

RETAIL VENTURES INC
Form 10-Q
September 13, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended August 4, 2007

OR

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 1-10767

RETAIL VENTURES, INC.

(Exact name of registrant as specified in its charter)

Ohio

20-0090238

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

3241 Westerville Road, Columbus, Ohio

43224

(Address of principal executive offices)

(Zip Code)

(614) 471-4722

Registrant's telephone number, including area code

Not applicable

(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

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

The number of outstanding Common Shares, without par value, as of August 31, 2007 was 48,623,430.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)
(unaudited)

	August 4, 2007	February 3, 2007
ASSETS		
Cash and equivalents	\$ 165,509	\$ 160,221
Restricted cash	253	511
Short-term investments	100,475	98,650
Accounts receivable, net	16,592	16,781
Accounts receivable from related parties	1,176	3,777
Inventories	582,243	545,584
Prepaid expenses and other assets	42,559	36,686
Deferred income taxes	41,817	25,737
 Total current assets	 950,624	 887,947
 Property and equipment, net	 299,604	 279,909
Long-term investments	2,500	
Goodwill	25,899	25,899
Tradenames and other intangibles, net	32,880	34,976
Deferred income taxes	11,486	26,114
Other assets	10,846	12,372
 Total assets	 \$ 1,333,839	 \$ 1,267,217

The accompanying Notes are an integral part of the Condensed Consolidated Financial Statements.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)
(in thousands, except share amounts)
(unaudited)

	August 4, 2007	February 3, 2007
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	\$ 286,281	\$ 212,434
Accounts payable to related parties	5,846	4,902
Accrued expenses:		
Compensation	33,915	40,886
Taxes	51,286	45,227
Other	78,897	92,894
Warrant liability	1,996	3,594
Warrant liability related parties	97,410	212,806
Current maturities of long-term obligations	861	765
 Total current liabilities	 556,492	 613,508
 Long-term obligations, net of current maturities		
Non-related parties	273,816	265,283
Related parties	250	500
Conversion feature of long-term debt	22,819	62,770
Other noncurrent liabilities	102,675	95,108
 Minority interest	 150,547	 138,428
 Shareholders equity:		
Common shares, without par value; 160,000,000 authorized; issued, including 7,551 treasury shares, 48,623,430 and 47,270,777 outstanding, respectively	 302,632	 276,690
Accumulated deficit	(74,783)	(184,461)
Treasury shares, at cost, 7,551 shares	(59)	(59)
Accumulated other comprehensive loss	(550)	(550)
 Total shareholders equity	 227,240	 91,620
 Total liabilities and shareholders equity	 \$ 1,333,839	 \$ 1,267,217

The accompanying Notes are an integral part of the Condensed Consolidated Financial Statements.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three months ended		Six months ended	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Net Sales	\$ 732,733	\$ 684,508	\$ 1,486,807	\$ 1,406,021
Cost of sales	(458,073)	(409,557)	(908,213)	(840,445)
Gross profit	274,660	274,951	578,594	565,576
Selling, general and administrative expenses	(282,537)	(264,793)	(574,112)	(542,317)
Change in the fair value of derivative instruments	26,953	(311)	41,549	(1,237)
Change in the fair value of derivative instruments - related parties	97,831	(15,032)	95,784	(78,915)
License fees and other income	2,371	1,660	5,335	3,222
Operating profit (loss)	119,278	(3,525)	147,150	(53,671)
Interest expense	(6,230)	(3,418)	(12,403)	(6,284)
Interest expense related parties	(8)	(1,264)	(21)	(2,528)
Total interest expense	(6,238)	(4,682)	(12,424)	(8,812)
Interest income	3,041	2,339	5,757	3,977
Interest expense, net	(3,197)	(2,343)	(6,667)	(4,835)
Income (loss) before income taxes and minority interest	116,081	(5,868)	140,483	(58,506)
Provision for income taxes	(7,451)	(4,473)	(20,338)	(10,319)
Income (loss) before minority interest	108,630	(10,341)	120,145	(68,825)
Minority interest	(2,412)	(5,660)	(11,187)	(12,124)
Net income (loss)	\$ 106,218	\$ (16,001)	\$ 108,958	\$ (80,949)
Basic and diluted income (loss) per share:				
Basic	\$ 2.21	\$ (0.36)	\$ 2.28	\$ (1.88)
Diluted	\$ 1.81	\$ (0.36)	\$ 1.84	\$ (1.88)
Shares used in per share calculations:				
Basic	48,157	45,013	47,714	43,037

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Diluted 58,776 45,013 59,073 43,037

The accompanying Notes are an integral part of the Condensed Consolidated Financial Statements.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)
(unaudited)

	Number of Shares		Common Shares	(Accumulated)		Treasury Shares	Accumulated Other Comprehensive		Total
	Common Shares	Common Shares in Treasury		Deficit/ Retained Earnings	Deferred Compensation Expense		Loss		
Balance, January 28, 2006	39,857	8	\$ 159,617	\$ (36,082)	\$ (1)	\$ (59)	\$ (6,929)	\$ 116,546	
Net loss				(80,949)				(80,949)	
Minimum pension liability, net of income tax benefit of \$237							369	369	
<i>Total comprehensive loss</i>								(80,580)	
Capital transactions of subsidiary				1,306				1,306	
Stock based compensation expense, before related tax effects			215					215	
Exercise of stock options	109		854					854	
Exercise of warrants	7,000		110,317					110,317	
Excess tax benefit related to stock options exercised			329					329	
Reclassification of unamortized deferred compensation			(1)		1				
Balance, July 29, 2006	46,966	8	\$ 271,331	\$ (115,725)	\$ 0	\$ (59)	\$ (6,560)	\$ 148,987	
	47,271	8	\$ 276,690	\$ (184,461)	\$ 0	\$ (59)	\$ (550)	\$ 91,620	

**Balance,
February 3, 2007**

Net income			108,958			108,958
FIN 48 adoption			(641)			(641)
Capital transactions of subsidiary			1,361			1,361
Stock based compensation expense, before related tax effects		259				259
Exercise of stock options	19		71			71
Exercise of warrants	1,333		25,612			25,612

Balance, August 4, 2007	48,623	8	\$ 302,632	\$ (74,783)	\$ 0	\$ (59)	\$ (550)	\$ 227,240
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The accompanying Notes are an integral part of the Condensed Consolidated Financial Statements.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six months ended	
	August 4, 2007	July 29, 2006
Cash flows from operating activities:		
Net income (loss)	\$ 108,958	\$ (80,949)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of debt issuance costs and discount on debt	1,810	602
Stock based compensation expense	259	215
Stock based compensation expense of subsidiary	1,361	1,557
Depreciation and amortization	30,709	27,757
Change in fair value of derivative instruments (\$95,784) and \$78,915 related parties, respectively)	(137,333)	80,152
Deferred income taxes and other noncurrent liabilities	(6,568)	(12,197)
Loss on disposal of assets	242	1,370
Minority interest in consolidated subsidiary	11,187	12,124
Other	932	729
Change in working capital, assets and liabilities:		
Accounts receivable	2,790	(1,094)
Inventories	(36,659)	(61,381)
Prepaid expenses and other assets	(5,183)	(299)
Accounts payable	73,012	29,520
Proceeds from tenant and construction allowances	12,042	3,562
Accrued expenses	(14,861)	6,887
Net cash provided by operating activities	42,698	8,555
Cash flows from investing activities:		
Restricted cash	258	
Cash paid for property and equipment	(46,798)	(19,210)
Purchases of available-for-sale investments	(23,200)	(69,025)
Maturities and sales from available-for-sale investments	18,875	22,100
Purchase of intangible asset	(21)	
Net cash used in investing activities	(50,886)	(66,135)
Cash flows from financing activities:		
Payments of capital lease obligations	(345)	(304)
Payment on term loan	(250)	
Net increase in revolving credit facility	8,000	37,000
Debt issuance costs		(1,170)
Excess tax benefit related to stock options exercised		329

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Proceeds from exercise of warrants	6,000	31,500
Proceeds from exercise of stock options	71	854
Net cash provided by financing activities	13,476	68,209
Net increase in cash and equivalents	5,288	10,629
Cash and equivalents, beginning of period	160,221	138,731
Cash and equivalents, end of period	\$ 165,509	\$ 149,360

The accompanying Notes are an integral part of the Condensed Consolidated Financial Statements.

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RETAIL VENTURES, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BUSINESS OPERATIONS

Retail Ventures, Inc. (Retail Ventures or RVI) and its wholly-owned subsidiaries, including but not limited to, Value City Department Stores LLC (Value City) and Filene s Basement, Inc. (Filene s Basement), and its controlled subsidiary DSW Inc. (DSW) are herein referred to collectively as the Company .

The Company operates four segments in the United States of America (United States). The Value City and Filene s Basement segments operate full-line, off-price department stores. The DSW segment sells branded shoes and accessories. The Corporate segment consists of all revenue and expenses related to the corporate entities that are not allocated to the other segments. As of August 4, 2007, there were a total of 113 Value City stores located principally in the Midwest, mid-Atlantic and southeastern United States, 236 DSW stores located in major metropolitan areas throughout the United States and 34 Filene s Basement stores located in major metropolitan areas in the Northeast and Midwest. DSW also supplies shoes, under supply arrangements, to 331 locations for other non-related retailers in the United States.

On July 5, 2005, DSW completed an initial public offering (IPO). As of August 4, 2007, Retail Ventures owned Class B Common Shares of DSW representing approximately 63.0% of DSW s outstanding common shares and approximately 93.2% of the combined voting power of such shares. DSW is a controlled subsidiary of Retail Ventures and its Class A Common Shares are traded on the New York Stock Exchange under the symbol DSW .

Value City. Located in the Midwest, mid-Atlantic and southeastern United States and operating principally under the name Value City for over 80 years, this segment s strategy has been to provide exceptional value by offering a broad selection of brand name merchandise at prices substantially below conventional retail prices. In December 2006, RVI announced that it is exploring strategic alternatives for the Value City operations, including a possible sale of the division. RVI has retained financial advisors to assist in this effort to enhance shareholder value. RVI also stated that there can be no assurance that this process will result in any specific transaction.

DSW. Located in major metropolitan areas throughout the United States, DSW stores offer a wide selection of brand name and designer dress, casual and athletic footwear for men and women, as well as accessories. During the six months ended August 4, 2007, DSW opened 14 new stores and closed one store. Additionally, pursuant to a license agreement with Filene s Basement, DSW operates leased shoe departments in most Filene s Basement stores. As of August 4, 2007, DSW, pursuant to supply agreements, operated 267 leased shoe departments for Stein Mart, Inc., 63 for Gordmans, Inc. and one for Frugal Fannie s Fashion Warehouse. Supply agreements results are included within the DSW segment. During the six months ended August 4, 2007, DSW added three new non-affiliated leased departments, four affiliated leased departments and ceased operations in two non-affiliated leased departments and one affiliated leased department.

Filene s Basement. Filene s Basement stores are located primarily in the Northeast and Midwest. Filene s Basement focuses on providing top tier brand name merchandise at everyday low prices for men s and women s apparel, jewelry, shoes, accessories and home goods. During the six months ended August 4, 2007, Filene s Basement opened four stores and closed one store.

Corporate. The Corporate segment represents the corporate assets, liabilities and expenses not allocated to other segments through corporate allocation or shared service arrangements. The remaining results of operation are comprised of debt related expenses, income on investments and intercompany notes expenses, the latter of which is eliminated in consolidation.

2. BASIS OF PRESENTATION

The accompanying unaudited interim financial statements should be read in conjunction with the Company s Annual Report for the fiscal year ended February 3, 2007 on Form 10-K, as filed with the Securities and Exchange Commission (the SEC) on April 5, 2007 (the 2006 Annual Report).

In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, which are necessary to present fairly the condensed consolidated financial position, results of operations and cash flows for the periods presented.

3. ADOPTION OF ACCOUNTING STANDARDS