

RETAIL VENTURES INC
Form 10-Q
December 09, 2008

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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 November 1, 2008

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.)

4150 E. Fifth Avenue, Columbus, Ohio

43219

(Address of principal executive offices)

(Zip Code)

(614) 238-4148

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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

(Do not check if a smaller reporting company)

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 November 30, 2008 was 48,680,729.

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

	November 1, 2008	February 2, 2008
ASSETS		
Cash and equivalents	\$ 96,526	\$ 112,951
Restricted cash	260	257
Short-term investments	84,915	70,005
Accounts receivable, net	10,465	14,373
Accounts receivable from related parties, net	247	2,245
Inventories	418,664	339,320
Prepaid expenses and other current assets	32,495	31,232
Deferred income taxes	26,449	28,225
Total current assets	670,021	598,608
Property and equipment, net	278,753	254,659
Goodwill	25,899	25,899
Long-term investments, net	4,493	12,500
Tradenames and other intangibles, net	17,537	19,927
Conversion feature of long-term debt	52,329	30,848
Deferred income taxes	3,972	
Other assets	7,351	9,524
Total assets	\$ 1,060,355	\$ 951,965

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)

	November 1, 2008	February 2, 2008
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	\$ 187,534	\$ 149,900
Accounts payable to related parties	1,569	2,431
Accrued expenses:		
Compensation	14,611	8,407
Taxes	35,300	22,857
Gift cards and merchandise credits	15,166	16,790
Guarantees from discontinued operations	3,932	17,477
Other	47,304	42,671
Warrant liability	1,417	936
Warrant liability-related parties	2,920	41,277
Total current liabilities	309,753	302,746
Long-term obligations	170,309	157,793
Other noncurrent liabilities	144,409	128,497
Deferred income taxes	28,861	29,657
Minority interest	174,469	160,349
Commitments and contingencies		
Shareholders' equity:		
Common shares, without par value; 160,000,000 authorized; issued and outstanding, including 7,551 treasury shares, 48,688,280 and 48,623,430, respectively	306,500	305,254
Accumulated deficit	(71,251)	(130,577)
Treasury shares, at cost, 7,551 shares	(59)	(59)
Warrants	124	124
Accumulated other comprehensive loss	(2,760)	(1,819)
Total shareholders' equity	232,554	172,923
Total liabilities and shareholders' equity	\$ 1,060,355	\$ 951,965

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		Nine months ended	
	November 1, 2008	November 3, 2007	November 1, 2008	November 3, 2007
Net sales	\$ 503,505	\$ 489,394	\$ 1,429,575	\$ 1,419,871
Cost of sales	(287,820)	(284,445)	(821,354)	(838,899)
Gross profit	215,685	204,949	608,221	580,972
Selling, general and administrative expenses	(201,509)	(177,193)	(583,301)	(521,554)
Change in fair value of derivative instruments	(669)	43,497	30,738	85,046
Change in fair value of derivative instruments related parties	8,527	47,850	31,021	143,634
License fees and other income	2,255	1,872	5,572	4,941
Operating profit	24,289	120,975	92,251	293,039
Interest expense	(3,798)	(3,179)	(11,974)	(9,379)
Interest income	1,179	2,633	3,325	8,218
Interest expense, net	(2,619)	(546)	(8,649)	(1,161)
Other non-operating income	1,486		1,486	
Income from continuing operations before income taxes and minority interest	23,156	120,429	85,088	291,878
Income tax expense	(10,214)	(29,701)	(24,374)	(61,301)
Income from continuing operations before minority interest	12,942	90,728	60,714	230,577
Minority interest	(4,988)	(8,295)	(12,748)	(19,481)
Income from continuing operations	7,954	82,433	47,966	211,096
Income (loss) from discontinued operations, net of tax	2,035	(14,211)	8,908	(33,916)
Net income	\$ 9,989	\$ 68,222	\$ 56,874	\$ 177,180
Basic and diluted earnings (loss) per share:				
Basic earnings per share from continuing operations	\$ 0.16	\$ 1.70	\$ 0.99	\$ 4.40
Diluted earnings per share from continuing operations	\$ 0.16	\$ 1.45	\$ 0.96	\$ 3.62
Basic earnings (loss) per share from discontinued operations	\$ 0.04	\$ (0.29)	\$ 0.18	\$ (0.71)
	\$ 0.04	\$ (0.25)	\$ 0.18	\$ (0.58)

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Diluted earnings (loss) per share from
discontinued operations

Basic earnings per share	\$	0.21	\$	1.40	\$	1.17	\$	3.69
Diluted earnings per share	\$	0.20	\$	1.20	\$	1.14	\$	3.04

Shares used in per share calculations:

Basic	48,681	48,616	48,665	48,014
Diluted	48,817	56,655	49,803	58,267

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 Deficit	Treasury Shares	Warrants	Accumulated Other		Total
	Common Shares	in Treasury					Comprehensive Loss		
Balance, February 3, 2007	47,271	8	\$ 276,690	\$ (184,461)	\$ (59)	\$	\$ (550)	\$ 91,620	
Net income from continuing operations				211,096				211,096	
Net loss from discontinued operations				(33,916)				(33,916)	
Cumulative effect of FIN 48 adoption				(641)				(641)	
Capital transactions of Subsidiary				2,051				2,051	
Reclassification of Stock Appreciation Rights			1,934					1,934	
Stock based compensation expense, before related tax effects			658					658	
Exercise of stock options	19		71					71	
Exercise of warrants	1,333		25,612					25,612	
Balance, November 3, 2007	48,623	8	\$ 304,965	\$ (5,871)	\$ (59)	\$	\$ (550)	\$ 298,485	
Balance, February 2, 2008	48,623	8	\$ 305,254	\$ (130,577)	\$ (59)	\$ 124	\$ (1,819)	\$ 172,923	
Net income from continuing operations				47,966				47,966	
Net income from discontinued operations				8,908				8,908	

Unrealized loss on available-for-sale securities, net of tax benefit of \$616								(941)	(941)
<i>Total comprehensive income</i>									\$ 55,933
Capital transactions of Subsidiary Stock based compensation expense, before related tax effects							2,452		2,452
Exercise of stock options	65		200		1,046				1,046
Balance, November 1, 2008	48,688	8	\$ 306,500	\$ (71,251)	\$ (59)	\$ 124	\$ (2,760)		\$ 232,554

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)

	Nine months ended	
	November 1, 2008	November 3, 2007
Cash flows from operating activities:		
Net income	\$ 56,874	\$ 177,180
(Income) loss from discontinued operations, net of tax	(8,908)	33,916
Income before discontinued operations	47,966	211,096
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of debt issuance costs and discount on debt	2,603	2,539
Stock based compensation expense	1,046	658
Stock based compensation expense of subsidiary	2,452	2,051
Depreciation and amortization	34,461	29,351
Change in fair value of derivative instruments (\$31,021 and \$(143,634) related party)	(61,759)	(228,680)
Gain on repurchase of Premium Income Exchangeable Securities	(1,486)	
Deferred income taxes and other noncurrent liabilities	(10,694)	(2,946)
Impairment of assets	11,649	3,106
Loss on disposal of assets	1,069	184
Minority interest in consolidated subsidiary	12,748	19,481
Other	1,018	1,359
Change in working capital, assets and liabilities:		
Accounts receivable	5,906	(1,397)
Inventories	(79,344)	(49,806)
Prepaid expenses and other assets	(490)	(6,728)
Accounts payable	39,850	53,116
Proceeds from construction and tenant allowances	21,187	19,242
Accrued expenses	18,396	(24,455)
Net cash provided by operating activities from continuing operations	46,578	28,171
Net cash used in operating activities from discontinued operations		(19,759)
Cash flows from investing activities:		
Cash paid for property and equipment	(69,644)	(80,439)
Purchases of available-for-sale investments	(182,672)	(87,100)
Purchases of held-to-maturity investments	(2,000)	
Maturities and sales from available-for-sale investments	174,213	88,550
Maturities and sales from held-to-maturity investments	2,000	
Acquisition of tradename		(21)
Net cash used in investing activities from continuing operations	(78,103)	(79,010)
Net cash used in investing activities from discontinued operations		(169)
Cash flows from financing activities:		
Net increase in revolving credit facility	20,500	31,000

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Repurchase of Premium Income Exchangeable Securities	(5,600)	
Proceeds from exercise of warrants		6,000
Proceeds from exercise of stock options	200	71
Net cash provided by financing activities from continuing operations	15,100	37,071
Net cash provided by financing activities from discontinued operations		19,197
Net decrease in cash and equivalents from continuing operations	(16,425)	(13,768)
Cash and equivalents from continuing operations, beginning of period	112,951	143,020
Cash and equivalents from continuing operations, end of period	\$ 96,526	\$ 129,252
Net decrease in cash and equivalents from discontinued operations		(731)
Cash and equivalents from discontinued operations, beginning of period		17,201
Cash and equivalents from discontinued operations, end of period	\$	\$ 16,470

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 and majority-owned subsidiary are herein referred to collectively as the Company. Retail Ventures' common shares are listed on the New York Stock Exchange trading under the ticker symbol RVI. The Company operates three segments in the United States of America (United States). DSW Inc. (DSW) is a specialty branded footwear retailer and Filene's Basement, Inc. (Filene's Basement) is an off-price retailer. The Corporate segment consists of all revenue and expenses that are not allocated to the other segments. As of November 1, 2008, there were 295 DSW stores located throughout the United States and 36 Filene's Basement stores located in major metropolitan areas in the northeastern and midwestern United States. DSW also operates dsw.com and supplies shoes, under supply arrangements, for 345 locations for other non-related retailers in the United States.

As of November 1, 2008, Retail Ventures owned Class B Common Shares of DSW representing approximately 62.9% of DSW's outstanding common shares and approximately 93.1% of the combined voting power of such shares. DSW is a controlled subsidiary of Retail Ventures and its Class A Common Shares are listed on the New York Stock Exchange trading under the ticker symbol DSW.

On January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City Department Stores LLC (Value City) business to VCHI Acquisition Co., a newly formed entity owned by VCDS Acquisition Holdings, LLC, Emerald Capital Management LLC and Crystal Value, LLC. Retail Ventures received no net cash proceeds from the sale, paid a fee of \$500,000 to the purchaser, and recognized an after-tax loss on the transaction of \$81.1 million, including a reduction of the loss of \$8.9 million recognized in the first three quarters of fiscal 2008. As part of the transaction, Retail Ventures issued warrants to VCHI Acquisition Co. to purchase 150,000 RVI Common Shares, at an exercise price of \$10.00 per share, and exercisable within 18 months of January 23, 2008. To facilitate the change in ownership and operation of Value City, Retail Ventures agreed to provide or arrange for the provision of certain transition services principally related to information technology, finance and human resources to Value City for a period of one year unless otherwise extended by both parties. On October 26, 2008, Value City filed for bankruptcy protection and announced that it would close its remaining stores. The Company has negotiated an agreement with Value City to continue to provide services post bankruptcy filing, including risk management, financial services, benefits administration, payroll and information technology services, in exchange for a weekly payment.

DSW. DSW stores and dsw.com offer a wide selection of better-branded dress, casual and athletic footwear for men and women, as well as accessories. During the nine months ended November 1, 2008, DSW opened 37 new DSW stores, closed one DSW store and launched dsw.com. DSW also operates leased departments for three non-affiliated retailers and one affiliated retailer in its leased department segment. As of November 1, 2008, DSW supplied merchandise to 279 Stein Mart stores, 65 Gordmans stores, 36 Filene's Basement stores, and one Frugal Fannie's store. During the nine months ended November 1, 2008, DSW added nine non-affiliated leased departments and one affiliated leased department and ceased operations in seven non-affiliated leased departments and one affiliated leased department. DSW owns the merchandise, records sales of merchandise net of returns and sales tax, owns the fixtures (except for Filene's Basement, the affiliated retailer) and provides supervisory assistance in these locations. Stein Mart, Gordmans, Filene's Basement and Frugal Fannie's provide the sales associates. DSW pays a percentage of net sales as rent.

Filene's Basement. Filene's Basement stores are located primarily in major metropolitan areas of the northeastern and midwestern United States. Filene's Basement's mission is to provide the best selection of stylish, high-end

designer and famous brand name merchandise at surprisingly affordable prices in men's and women's apparel, jewelry, shoes, accessories and home goods. During the nine months ended November 1, 2008, Filene's Basement opened one new store 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 interest on intercompany notes, the latter of which is eliminated in consolidation.

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

2. BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2008, as filed with the Securities and Exchange Commission (the SEC) on April 25, 2008 (the 2007 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

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements* (SFAS 157) which defines fair value, establishes a framework for measuring fair value in Generally Accepted Accounting Principles (GAAP), and expands disclosures about fair value measurements. The intent of this standard is to ensure consistency and comparability in fair value measurements and enhanced disclosures regarding the measurements. This statement is effective for financial assets and liabilities for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. For non-financial assets and liabilities measured at fair value on a non-recurring basis, SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2008. RVI is currently evaluating the impact of the adoption of SFAS 157 for non-financial assets and liabilities on its financial position and results of operations.

Although the adoption of this standard for financial assets and liabilities in the quarter ended May 3, 2008 had no impact on RVI's financial position or results of operations, it does result in additional disclosures regarding fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Therefore, fair value is a market-based measurement based on assumptions of the market participants. As a basis for these assumptions, SFAS 157 establishes the following three level fair value hierarchy:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that are publicly accessible. Active markets have frequent transactions with enough volume to provide ongoing pricing information.

Level 2 inputs are other than level 1 inputs that are directly or indirectly observable. These can include unadjusted quoted prices for similar assets or liabilities in active markets, unadjusted quoted prices for identical assets or liabilities in inactive markets, or other observable inputs.

Level 3 inputs are unobservable inputs.

Financial assets and liabilities measured at fair value on a recurring basis as of November 1, 2008 consisted of the following:

Balance at