SHIELDS & COMPANY
MEMBER NEW YORK STOCK EXCHANGE
140 BROADWAY NEW YORK, NY 10005

ALAN M . SILVERMAN
Ph. D. CFA
(212) 320-3060

August 16, 2002

Retail Industry

Earnings for the second fiscal quarter, which ended August 3 for most retailers, were strong exceeding company guidance and street estimates for almost all firms. A summary of results, which underscores the positive impact of faster inventory turnover and conservative budgeting, follows:

Federated's (FD - $37.21) profit was well above the 2001 level despite a modest decline in both total and same store sales. Most importantly, cash flow from operations was extremely strong. Cash flow was augmented by the sale of most of the Fingerhut catalog assets. We are increasing our estimate to $4.00 per share for the current fiscal year and continue to recommend purchase of the stock.

May Department Stores (MAY - $29.33) succeeded in holding profits near last year's level despite lower sales. Since we anticipate a sharp turnaround in volume in coming months, (which will surprise most investors), we expect the price of the shares to respond favorably. Moreover, considering the low price/earnings multiple and above-average yield, investment in May seems likely to result in well-above-average returns over the next six to twelve months.

Talbot's (TLB - $32.00) profit margins rose in the July quarter, even though volume for the month of July declined sharply. The firm, which will report next week, increased its earnings guidance, and noted that a greater proportion of merchandise was sold at regular rather than marked-down prices. We expect the company will have an even more successful fall selling season, aided by substantial merchandise changes. Similarly, the introduction of a men's line later this year is likely to prove popular and boost Talbot's growth rate substantially. The two primary reasons we expect Talbot's men's wear to sell well (in both catalog and in separate men's stores) are: the loyalty of the company's current shoppers and the lack of strong competition in the market for classically styled sportswear. We strongly recommend purchase of Talbot.

Urban Outfitters (URBN - $27.35) reported outstanding results for the period with net income almost double the prior year's figure. Fully diluted earnings per share rose approximately 78% on a greater number of shares. Initial sales of fall goods exceeded plan and the firm's already impressive balance sheet improved further. Urban owes no long-term debt, the current ratio exceeds 3 to 1, and cash alone is higher than total current liabilities. The company's two retail divisions: Urban Outfitters and Anthropologie, had strong sales growth while direct-to-consumer volume (catalog and internet) rose even more rapidly. At this point, we expect profits to approach $1.50 per share and continue to recommend purchase.