—
Net Cash Provided (Used) by Financing Activities	(26,083)	(34,384)	(4,179)	3,851	(60,795)
Increase (Decrease) in Cash and Cash Equivalents	10,738	(2,105)	(13,277)	40	(4,604)
Cash and Cash Equivalents at Beginning of Period	1,448	6,843	41,885	(40)	50,136
Cash and Cash Equivalents at End of Period	\$ 12,186	\$ 4,738	\$ 28,608	\$ —	\$ 45,532

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS FOR THE FISCAL YEAR ENDED JANUARY 31, 1998

THOUSANDS	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTALS
Net Sales	\$ 256,031	\$ 1,201,078	\$ 369,735	\$ (259,642)	\$ 1,567,202
Cost of goods sold	180,568	755,729	312,051	(259,818)	988,530
Gross profit	75,463	445,349	57,684	176	578,672
Selling and administrative expenses	71,752	412,221	76,954	(1,391)	559,536
Interest expense	21,512	9	235	—	21,756
Intercompany interest (income) expense	(15,403)	15,368	35	—	—
Other (income) expense, net	(4,655)	1,201	1,435	1,567	(452)
Equity in (earnings) loss of subsidiaries	22,622	23,693	—	(46,315)	—
Earnings (Loss) Before Income Taxes	(20,365)	(7,143)	(20,975)	46,315	(2,168)
Income tax provision	(531)	(15,479)	(2,718)	—	(18,728)
Net Earnings (Loss)	\$ (20,896)	\$ (22,622)	\$ (23,693)	\$ 46,315	\$ (20,896)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOW FOR THE FISCAL YEAR ENDED JANUARY 31, 1998

THOUSANDS	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTALS
Net Cash Provided (Used) by Operating Activities	\$ 23,891	\$ 29,544	\$ (1,590)	\$ 6,839	\$ 58,684
Investing Activities:					
Capital expenditures	(2,512)	(17,530)	(1,685)	—	(21,727)
Other	386	8	7	—	401
Net Cash Used by Investing Activities	(2,126)	(17,522)	(1,678)	—	(21,326)
Financing Activities:					
Decrease in short-term notes payable	(8,000)	—	—	—	(8,000)
Debt issuance costs	(678)	—	—	—	(678)
Repayments of long-term debt	(2,000)	—	—	—	(2,000)
Proceeds from issuance of common stock	93	—	—	—	93
Dividends paid	(15,323)	—	—	—	(15,323)
Intercompany financing	5,721	(11,489)	14,846	(9,078)	—
Net Cash Provided (Used) by Financing Activities	(20,187)	(11,489)	14,846	(9,078)	(25,908)
Increase (Decrease) in Cash and Cash Equivalents	1,578	533	11,578	(2,239)	11,450
Cash and Cash Equivalents at Beginning of Period	(130)	6,310	30,307	2,199	38,686
Cash and Cash Equivalents at End of Period	\$ 1,448	\$ 6,843	\$ 41,885	\$ (40)	\$ 50,136

MANAGEMENT REPORT ON RESPONSIBILITY
FOR FINANCIAL REPORTING

The management of Brown Shoe Company, Inc. has the responsibility for preparing the accompanying financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles, and are not misstated due to material fraud or error. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the financial statements.

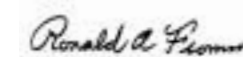
The Company's financial statements have been audited by Ernst & Young LLP, independent auditors. Management has made available to Ernst & Young LLP all the Company's financial records and related data, as well as the minutes of shareholders' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate.

The Audit Committee of Brown Shoe Company's Board of Directors comprised four outside directors in 1999. The Committee meets regularly with the Company's independent auditors, Ernst & Young LLP, and management. The purpose of these meetings is to review, among other things, the scope and results of the annual audit, the internal audit activities and the system of internal accounting control. To ensure complete independence, Ernst & Young LLP and the internal audit staff have direct access to the Audit Committee without the presence of management to discuss the results of their examinations.

Management of the Company has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process and updated as necessary. The Company maintains an internal auditing program that independently assesses the effectiveness of the internal controls and recommends possible improvements thereto. Management believes that the Company's system of internal control is adequate to accomplish the objectives discussed herein.

Management also recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in the Company's code of conduct, which is

published throughout the Company. The code of conduct addresses, among other things, the necessity of ensuring open communication within the Company; potential conflicts of interest; compliance with all domestic and foreign laws, including those relating to financial disclosure; and the confidentiality of proprietary information. The Company maintains a systematic program to assess compliance with these policies. The results of this compliance program are discussed with the Audit Committee.



Ronald A. Fromm
Chief Executive Officer



Andrew M. Rosen
Chief Financial Officer

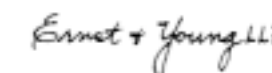
REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
Brown Shoe Company, Inc.

We have audited the accompanying consolidated balance sheets of Brown Shoe Company, Inc. as of January 29, 2000 and January 30, 1999 and the related statements of consolidated earnings, shareholders' equity, and cash flows for each of the three years in the period ended January 29, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Brown Shoe Company, Inc. at January 29, 2000 and January 30, 1999 and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 29, 2000 in conformity with accounting principles generally accepted in the United States.



St. Louis, Missouri
February 23, 2000

SUPPLEMENTARY FINANCIAL INFORMATION

SELECTED QUARTERLY INFORMATION (UNAUDITED)

Following is a summary of selected quarterly information (in thousands except per share) for fiscal years ended January 29, 2000, and January 30, 1999.

	QUARTERS			
	FIRST (13 WEEKS)	SECOND (13 WEEKS)	THIRD (13 WEEKS)	FOURTH (13 WEEKS)
1999				
Net Sales	\$ 396,826	\$ 410,100	\$ 429,132	\$ 356,474
Gross Profit	157,807	161,075	171,844	134,645
Net Earnings	6,316	10,517	14,763	3,905
Per Share of Common Stock:				
Net Earnings—Basic	\$.36	\$.59	\$.82	\$.22
Net Earnings—Diluted	.35	.58	.81	.22
Dividends Paid	.10	.10	.10	.10
Market Value:				
High	16 ³ / ₄	21 ³ / ₄	19 ⁷ / ₈	18 ¹ / ₈
Low	13 ¹ / ₈	15 ¹ / ₂	16 ⁷ / ₈	10 ³ / ₄
1998				
Net Sales	\$ 402,309	\$ 383,618	\$ 411,976	\$ 340,627
Gross Profit	155,324	154,002	163,754	140,260
Net Earnings	3,871	4,295	12,898	2,605
Per Share of Common Stock:				
Net Earnings—Basic	\$.22	\$.24	\$.73	\$.15
Net Earnings—Diluted	.22	.24	.72	.14
Dividends Paid	.10	.10	.10	.10
Market Value:				
High	16	19 ⁷ / ₈	16 ⁷ / ₈	18 ⁷ / ₈
Low	14 ¹ / ₄	15 ⁷ / ₈	12 ⁷ / ₈	15 ⁷ / ₈

Directors' and Officers' Liability Insurance: The New York Business Corporation Act requires that New York corporations provide to their shareholders information regarding any policies of directors' and officers' liability insurance which have been purchased or renewed. Accordingly, notice is hereby given that on October 31, 1998, the Company purchased, for a three-year term, policies of directors' and officers' liability insurance from Federal Insurance Company, a member of the Chubb Insurance Group and National Union Fire Insurance Company. These policies cover all duly elected directors and all duly elected or appointed officers of Brown Shoe Company, Inc. and its subsidiary companies. The policy premium for the three-year term is \$312,000. In October 1999, the Company extended the above policy for one additional year. The premium for the additional year is \$114,000. To date, no claims have been paid under any policy of directors' and officers' liability insurance.

OPERATING EXECUTIVES AND OFFICERS

EXECUTIVE MANAGEMENT

RONALD A. FROMM*
Chairman of the Board, President and Chief Executive Officer

BRIAN C. COOK*
Executive Vice President and President, Famous Footwear

GARY M. RICH*
President, Brown Pagoda division

ANDREW M. ROSEN*
Chief Financial Officer and Treasurer

DAVID H. SCHWARTZ*
President, Brown Sourcing division

GREGORY J. VAN GASSE*
President, Brown Branded division

OFFICERS AND OPERATING MANAGEMENT

DANIEL P. AMADO
Senior Vice President and Brand Director, New Products Brown Branded division

JAMES W. ANDERSON
Vice President, Finance Brown Pagoda division

THEODORE L. ANDERSON*
Senior Vice President Retail Sales and Operations Famous Footwear

CARL H. BENGTON
Senior Vice President Latin American and European Operations, Brown Sourcing division

WILLIAM A. DANDY*
Senior Vice President, Marketing Famous Footwear

ELIZABETH A. FAGAN
Vice President, Public Affairs

EARL B. FISCHER
Vice President, Information Systems Famous Footwear

ROBERT D. GIBBS
Vice President, Distribution

KENNETH W. GILBERTSON
President, Canada Wholesale division

CHARLES C. GILLMAN*
Senior Vice President and Director Far East Operations Brown Sourcing division

DENNIS F. HADICAN
Vice President and General Manager Westport, Brown Pagoda division

DAVID E. HANEBRINK
Vice President and General Manager Men's, Boys' and Athletics Brown Pagoda division

RICHARD P. KUETHER
Vice President, Logistics Famous Footwear

J. MARTIN LANG*
Senior Vice President and Chief Financial Officer, Famous Footwear

BYRON D. NORFLEET*
Senior Vice President and General Manager, Naturalizer Retail division

ROBERT D. PICKLE
Vice President, General Counsel and Corporate Secretary

SHARON L. POSTON
Vice President, Customer Service Brown Branded division

RICHARD T. PRICE
Vice President Information Systems

JAMES M. ROE*
Senior Vice President, Real Estate Famous Footwear

JEFFREY M. SANDERS
Senior Vice President and General Manager, LifeStride Brown Branded division

MARK J. SCHAUSTER
Senior Vice President and Director of Product Development Brown Branded division

RICHARD C. SCHUMACHER*
Vice President and Controller

PAUL M. SHAPIRO
Vice President and General Manager Buster Brown & Co. Brown Pagoda division

ALAN A. SILVERSTEIN
Senior Vice President and General Manager, Women's Brown Pagoda division

ROBERT E. STADLER, JR.*
Vice President, Administration Brown Shoe, and Senior Vice President, Finance and Administration Brown Branded division

JEAN-GUY VAUDRY
President, Canada Retail division

GEORGE J. ZELINSKY*
Senior Vice President and General Merchandise Manager Famous Footwear

SPENCER E. ZIMMERMAN
Senior Vice President and General Manager, Naturalizer Brown Branded division

* Member of the Company's Operating Committee

BOARD OF DIRECTORS

RONALD A. FROMM (1)

Chairman of the Board, President and Chief Executive Officer

JOSEPH L. BOWER (3,4)

Donald Kirk David Professor
Harvard Business School

JULIE C. ESREY (2,4)

Director of various organizations

RICHARD A. LIDDY (1,2,4)

Chairman of the Board, President and Chief Executive Officer
GenAmerica Corporation

JOHN PETERS MACCARTHY (2,3)

Retired Chairman of the Board and Chief Executive Officer, Boatmen's Trust Company

PATRICIA G. MCGINNIS (2)

President and Chief Executive Officer, The Council for Excellence in Government

W. PATRICK MCGINNIS (3)

President and Chief Executive Officer, Ralston Purina Company

JERRY E. RITTER (1,3,4)

Director of various corporations

(1) Member of the Executive Committee

(2) Member of the Audit Committee

(3) Member of the Compensation Committee

(4) Member of the Governance and Nominating Committee

INVESTOR INFORMATION

CORPORATE HEADQUARTERS

Brown Shoe Company, Inc.
8300 Maryland Avenue
St. Louis, Missouri 63105-3693

Mailing Address:

Post Office Box 29
St. Louis, Missouri 63166-0029

Telephone: (314) 854-4000

Fax: (314) 854-4274

E-mail: info@brownshoe.com


INTERNET ADDRESS

<http://www.brownshoe.com>

ANNUAL MEETING

11:00 a.m. Central Time
Thursday, May 25, 2000
Brown Shoe Company, Inc.
Corporate Headquarters

STOCK LISTED

 Brown Shoe stock is listed on the New York Stock Exchange and the Chicago Stock Exchange (ticker symbol BWS).

NUMBER OF SHAREHOLDERS OF RECORD

6,200

NUMBER OF EMPLOYEES

11,500

INDEPENDENT AUDITORS

Ernst & Young LLP
St. Louis, Missouri

TRANSFER AGENT/REGISTRAR/DIVIDEND DISBURSING AGENT

First Chicago Trust,
a division of EquiServe
Post Office Box 2500
Jersey City, New Jersey 07303-2500
Telephone: (201) 324-0498
(800) 446-2617

Internet: <http://www.fctc.com>

E-mail: equiserve@em.equiserve.com

DIVIDEND REINVESTMENT PLAN

The Dividend Reinvestment Plan provides a means of automatic dividend reinvestment and includes a provision for voluntary investment of additional cash. For a prospectus and enrollment form, contact First Chicago Trust (address above).

DIRECT DEPOSIT OF DIVIDENDS

Registered shareholders may have their quarterly dividend checks deposited directly to their bank accounts. For more information or to request an enrollment form, contact First Chicago Trust (address above).

TRUSTEE OF DEBENTURES/NOTES

State Street Bank and Trust
Company of Missouri, N.A.
One Metropolitan Square
Post Office Box 321
St. Louis, Missouri 63166-0321
(314) 206-3020

ADDITIONAL INFORMATION

ON THE INTERNET:

You can access financial and other information such as significant news releases, Forms 10-K and 10-Q, and product information, on the Internet at <http://www.brownshoe.com>

BY FAX-BACK:

Copies of Brown Shoe news releases can be transmitted at no charge via fax by calling "Company News On-Call" at (800) 758-5804 extension 109435.

BY CALLING OR WRITING:

You can also request that any of these materials be mailed to you at no charge by calling or writing:

Brown Shoe Company, Inc.
Investor Relations Office
Post Office Box 29
St. Louis, Missouri 63166-0029
(314) 854-4000