FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**
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FILER

BROWN SHOE CO INC/
CIK:**14707**| IRS No.: **430197190** | State of Incorp.:**NY** | Fiscal Year End: **0130**
Type: **10-Q** | Act: **34** | File No.: **001-02191** | Film No.: **99709055**
SIC: **3140** Footwear, (no rubber)

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

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended July 31, 1999

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to __________

Commission file number 1-2191

BROWN SHOE COMPANY, INC.
(Exact name of registrant as specified in its charter)

New York	43-0197190
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
8300 Maryland Avenue St. Louis, Missouri	63105
(Address of principal executive offices)	(Zip Code)

(314) 854-4000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [x] No [ ]

As of August 28, 1999, 18,248,590 shares of the registrant's common stock were outstanding.

BROWN SHOE COMPANY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Thousands)
<TABLE>
<CAPTION>

<S>	(Unaudited) July 31, 1999 <C>	(Unaudited) August 1, 1998 <C>	January 30, 1999 <C>
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 34,642	$ 32,180	$ 45,532
Receivables, net of allowances of $9,660 at July 31, 1999, $9,651 at August 1, 1998, and $9,820 at January 30, 1999	72,975	75,109	67,815
Inventories, net of adjustment to last-in, first-out cost of $12,692 at July 31, 1999, $15,265 at August 1, 1998, and $13,424 at January 30, 1999	412,485	396,657	362,274
Other Current Assets	22,085	26,014	21,762
Total Current Assets	542,187	529,960	497,383
Other Assets	76,066	75,250	75,671
Property and Equipment	228,750	214,260	217,054
Less allowances for depreciation and amortization	(144,168)	(135,310)	(134,876)
	84,582	78,950	82,178
	$ 702,835	$ 684,160	$ 655,232
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Notes Payable	$ 2,000	$ -	$ -
Accounts Payable	163,404	161,772	124,921
Accrued Expenses	92,472	87,549	90,081
Income Taxes	11,897	14,197	6,442
Current Maturities of Long-Term Debt	10,000	15,000	25,000
Total Current Liabilities	279,773	278,518	246,444
Long-Term Debt and Capitalized Lease Obligations	172,033	182,029	172,031
Other Liabilities	19,175	20,540	19,583
Shareholders' Equity			

Common Stock	68,436	67,682	68,131
Additional Capital	49,183	46,883	48,243
Unamortized Value of Restricted Stock	(3,882)	(3,226)	(4,058)
Accumulated Other Comprehensive Loss	(8,772)	(10,079)	(8,842)
Retained Earnings	126,889	101,813	113,700
	231,854	203,073	217,174
	$ 702,835	$ 684,160	$ 655,232

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

BROWN SHOE COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(Thousands, except per share)
<TABLE>
<CAPTION>

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 31, 1999	August 1, 1998	July 31, 1999	August 1, 1998
<S>	<C>	<C>	<C>	<C>
Net Sales	$410,100	$383,618	$806,926	$785,927
Cost of Goods Sold	249,025	229,616	488,044	476,601
Gross Profit	161,075	154,002	318,882	309,326
Selling and Administrative Expenses	141,533	140,116	283,182	282,898
Interest Expense	4,392	4,858	9,075	10,490
Other (Income) Expense	(2,628)	1,284	(1,333)	1,236
Earnings Before Income Taxes	17,778	7,744	27,958	14,702
Income Tax Provision	7,261	3,449	11,125	6,536
NET EARNINGS	$ 10,517	$ 4,295	$ 16,833	$ 8,166
BASIC EARNINGS PER COMMON SHARE	$ .59	$ .24	$ .95	$ .46
DILUTED EARNINGS PER COMMON SHARE	$ .58	$ .24	$ .93	$ .46
DIVIDENDS PER COMMON SHARE	$ .10	$ .10	$ .20	$ .20

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

BROWN SHOE COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Thousands)
<TABLE>
<CAPTION>

	Twenty-six Weeks Ended	
	July 31, 1999	August 1, 1998
<S>	<C>	<C>
Net Cash Provided by Operating Activities	$ 10,278	$ 47,531
Investing Activities:		
Proceeds from the sale of le coq sportif	9,281	-
Capital expenditures	(14,577)	(7,915)
Net Cash Used by Investing Activities	(5,296)	(7,915)
Financing Activities:		
Increase (decrease) in short-term notes payable	2,000	(54,000)
Principal payments of long-term debt	(15,000)	-
Proceeds from issuance of common stock	773	37
Dividends paid	(3,645)	(3,609)
Net Cash Used by Financing Activities	(15,872)	(57,572)
Decrease in Cash and Cash Equivalents	(10,890)	(17,956)
Cash and Cash Equivalents at Beginning of Period	45,532	50,136
Cash and Cash Equivalents at End of Period	$ 34,642	$ 32,180

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

BROWN SHOE COMPANY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note A - Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and reflect all adjustments which management believes necessary (which include only normal recurring accruals and the effect on LIFO inventory valuation of estimated annual inflationary cost increases and year-end inventory levels) to present fairly the results of operations. These statements, however, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations and cash flow in conformity with generally accepted accounting principles.

The Company's business is subject to seasonal influences, and interim results may not necessarily be indicative of results which may be expected for any other interim period or for the year as a whole.

For further information refer to the consolidated financial statements and footnotes included in the Company's Annual Report and Form 10-K for the period ended January 30, 1999.

Note B - Change of Company Name

On May 27, 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 began trading under the "BWS" symbol on the New York and Chicago Stock Exchanges on Friday, May 28, 1999.

Note C - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the periods ended July 31, 1999 and August 1, 1998 (000's, except per share data):

<TABLE>
<CAPTION>

<S>	Thirteen Weeks Ended July 31, 1999 <C>	Thirteen Weeks Ended August 1, 1998 <C>	Twenty-six Weeks Ended July 31, 1999 <C>	Twenty-six Weeks Ended August 1, 1998 <C>
Numerator:				
Net earnings - Basic and Diluted	$10,517	$ 4,295	$16,833	$ 8,166
Denominator:				
Weighted average shares outstanding-Basic	17,861	17,689	17,812	17,657
Effect of potentially dilutive securities	387	290	300	276
Weighted average shares outstanding-Diluted	18,248	17,979	18,112	17,933
Basic earnings per share	$ .59	$ .24	$ .95	$ .46
Diluted earnings per share	$ .58	$ .24	$ .93	$ .46

</TABLE>

Note D - Comprehensive Income

Comprehensive Income represents the change in Shareholders' Equity during a period from transactions and other events and circumstances from nonowner sources and accordingly excludes investments by and distributions to owners.

The following table sets forth the reconciliation from Net Income to Comprehensive Income for the periods ended July 31, 1999 and August 1, 1998 (000's):

<TABLE>
<CAPTION>

<S>	Thirteen Weeks Ended July 31, 1999 <C>	Thirteen Weeks Ended August 1, 1998 <C>	Twenty-six Weeks Ended July 31, 1999 <C>	Twenty-six Weeks Ended August 1, 1998 <C>
Net Income	$10,517	$ 4,295	$16,833	$ 8,166
Currency Translation Adjustment	(1,736)	(2,055)	70	(1,652)
Comprehensive Income	$ 8,781	$ 2,240	$16,903	$ 6,514

</TABLE>

Note E - Pagoda International Restructuring Reserve

In the first half of 1999, the Company utilized approximately $1.7 million of the $10.7 million restructuring reserve remaining at the end of fiscal 1998. The reserve was primarily used to cover inventory markdowns and severance. It is currently expected that a substantial portion of the remaining reserve of $9.0 million will be utilized by the end of fiscal 1999.

Note F - Business Segment Information

Applicable business segment information is as follows for the periods ended July 31, 1999 and August 1, 1998 (000's):

<TABLE>
<CAPTION>

	Famous Footwear	Wholesale Operations	Naturalizer Retail	Pagoda International	Other	Totals
Thirteen Weeks Ended July 31, 1999						
External sales	$237,522	$120,348	$49,977	$ 93	$2,160	$410,100
Intersegment sales	-	41,888	-	-	-	41,888
Operating profit (loss)	13,935	8,778	865	(206)	(3,301)	20,071
Thirteen Weeks Ended August 1, 1998						
External sales	$218,199	$102,734	$51,512	$9,145	$2,028	$383,618
Intersegment sales	-	43,340	-	-	-	43,340
Operating profit (loss)	12,607	3,438	1,848	(1,985)	(2,485)	13,423
Twenty-six Weeks Ended July 31, 1999						
External sales	$461,135	$246,655	$94,106	$ 327	$4,703	$806,926
Intersegment sales	-	91,031	-	-	-	91,031
Operating profit (loss)	25,308	18,664	(323)	(676)	(6,593)	36,380
Twenty-six Weeks Ended August 1, 1998						
External sales	$430,463	$234,542	$97,541	$19,234	$4,147	$785,927
Intersegment sales	-	100,274	-	-	-	100,274
Operating profit (loss)	23,030	11,331	1,636	(4,930)	(4,952)	26,115

</TABLE>

Reconciliation of operating profit to consolidated earnings before income taxes:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 31, 1999	August 1, 1998	July 31, 1999	August 1, 1998
Total operating profit	$ 20,071	$ 13,423	$ 36,380	$ 26,115
Interest expense	(4,392)	(4,858)	(9,075)	(10,490)
Non-operating other income/(expense)	2,099	(821)	653	(923)
Total consolidated earnings before income taxes	$ 17,778	$ 7,744	$ 27,958	$ 14,702

The "Other" segment includes the Scholze Tannery business and Corporate general and administrative expenses, which are not allocated to the operatin g units. Operating profit represents gross profit less general and administrative expenses and other operating income or expense.

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 $1.0 million and $1.3 million for the thirteen weeks ended and twenty-six weeks ended July 31, 1999, respectively, for Naturalizer Retail and a corresponding decrease to operating profit for the Wholesale Operations.

Note G - Sale of le coq sportif

In July 1999, the Company sold its le coq sportif footwear and apparel business for approximately $12.4 million, of which $3.1 million was received in the form of a note payable. The Company recognized a $2.3 million pre-tax gain in connection with the sale; however, the gain was substantially offset by a tax provision of $2.0 million. The tax provision included $1.2 million of taxes related to the repatriation of previously untaxed foreign cash generated from the sale.

Note H - Condensed Consolidated Financial Information

Certain of the Company's debt is unconditionally and jointly and severally guaranteed by certain wholly-owned domestic subsidiaries of the Company. Accordingly, condensed consolidating balance sheets as of July 31, 1999 and August 1, 1998, and the related condensed consolidating statements of earnings and cash flows for the twenty-six weeks ended July 31, 1999 and August 1, 1998, 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 operations and cash flows of, each of the consolidating groups.

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF JULY 31, 1999

(Thousands)
<TABLE>
<CAPTION>

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
<S>	<C>	<C>	<C>	<C>	<C>
Assets					
Current Assets					
Cash and cash equivalents	$ 1,353	$ 1,985	$ 31,304	$ -	$ 34,642
Receivables, net	33,521	12,932	26,522	-	72,975
Inventory, net	45,341	360,123	19,552	(12,531)	412,485
Other current assets	(4,958)	21,063	1,595	4,385	22,085
Total Current Assets	75,257	396,103	78,973	(8,146)	542,187
Other Assets	49,481	20,815	5,815	(45)	76,066
Property and Equipment, net	14,643	63,549	6,390	-	84,582
Investment in Subsidiaries	248,577	46,097	-	(294,674)	-
Total Assets	$387,958	$526,564	$ 91,178	$(302,865)	$702,835
Liabilities & Shareholders' Equity					
Current Liabilities					
Notes payable	$ 2,000	$ -	$ -	$ -	$ 2,000
Accounts payable	6,095	136,967	20,342	-	163,404
Accrued expenses	25,331	52,987	12,092	2,062	92,472
Income taxes	2,096	8,697	339	765	11,897
Current maturities of long-term debt	10,000	-	-	-	10,000
Total Current Liabilities	45,522	198,651	32,773	2,827	279,773
Long-Term Debt and Capitalized Lease Obligations	172,033	41	-	(41)	172,033
Other Liabilities	20,312	(1,336)	199	-	19,175
Intercompany Payable (Receivable)	(81,763)	75,433	17,122	(10,792)	-

Shareholders' Equity	231,854	253,775	41,084	(294,859)	231,854
Total Liabilities and Shareholders' Equity	$387,958	$526,564	$ 91,178	$(302,865)	$702,835

</TABLE>

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
TWENTY-SIX WEEKS ENDED JULY 31, 1999

<TABLE>
<CAPTION>

<S>	Parent <C>	Guarantor Subsidiaries <C>	Non-Guarantor Subsidiaries <C>	Eliminations <C>	Consolidated Totals <C>
Net Sales	$126,104	$640,099	$173,338	$(132,615)	$806,926
Cost of goods sold	90,963	390,655	139,041	(132,615)	488,044
Gross profit	35,141	249,444	34,297	-	318,882
Selling and administrative expenses	34,550	227,975	21,457	(800)	283,182
Interest expense	9,060	-	15	-	9,075
Intercompany interest (income) expense	(6,881)	6,894	(13)	-	-
Other (income) expense	15	(2,057)	(91)	800	(1,333)
Equity in (earnings) of subsidiaries	(18,682)	(9,788)	-	28,470	-
Earnings (Loss) Before Income Taxes	17,079	26,420	12,929	(28,470)	27,958
Income tax provision (benefit)	246	7,738	3,141	-	11,125
Net Earnings (Loss)	$ 16,833	$ 18,682	$ 9,788	$ (28,470)	$ 16,833

</TABLE>

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
TWENTY-SIX WEEKS ENDED JULY 31, 1999

<TABLE>
<CAPTION>

<S>	Parent <C>	Guarantor Subsidiaries <C>	Non-Guarantor Subsidiaries <C>	Eliminations <C>	Consolidated Totals <C>
Net Cash Provided (Used) by Operating Activities	$ 10,420	$(16,041)	$ 4,530	$ 11,369	$ 10,278
Investing Activities:					
Capital expenditures	(200)	(13,397)	(980)	-	(14,577)
Proceeds from sale of					

le coq sportif	-	9,281	-	-	9,281
	--------	--------	--------	---------	--------
Net Cash Used by Investing Activities	(200)	(4,116)	(980)	-	(5,296)
Financing Activities:					
Increase in short-term notes payable	2,000	-	-	-	2,000
Principal payments of long-term debt	(15,000)	-	-	-	(15,000)
Proceeds from issuance of common stock	773	-	-	-	773
Dividends paid	(3,645)	-	-	-	(3,645)
Intercompany financing	(5,181)	17,404	(854)	(11,369)	-
	--------	--------	--------	---------	--------
Net Cash Provided (Used) by Financing Activities	(21,053)	17,404	(854)	(11,369)	(15,872)
Increase (Decrease) in Cash and Cash Equivalents	(10,833)	(2,753)	2,696	-	(10,890)
Cash and Cash Equivalents at Beginning of Period	12,186	4,738	28,608	-	45,532
	--------	--------	--------	---------	--------
Cash and Cash Equivalents at End of Period	$ 1,353	$ 1,985	$ 31,304	$ -	$ 34,642
	========	========	========	=========	========

</TABLE>

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CONDENSED CONSOLIDATING BALANCE SHEET
AS OF AUGUST 1, 1998

<TABLE>
<CAPTION>

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
<S>	<C>	<C>	<C>	<C>	<C>
Assets					
Current Assets					
Cash and cash equivalents	$ 6,170	$ 10,007	$ 24,253	$ (8,250)	$ 32,180
Receivables, net	32,569	10,121	32,419	-	75,109
Inventory, net	51,667	336,559	22,296	(13,865)	396,657
Other current assets	(667)	16,037	5,792	4,852	26,014
	--------	--------	--------	---------	--------
Total Current Assets	89,739	372,724	84,760	(17,263)	529,960
Other Assets	46,663	17,071	11,628	(112)	75,250
Property and Equipment, net	15,968	55,796	7,186	-	78,950
Investment in Subsidiaries	240,698	33,129	-	(273,827)	-
	--------	--------	--------	---------	--------
Total Assets	$393,068	$478,720	$103,574	$(291,202)	$684,160
	========	========	========	=========	========
Liabilities & Shareholders' Equity					

Current Liabilities					
Notes payable	$ -	$ -	$ -	$ -	$ -
Accounts payable	6,458	132,021	23,293	-	161,772
Accrued expenses	24,511	49,467	14,519	(948)	87,549
Income taxes	3,690	9,640	1,233	(366)	14,197
Current maturities of long-term debt	15,000	-	-	-	15,000
Total Current Liabilities	49,659	191,128	39,045	(1,314)	278,518
Long-Term Debt and Capitalized Lease Obligations	182,029	-	39	(39)	182,029
Other Liabilities	20,117	125	367	(69)	20,540
Intercompany Payable (Receivable)	(61,810)	65,501	17,918	(21,609)	-
Shareholders' Equity	203,073	221,966	46,205	(268,171)	203,073
Total Liabilities and Shareholders' Equity	$393,068	$478,720	$103,574	$(291,202)	$684,160

</TABLE>

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
TWENTY-SIX WEEKS ENDED AUGUST 1, 1998

<TABLE>
<CAPTION>

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales	$135,737	$610,568	$176,437	$(136,815)	$785,927
Cost of goods sold	97,955	373,309	142,152	(136,815)	476,601
Gross profit	37,782	237,259	34,285	-	309,326
Selling and administrative expenses	39,346	215,179	29,204	(831)	282,898
Interest expense	10,421	5	64	-	10,490
Intercompany interest (income) expense	(7,338)	7,298	40	-	-
Other (income) expense	(1,601)	(8)	2,014	831	1,236
Equity in (earnings) of subsidiaries	(9,298)	(723)	-	10,021	-
Earnings (Loss) Before Income Taxes	6,252	15,508	2,963	(10,021)	14,702
Income tax provision (benefit)	(1,914)	6,210	2,240	-	6,536
Net Earnings	$ 8,166	$ 9,298	$ 723	$ (10,021)	$ 8,166

</TABLE>

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
TWENTY-SIX WEEKS ENDED AUGUST 1, 1998

<TABLE>
<CAPTION>

<S>	Parent <C>	Guarantor Subsidiaries <C>	Non-Guarantor Subsidiaries <C>	Eliminations <C>	Consolidated Totals <C>
Net Cash Provided (Used) by Operating Activities	$13,023	$ 36,162	$(11,779)	$ 10,125	$ 47,531
Investing Activities:					
Capital expenditures	(213)	(6,086)	(1,616)	-	(7,915)
Net Cash Used by Investing Activities	(213)	(6,086)	(1,616)	-	(7,915)
Financing Activities:					
Decrease in short-term notes payable	(54,000)	-	-	-	(54,000)
Proceeds from issuance of common stock	37	-	-	-	37
Dividends paid	(3,609)	-	-	-	(3,609)
Intercompany financing	49,484	(26,912)	(4,237)	(18,335)	-
Net Cash Provided (Used) by Financing Activities	(8,088)	(26,912)	(4,237)	(18,335)	(57,572)
Increase (Decrease) in Cash and Cash Equivalents	4,722	3,164	(17,632)	(8,210)	(17,956)
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	$ 6,170	$ 10,007	$ 24,253	$ (8,250)	$ 32,180

</TABLE>

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

Results of Operations

Quarter ended July 31, 1999 compared to the Quarter ended August 1, 1998

Consolidated net sales for the fiscal quarter ended July 31, 1999 were $410.1 million compared to $383.6 million in the quarter ended August 1, 1998. Net earnings of $10.5 million for the second quarter of 1999 compares to net earnings of $4.3 million in the second quarter of 1998. The increase in net earnings resulted from increased revenue in the Company's core businesses as well as a reduction in the liquidated International division's losses in the second quarter of 1999. Excluding the effect of lower International losses, net earnings for the second quarter of 1999 increased 56.1% over the second quarter of 1998.

Famous Footwear achieved record second quarter sales and operating earnings which continued the pattern beginning in fiscal 1998 and the first quarter of fiscal 1999. Sales of $237.5 million increased 8.9% from last year representing a same-store sales increase of 4.3% and 29 more stores, reflecting a total of 839 stores in operation. Operating earnings for the second quarter of 1999 increased 10.5% to $13.9 million primarily as a result of higher sales.

The Company's wholesale operations - the Brown Branded, Brown Pagoda and Brown Canada divisions - had a net sales increase of 17.1% during the second quarter of 1999 to $120.3 million. The substantial increase in sales was derived from Brown Pagoda's Star Wars, Barbie and Dr. Scholl's licensed products. The increased sales combined with good expense leveraging resulted in operating earnings increasing $5.4 million from last year to $8.8 million this year.

In the Company's Naturalizer Retail operations, which includes both the United States and Canadian stores, net sales decreased 3.0% to $50.0 million in the second quarter of 1999. Same-store sales in the second quarter of 1999 decreased 6.9% in the United States while increasing 0.8% in Canada. Domestically, the Company had 9 less stores in operation in 1999; Canada had 7 more stores in operation. At the end of the second quarter of 1999, 465 stores were in operation including 329 stores in the United States and 136 stores in Canada. Total Naturalizer retail operations had operating earnings of $0.9 million in 1999 compared to $1.8 million in 1998. The lower operating earnings resulted directly from the lower sales.

Operating losses at the Pagoda International division were $.2 million in the second quarter of 1999 compared to $2.0 million last year reflecting a significantly reduced level of operations.

Consolidated gross profit as a percent of sales decreased to 39.3% from 40.1% for the same period last year. This decrease was primarily due to lower margins at the Company's wholesale operations, which primarily represents a higher mix of sales at the Brown Pagoda division. Margins earned on this business are historically lower than the margin earned at the Company's wholesale branded operations.

Selling and administrative expenses as a percent of sales decreased to 34.5% from 36.5% for the same period last year. This decrease was primarily due to the lower expense rate at the Company's wholesale operations.

Other income in the second quarter of 1999 primarily represents a $2.3 million gain from the sale of the le coq sportif footwear and apparel business.

The consolidated tax rate was 40.8% of consolidated pre-tax income for the second quarter of 1999 compared to 44.5% for last year. The higher effective tax rate for last year reflects higher operating losses at the Pagoda International marketing division, on which tax benefits could not be realized. The 1999 tax provision includes $1.2 million of taxes to allow repatriation of the previously untaxed foreign cash generated from the sale of the le coq sportif business.

Six Months ended July 31, 1999 compared to the Six Months ended August 1, 1998

Consolidated net sales for the first half of 1999 were $806.9 million, an increase of 2.7% from the first six months of 1998 total of $785.9 million. Net earnings of $16.8 million for the first half of 1999 compare to net earnings of $8.2 million for the first half of 1998, an increase of 106.1%. Excluding the impact of lower losses at the International division, 1999 earnings increased 29.6% over 1998.

Sales at Famous Footwear for the first six months of 1999 increased 7.1% from the first half of last year to $461.1 million, reflecting a 3.0% increase in same-store sales and 29 more units in operation. The higher levels of sales resulted in operating earnings for 1999 increasing 9.9% to $25.3 million.

The Company's wholesale sales for the first six months of 1999 increased 5.2% to $246.7 million from the same period last year. Operating earnings of $18.7 million increased $7.4 million from last year due to the increased sales combined with good expense leveraging.

In the Company's Naturalizer Retail operations, net sales decreased 3.5% to $94.1 million in the first six months of 1999. Same-store sales decreased 6.8% in the United States while increasing 0.5% in Canada. Domestically, the Company had 9 less stores in operation in 1999; Canada had 7 more stores in operation. Total Naturalizer retail operations had an operating loss of $0.3 million in 1999 compared to operating earnings of $1.6 million in 1998. The lower operating performance continues to result directly from the lower sales.

At the Pagoda International division, operating losses were $.7 million in the first six months of 1999 compared to $4.9 million last year reflecting a significantly reduced level of operations.

Consolidated gross profit as a percent of sales increased to

39.5% from 39.4% for the same period last year. This increase was primarily due to a higher mix of retail sales, which historically earn a higher gross profit rate.

Selling and administrative expenses as a percent of sales decreased to 35.1% from 36.0% for the same period last year. This decrease was primarily due to the lower expense rate at the Company's wholesale operations.

Other income has varied from prior year's other expense primarily due to the $2.3 million gain from the sale of the le coq sportif footwear and apparel business.

The consolidated tax rate was 39.8% of consolidated pre-tax income for the first six months of 1999 compared to 44.5% for last year. The higher effective tax rate for last year reflects higher operating losses at the Pagoda International marketing division, on which tax benefits could not be realized. As previously discussed, the 1999 tax provision includes $1.2 million of taxes related to the repatriation of foreign cash.

Financial Condition

A summary of key financial data and ratios at the dates indicated is as follows:

	July 31, 1999	August 1, 1998	January 30, 1999
Working Capital (millions)	$262.4	$251.4	$250.9
Current Ratio	1.9:1	1.9:1	2.0:1
Total Debt as a Percentage of Total Capitalization	44.3%	49.2%	47.6%

Cash flow from operating activities for the first half of fiscal 1999 provided $10.3 million versus a net generation of $47.5 million last year. In the first half of 1999, cash flow decreased primarily as a result of higher inventory levels.

The current ratio at July 31, 1999 remained consistent with the ratio for August 1, 1998, primarily due to the combination of higher inventory slightly offsetting decreases in receivables and other current assets.

The decrease in the ratio of total debt as a percentage of total capitalization at July 31, 1999, compared to the end of fiscal 1998, is due to principal payments made on long-term debt combined with earnings for the first six months of 1999. At July 31, 1999, $2.0 million was borrowed and $13.2 million of letters of credit were outstanding under the Company's

$155.0 million revolving bank Credit Agreement.

Year 2000 Compliance

The "Year 2000" issue arises because many computer hardware and software systems, including the Company's, use only two digits to represent the year. As a result, these systems and programs may not accurately calculate dates beyond 1999, which could cause system failures or miscalculations. The Company has established a company-wide Steering Committee, consisting of the Chief Financial Officer, Vice Presidents of the Information Services (IS) functions, internal auditors, executive financial and legal management and other employees, to oversee and manage the Company's Year 2000 project.

The Company has completed a thorough assessment of all of its information systems and has substantially completed the modification or replacement of its operating and financial systems that were not Year 2000 compliant used in its wholesaling, retailing and sourcing operations, and the testing of all systems. These systems included operating systems and equipment used in the Company's distribution centers, offices and other facilities that may have contained embedded chips. The Company will use the balance of 1999 for additional testing and to correct any problems that may arise.

The Company relies on independent business partners, including foreign footwear factories, to provide various products and services. The Company has communicated with key suppliers and service providers and has conducted on-site visits to key factories in an ongoing effort to determine to the extent possible the status of such third parties' assessment, remediation and test plans, and whether the Company can rely upon such third parties going forward. As a result of these efforts, the Company believes that its key suppliers and service providers are making progress toward achieving Year 2000 compliance. With regard to its key foreign footwear manufacturers, the Company has determined that their use of date-sensitive technology is relatively low. The Company continues to communicate with key partners to obtain as much assurance as possible that such third parties will be Year 2000 compliant. Nevertheless, there can be no assurance that such third parties remediation efforts, or those of suppliers or service providers to such third parties, will be totally successful.

The Company believes that its greatest Year 2000 risk is that its suppliers of footwear, for both its wholesale and retail businesses, will not be able to provide an uninterrupted flow of products due to their own or their suppliers' systems failures or as a result of disruptions in transportation, utilities or other government services. If there is a disruption in the flow of footwear, the Company believes that there is adequate footwear production capacity available from alternate sources and that if there is a disruption, it will be short-term in nature. Nevertheless, there can be no assurance that the Company can accurately and fully anticipate the level of disruption that may occur or secure alternative sources of footwear at acceptable prices.

The Company's wholesale division's customers are department stores, mass-merchants and numerous other footwear retailers. The Company is communicating with its significant retail customers through which it processes transactions electronically using Electronic Data Interchange (EDI) technology to attempt to determine their ability to continue to conduct business in this manner and to test directly with them. The Company has adopted the Year 2000 compliant version of EDI. The Company intends to continue to monitor and assess the EDI and the general state of Year 2000 readiness of its major retail customers; however, a Year 2000 failure by a major retail customer could have a materially adverse effect on the Company.

The Company is developing contingency plans as considered necessary based on assessments of risks of noncompliance of internal systems, and business disruptions at its significant suppliers and customers. The development of these plans will continue throughout the remainder of 1999.

Management estimates that the non-incremental internal IS staff and outside consultant costs of the Company's Year 2000 efforts will total approximately $1.6 million. Through July 31, 1999 virtually this entire total has been incurred and expensed. In addition, the cost for new purchased or leased hardware and software that both upgraded the functionality and operating efficiency of store and financial systems, and resulted in Year 2000 compliance, is approximately $15 million, which will be expensed over the next several years. All expenditures related to the Company's Year 2000 project are being funded through operating cash flows.

The conclusions, estimates and risks in this Year 2000 information are based on management's best current estimates of numerous future events. There can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Factors that may cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer code and systems, the cooperation and remediation success of the Company's suppliers (and their suppliers) and customers, and the ability to correctly anticipate risks and implement suitable contingency plans in the event of systems failures at the Company or its suppliers and customers (and their suppliers and customers).

Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially. In Item 1 of the Company's fiscal 1998 Annual Report on Form 10-K, detailed risk factors that could cause variations in results to occur are listed and further discussed. Such filing is incorporated herein by reference.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

No material changes have taken place in the quantitative and qualitative information about market risk since the end of the most recent fiscal year.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

There have been no material developments during the quarter ended July 31, 1999, in the legal proceedings described in the Company's Annual Report on Form 10-K for the period ended January 30, 1999.

Item 4 - Submission of Matters to a Vote of Security Holders

The results of the votes cast at the Annual Meeting of Shareholders held on May 27, 1999 were reported in the Company's Quarterly Report on Form 10-Q for the quarter ended May 1, 1999.

Item 6 - Exhibits and Reports on Form 8-K

(a) Listing of Exhibits

(3)(a) Certificate of Incorporation of the Company as amended through February 16, 1984, incorporated herein by reference to Exhibit 3 to the Company's Report on Form 10-K for the fiscal year ended November 1, 1986.

(a)(i) Amendment of Certificate of

Incorporation of the Company filed February 20, 1987, incorporated herein by reference to Exhibit 3 to the Company's Report on Form 10-K for the fiscal year ended January 30, 1988.

(a)(ii) Amendment of Certificate of Incorporation of the Company filed May 27, 1999, incorporated herein by reference to Exhibit 3 to the Company's report on Form 10-Q for the quarter ended May 1, 1999.

(b) Bylaws of the Company as amended through April 20, 1999, incorporated herein by reference to Exhibit 3 to the Company's Report on Form 10-K for the fiscal year ended January 30, 1999.

(27) Financial Data Schedule (Page 19)

(b) Reports on Form 8-K:

The Company filed a current report on Form 8-K dated May 27, 1999, which reported the approval by the Company's shareholders to change the name of the company to Brown Shoe Company, Inc.

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

BROWN SHOE COMPANY, INC.

Date: September 10, 1999

/s/ Harry E. Rich

Harry E. Rich
Executive Vice President
and Chief Financial Officer
and On Behalf of the
Corporation as the Principal
Financial Officer

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