RETAIL VENTURES INC
Form 10-K
April 25, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For The Fiscal Year Ended February 2, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

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)

Registrant s telephone number, including area code (614) 471-4722

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Shares, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No

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. þ Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 þ	Non-accelerated filer o	Smaller reporting company o

o

(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 Act). o Yes þ No

The aggregate market value of voting common equity held by non-affiliates of the registrant computed by reference to the price at which such voting common equity was last sold, as of August 4, 2007, was $354,764,968.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: 48,635,629 Common Shares were outstanding at March 31, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Retail Ventures, Inc. s fiscal 2007 Proxy Statement, which will be filed no later than 120 days after February 2, 2008, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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SCHEDULES

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PART I

As used in this Annual Report on Form 10-K (Annual Report on Form 10-K or Form 10-K) and except as the context otherwise may require, Retail Ventures, Inc. (Retail Ventures or RVI) and its wholly-owned subsidiaries, including but not limited to, Filene s Basement, Inc. (Filene s Basement), and DSW Inc. (DSW), a controlled subsidiary, and DSW s wholly-owned subsidiary, DSW Shoe Warehouse, Inc. (DSWSW), are herein referred to collectively as the Company. Value City Department Stores LLC (Value City) was a wholly-owned subsidiary through January 22, 2008. This Annual Report on Form 10-K contains trade dress, tradenames and trademarks of other companies. Use or display of other parties trademarks, trade dress or tradenames is not intended to, and does not, imply a relationship with the trademark, tradename or trade dress owner.

Cautionary Statement Regarding Forward-Looking Information for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

Some of the statements in this Annual Report on Form 10-K contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as outlook, believes, expects, potential, continues, may, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or ot words or the negative version of those words. Any forward-looking statements contained in this Annual Report on Form 10-K are based upon our historical performance and on current plans, estimates and expectations and assumptions relating to our operations, results of operations, financial condition, growth strategy and liquidity. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to numerous risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In addition to other factors discussed elsewhere in this report, including those described under Part I, Item 1A. Risk Factors, some important factors that could cause actual results, performance or achievements for the Company to differ materially from those discussed in forward-looking statements include, but are not limited to, the following:

- our success in opening new stores and operating stores on a timely and profitable basis;
- maintaining good relationships with our vendors;
- our ability to anticipate and respond to fashion trends;
- fluctuation of our comparable store sales and quarterly financial performance;
- impact of the disposition of a majority interest in Value City and the reliance on remaining subsidiaries to pay indebtedness and intercompany service obligations;
- the risk of Value City deciding to discontinue operations or otherwise not pay its creditors;
- disruption of our distribution operations;
- our dependence on DSW for key services;
- DSW s success in the development and launch of a DSW e-commerce business;
- failure to retain our key executives or attract qualified new personnel;
- our competitiveness with respect to style, price, brand availability and customer service;

- declining general economic conditions;
- liquidity risks related to our investments;
- risks inherent to international trade with countries that are major manufacturers of apparel and footwear; and
- security risks related to the electronic processing and transmission of confidential customer information.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results, performance or achievements may vary materially from what we may have projected. Furthermore, new factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, RVI undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

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ITEM 1. BUSINESS.

History of Our Business

The first Value City department store was opened in Columbus, Ohio in 1917. Until the initial public offering of Value City Department Stores, Inc. on June 18, 1991, Value City department stores operated as a division of Schottenstein Stores Corporation (SSC).

On October 8, 2003, the Company reorganized its corporate structure into a holding company form whereby Retail Ventures, an Ohio corporation, became the successor issuer to Value City Department Stores, Inc. As a result of the reorganization, Value City Department Stores, Inc. became a wholly-owned subsidiary of Retail Ventures. In connection with the reorganization, holders of common shares of Value City Department Stores, Inc. became holders of an identical number of common shares of Retail Ventures. The reorganization was effected by a merger which was previously approved by Value City Department Stores, Inc. s shareholders. Since October 2003, Retail Ventures Common Shares have been listed for trading under the ticker symbol RVI on the New York Stock Exchange.

As of February 2, 2008, SSC owned approximately 39.5% of the outstanding RVI Common Shares and beneficially owned approximately 50.2% (assumes issuance of (i) 8,333,333 RVI Common Shares issuable upon the exercise of conversion warrants, (ii) 1,731,460 RVI Common Shares issuable upon the exercise of term loan warrants and (iii) 342,709 RVI Common Shares issuable upon exercise of term loan warrants) of the outstanding RVI common shares. In addition to SSC s ownership of our common shares, we also have a number of ongoing related party agreements and arrangements with SSC, which are more fully described in Item 13 of this Annual Report on Form 10-K beginning on page 49.

In December 2004, the Company completed another corporate reorganization whereby Value City Department Stores, Inc. merged with and into Value City Department Stores LLC, a newly created, wholly-owned subsidiary of Retail Ventures. In connection with this reorganization, Value City transferred all the issued and outstanding shares of DSW and Filene s Basement to Retail Ventures in exchange for a promissory note.

On July 5, 2005, DSW completed an initial public offering (IPO) of 16,171,875 Class A Common Shares sold at a price to the public of $19.00 per share and raising net proceeds of $285.8 million, net of the underwriters commission and before expenses of approximately $7.8 million. RVI accounted for the sale of DSW as a capital transaction. Associated with this transaction, a deferred tax liability of $65.5 million was recorded. As of February 2, 2008, 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 .

In conjunction with the separation of their businesses following the IPO, Retail Ventures and DSW entered into several agreements, including, among others, a master separation agreement, a shared services agreement, a tax separation agreement and subsequently an IT transfer agreement. Retail Ventures current intent is to continue to hold its DSW Class B Common Shares, except to the extent necessary to satisfy obligations under warrants it has granted to SSC, Cerberus Partners, L.P. (Cerberus) and Millennium Partners L.P. (Millennium) and under its 6.625% Mandatorily Exchangeable Notes due September 15, 2011, or Premium Income Exchangeable Securities[SM] (PIES).

Retail Ventures is subject to contractual obligations (a) with its warrantholders to retain enough DSW common shares to be able to satisfy its obligations to deliver such shares to its warrantholders if the warrantholders elect to exercise their warrants in full for DSW Class A common shares and (b) with the holders of its PIES to retain ownership of a number of DSW Class B common shares (which are exchangeable by Retail Ventures for DSW Class A common shares) equal to the maximum number of Class A common shares deliverable by Retail Ventures upon exchange of the PIES.

On January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City Department Stores 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 of $90.0 million on the transaction. 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 Department Stores, 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 Department Stores for a period of one year unless otherwise extended by both parties.

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General

We operate our business in the three segments described below:

DSW. DSW is a leading U.S. specialty branded footwear retailer operating 259 shoe stores in 37 states as of February 2, 2008. Its stores offer a wide selection of better-branded dress, casual and athletic footwear for women and men. DSW s typical customers are brand-, quality- and style-conscious shoppers who have a passion for footwear and accessories. DSW s core focus is to create a distinctive store experience that satisfies both the rational and emotional shopping needs of its customers by offering them a vast, exciting selection of in-season styles and brands combined with the convenience and value they desire. The stores average approximately 24,000 square feet and hold approximately 30,000 pairs of shoes. DSW believes this combination of selection, convenience and value differentiates it from its competitors and appeals to consumers from a broad range of socioeconomic and demographic backgrounds. In addition, DSW operates leased shoe departments for three non-related retailers in a combined 342 stores and in 36 stores for RVI s wholly-owned subsidiary Filene s Basement.

Filene s Basement. Filene s Basement stores are located primarily in major metropolitan areas of the Northeast and Midwest 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. Filene s Basement focuses on serving the customer with discriminating fashion taste who appreciates an excellent value. These stores have a large selection of upscale designer and better-branded merchandise, including couture items imported directly from the fashion capitals of Europe. Famous for its unique bridal dress promotions, now hailed as the Running of the Brides , Filene s Basement believes that it is also distinctive in its offering of great fashion, high quality and affordable prices. As of February 2, 2008, there were 36 Filene s Basement stores in operation.

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.

See Note 13 of Notes to Consolidated Financial Statements beginning on page F-31 of this Annual Report on Form 10-K for detailed financial information regarding our three operating segments.

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DSW

DSW s goal is to continue to strengthen its position as a leading better-branded footwear retailer by pursuing the following three primary strategies for growth in sales and profitability: expanding its store base, driving sales through enhanced merchandising and investment in its infrastructure.

DSW operates leased departments for three non-affiliated retailers and one affiliated retailer. DSW entered into supply agreements to merchandise the non-affiliated shoe departments in Stein Mart, Inc., Gordmans, Inc., and Frugal Fannie s Fashion Warehouse stores as of July 2002, June 2004 and September 2003, respectively. DSW has operated leased shoe departments for Filene s Basement since its acquisition by Retail Ventures in March 2000. DSW owns the merchandise, records sales of merchandise net of returns and sales tax, owns the fixtures (except for Filene s Basement) and provides supervisory assistance in the covered locations. Stein Mart, Gordmans, Frugal Fannie s and Filene s Basement provide the sales associates. DSW pays a percentage of net sales as rent. As of February 2, 2008, DSW supplied merchandise to 278 Stein Mart stores, 63 Gordmans stores, one Frugal Fannie s store and 36 Filene s Basement stores. Beginning in fiscal 2006, DSW s leased shoe department segment has been supported by a store field operations group, a merchandising group and a planning and allocation group (except for Filene s Basement) that are separate from the DSW stores group.

Merchandising

Selection. DSW s goal is to excite its customers with a sea of shoes that fulfill a broad range of style and fashion needs. DSW stores sell a large selection of better-branded merchandise. It purchases directly from more than 400 domestic and foreign vendors, primarily in-season footwear found in specialty and department stores and branded make-ups (shoes made exclusively for a retailer), with selection at each store geared toward the particular demographics of the location. A typical DSW store carries approximately 30,000 pairs of shoes in over 2,000 styles compared to a significantly smaller product offering at typical department stores.

DSW separates its merchandise into four primary categories women s dress and casual footwear; men s dress and casual footwear; athletic footwear; and accessories. While shoes are the main focus of DSW, also offered is a complementary assortment of handbags, hosiery and other accessories.

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Value. Through the DSW buying organization, DSW is able to provide its customers with high-quality, in-season fashions at prices that it believes are competitive with the typical sale price found at specialty retailers and department stores. DSW generally employs a consistent pricing strategy that typically provides its customers with the same price on its merchandise from the day it is received until it goes into DSW s planned clearance rotation. The DSW pricing strategy differentiates DSW from competitors who usually price and promote merchandise at discounts available only for limited time periods. DSW finds customers appreciate having the power to shop for value when it is most convenient for them, rather than waiting for a department store or specialty retailer to have a sale event.

In order to provide additional value to its customers, DSW maintains a customer loyalty program for the DSW stores in which program members receive a future discount on qualifying purchases. This program offers additional savings to frequent shoppers and encourages repeat sales. Upon reaching the target-earned threshold, members receive certificates for these discounts which must be redeemed in six months.

Convenience. DSW believes it provides customers with the highest level of convenience based on DSW s belief that customers should be empowered to control and personalize their shopping experiences. DSW merchandise is displayed on the selling floor with self-service fixtures to enable customers to view and touch the merchandise. DSW stores are laid out in a logical manner that groups together similar styles such as dress, casual, seasonal and athletic merchandise. DSW believes this self-service aspect provides DSW customers with maximum convenience as they are able to browse and try on the merchandise without feeling rushed or pressured into making a decision too quickly.

Advertising and Promotion

The marketing strategy for DSW focuses on communicating the selection, convenience and value offered by DSW through the use of television, radio and print media advertising as well as in-store promotions. DSW also maintains a gift card program with the intent to generate additional sales by reaching new customers.

During the third quarter of 2006 DSW re-launched its loyalty program, which included changing the name from Reward Your Style to DSW Rewards, the points threshold to receive a certificate and the certificate amounts. The changes were designed to improve customer awareness, customer loyalty and DSW s ability to communicate with its customers. DSW target markets to DSW Rewards members throughout the year. DSW classifies these members by frequency and uses direct mail and on-line communications to stimulate further sales and traffic. As of February 2, 2008, over 8.6 million members enrolled in the DSW Rewards loyalty program had purchased merchandise in the previous two fiscal years, up from approximately 7.3 million members as of February 3, 2007. In fiscal 2007, approximately 69% of DSW store net sales were generated by shoppers in the loyalty program, up from approximately 66% of DSW store net sales in fiscal 2006.

Stores

Store Location, Design and Operations. Typical DSW stores are approximately 24,000 square feet, with over 85% of total square footage used as selling space. Most DSW stores are organized on a single level, which allows customers to view the entire store and product offering as they enter and move quickly to the area where their desired styles are located. Interiors are well-lit, with informative signage, and spacious aisles allow ease of movement throughout the store. Shoes in the stores are displayed in a logical manner that groups together similar styles such as dress, casual, seasonal and athletic merchandise. Clearance shoes are grouped by size and displayed on racks in the rear of the store. Store associates receive training to maximize the customer shopping experience in DSW s self-service environment. Training components consist of customer service, maintaining neat, clean and orderly store conditions for ease of shopping, efficient checkout process and friendly service. DSW also maintains a store management training program to develop the skills of management personnel and to provide an ongoing talent pool for future store expansion. DSW prefers to fill store management and field supervisor positions through internal promotions.

Expansion. DSW opened 37 new stores in fiscal 2007, and as of February 2, 2008, DSW has signed leases for 37 new stores that are scheduled to open in fiscal 2008 and fiscal 2009.

DSW plans to open at least 30 stores in each fiscal year from fiscal 2008 through fiscal 2010. DSW s plan is to open stores in both new and existing markets while continuing to expand its store portfolio to include lifestyle and regional mall locations in addition to its traditional power strip venues. In general, DSW s evaluation of potential new stores focuses on location within a retail area, demographics, co-tenancy, store size and configuration, and lease terms. DSW s long-range planning model includes analysis of every major metropolitan area in the country with the objective of understanding the demand for its products in each market over time, and its ability to capture that demand. The analysis also looks at DSW s current penetration levels in the markets DSW serves and DSW s expected deepening of its penetration levels as DSW continues to grow its brand to become the shoe retailer of choice in the market.

During fiscal 2007, the average investment required to open a new DSW store was approximately $1.6 million, prior to construction and tenant allowances. Of this amount, in fiscal 2007, gross inventory typically accounted for approximately $0.6 million, fixtures and leasehold improvements typically accounted for approximately $0.9 million and pre-opening advertising and other pre-opening expenses typically accounted for approximately $0.1 million.

Distribution

DSW s primary distribution center is located in an approximately 700,000 square foot facility in Columbus, Ohio. The design of the distribution center facilitates the prompt delivery of priority purchases and fast-selling footwear to stores so DSW can take full advantage of each selling season. In January 2007, DSW implemented a distribution center bypass process which improved speed-to-market for initial deliveries to stores on the West Coast. As part of this process, DSW has engaged a third party logistics service provider to receive orders originating from suppliers on the West Coast or imports entering the United States at a West Coast port of entry. These initial shipments are then shipped by this service provider to DSW pool points and onwards to the stores bypassing the Columbus distribution center facility. DSW will continue to evaluate expansion of this process for applicability in other parts of the country. In fiscal 2007, DSW signed a lease for a fulfillment center which will process orders from its e-commerce channel.

Leased Departments and Supply Agreements

DSW has operated leased shoe departments for Filene s Basement since March 2000. The intercompany activity is eliminated in the consolidated financial statements. Effective January 30, 2005, DSW updated and reaffirmed its contractual relationship with Filene s Basement. Under the new agreement, DSW owns the merchandise and provides supervisory assistance in all covered locations and receives a percentage of net sales as payment. Filene s Basement provides the fixtures and sales associates. As of February 2, 2008, DSW operated leased shoe departments in 36 Filene s Basement locations.

As of February 2, 2008, DSW also supplied merchandise to 278 Stein Mart stores, 63 Gordmans stores and one Frugal Fannie s store, as discussed in greater detail above.

Segment Seasonality

DSW s business is subject to seasonal trends. DSW store net sales have typically been higher in spring and early fall, when its customers interest in new seasonal styles increases. Unlike many other retailers, DSW has not historically experienced a large increase in net sales during its fourth quarter associated with the winter holiday season.

Service Marks, Trademarks and Tradenames

DSW has registered a number of trademarks and service marks in the United States and internationally, including DSW® and DSW Shoe Warehouse®. The renewal dates for these U.S. trademarks are April 25, 2015 and May 23, 2015, respectively. DSW believes that its trademarks and service marks, especially those related to the DSW concept, have significant value and are important to building name recognition. To protect the brand identity, DSW has also protected the DSW trademark in several foreign countries.

DSW also holds patents related to its unique store fixture, which gives DSW greater efficiency in stocking and operating those stores that have the fixture. DSW aggressively protects its patented fixture designs, as well as its packaging, store design elements, marketing slogans and graphics.

FILENE S BASEMENT

Filene s Basement s mission is to be the premiere destination for discriminating value-driven shoppers for their designer and famous brand fashion needs. Filene s Basement strives to provide the best selection of stylish, designer and famous brand name merchandise at surprisingly affordable prices in men s and women s apparel, jewelry, shoes, accessories and home goods. Filene s Basement stores have a large selection of upscale designer and better-branded merchandise, including couture items imported directly from the fashion capitals of Europe. Famous for its unique bridal dress promotions, now hailed as the Running of the Brides, Filene s Basement believes that it is also unique in its offering of great fashion, high quality and extraordinary prices. The Downtown Crossing Boston store temporarily closed in the fall of 2007 to allow for extensive building renovations by the landlord, at the landlord s cost. The store will open when the renovation is completed and is expected to resume operations in the spring of 2009.

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Merchandising

Designer and Famous Brand Merchandise. Filene s Basement stores offer designer and famous name brand apparel, home goods and accessories. The merchandise represents a focused assortment of fashionable, nationally recognized men s and women s apparel, shoes, handbags and other accessories, fine jewelry, fragrances, giftware and home goods bearing prominent designers and manufacturers names. Branded merchandise constitutes most of the product line. Filene s Basement believes that up-front purchasing will promote a reliable flow of branded merchandise to its stores for opening season assortments in February and August. Accordingly, Filene s Basement now places a significant portion of its purchases up front. Filene s Basement also has been placing purchases of make-up goods in Europe, such as sweaters, knits and cold weather goods. The remaining branded goods are obtained through opportunistic purchases from a diverse group of quality manufacturers and vendors, including direct imports from some of the most prominent European designers. Because of the longstanding relationships that Filene s Basement has with vendors, it receives quality buying opportunities at competitive prices. Filene s Basement purchases merchandise from approximately 2,000 suppliers. During fiscal 2007, merchandise supplied by Filene s Basement s three top vendors accounted for approximately 12.4% of Filene s Basement s net sales.

Value Pricing. With the exception of special event merchandising and some promotions, Filene s Basement offers everyday low pricing in key fashion categories. The Filene s Basement customer base has a high fashion I.Q. and recognizes the value in what is being offered and the need to purchase or risk losing unique items because of the changing nature of the assortment. This allows Filene s Basement to eliminate some of the expenses associated with a larger sales floor labor force and heavy promotional activity to keep prices low. The Downtown Crossing Boston store used an automatic markdown policy, where the longer a product remained in the store, the lower its price became. There are several factors which allow Filene s Basement to achieve its value pricing. First, it has excellent, longstanding relationships with its suppliers. This makes Filene s Basement a preferred choice for vendors with designer and famous brand overruns, department store cancellations and unmet volume objectives. These vendors understand that goods will be sold in an environment that supports the stature of their brands. Second, Filene s Basement imports directly from Europe, cutting out middleman costs. Third, Filene s Basement understands the market for these high-end brands and has access to numerous up-front and opportunistic buys.

Advertising and Promotion

Filene s Basement employs a multi-media approach to advertising, using print, broadcast, direct mail, online, e-mail and out-of-home media. The primary method of communicating with the market throughout the year is via advertising in daily newspapers, typically quarter and half page ads. With a substantial increase in customer data base enrollment, direct mail and email communications are becoming a growing part of the advertising mix.

Filene s Basement is not typically an item advertiser. Instead, Filene s Basement focuses on promoting advantageous purchases from manufacturers or retail stores and the Filene s Basement store as a brand. The intent is to build the reputation and awareness of having the best prices for European and American designer brands, as well as quality basics for all shoppers. As a result, the customers gain confidence that whenever they visit Filene s Basement, they will find exceptional values on fashionable brands. A large part of this approach relies on promoting major events, the most famous of which is the Bridal Event. Brides-to-be line up in front of the store hours before the store opens when the doors open, there is a stampede by the customers, now regularly hailed as the Running of the Brides, to get their hands on a designer wedding gown at a significantly reduced price before the selection runs out. The event is so interesting and unique that the event gets significant free media coverage in every market where the promotion is held. Other major events include ladies suits, a men s suit promotion, premier designer denims, and end-of-season clearance events. These events are not only effective during the time of the promotion, but also help establish the reputation for Filene s Basement as a leader in these categories year-round.

Filene s Basement creates a distinctive look to the print advertising by using fashion illustrations rather than photography since its advertisements are not item specific. This enhances the impression that Filene s Basement deals in designer merchandise, since the illustrations look similar to designer drawings and are unique among its competitors.

By not emphasizing item-based advertising, Filene s Basement avoids the high expense of running large weekly circulars. As of 2005, it began issuing category-based catalogs to emphasize the breadth of the assortment in leading fashion trends rather than to sell individual items. As a result, Filene s Basement s advertising as a percent of net sales is relatively low, typically around 2.5%, excluding grand openings.

Stores

Store Location, Design and Operations. Filene s Basement stores are typically located in leased facilities within suburban areas, near large residential neighborhoods and average approximately 31,000 square feet of selling space per store (approximately 45,000 square feet of total space per store). Certain stores in Boston, New York, Chicago, Atlanta and Washington D.C. are located in key urban areas. As of February 2, 2008, Filene s Basement operated 36 stores in nine states and the District of Columbia. The stores are designed to be convenient and attractive in their merchandise presentation, dressing rooms, checkouts and customer service areas.

Our Filene s Basement Downtown Crossing Boston store is a landmark institution recognized by generations of New England families and visitors as a source of quality off-price men s and women s merchandise. The Downtown Crossing Boston Store temporarily ceased operations in the fall of 2007, due to the extensive renovation planned for the host building by the building s new owner. The store will open when the renovation is completed and is expected to resume operations in the spring of 2009. Before the temporary closing, the Downtown Crossing Boston store subleased 178,000 square feet (approximately 65,300 square feet of selling space) on four floors. When the new space is available, the store premises will be 128,000 square feet (approximately 70,000 square feet of selling space) on five floors. The sublease has been amended to extend its term, and now terminates in 2024 with rights exercisable by Filene s Basement to extend at its option until 2044. The Downtown Crossing Boston store generated approximately 12.9% and 15.1% of Filene s Basement s segment sales during fiscal 2006 and 2005, respectively. Due to the temporary closing, the $5.8 million loss attributable to the Downtown Crossing Boston store is reflected in income from continuing operations during fiscal 2007.

All of Filene s Basement stores are designed for self-service shopping, although fine jewelry counters maintain a dedicated staff and sales personnel are available to help customers locate merchandise and to assist in the selection and fitting of apparel and footwear. In all stores, a customer service desk is conveniently located generally adjacent to the central checkout area. To promote the ease of checkout, we utilize point of sale scanning systems that expedite the checkout process by providing automated check and credit approval and price lookup. Sales associates are trained to create a customer-friendly environment. Filene s Basement accepts all major credit cards, and also provides a private label credit card program. Filene s Basement maintains a return policy of 30 days.

Our Filene s Basement stores typical staff consists of a general manager, an assistant store manager, merchandising group managers and full and part-time associates. Typically, general managers report to a Regional Vice President who in turn reports to the Executive Vice President, Stores & Operations.

Filene s Basement store managers are responsible on a day-to-day basis for customer relations, personnel hiring and scheduling, and all other operational matters arising in the stores. Each store manager is compensated, in part, based on the performance of the manager s store. The store managers are an important source of information concerning local market conditions, trends and customer preferences. Filene s Basement prefers to fill management positions through promotion of existing associates.

Expansion. We opened six new Filene s Basement stores and reopened a fully remodeled store during fiscal 2007. We plan to open at least one new store in fiscal 2008. Typical new stores are expected to have a gross square footage of approximately 32,000 to 42,000 square feet. Sites will tend to be in urban and key suburban locations. Based upon our experience, we estimate the average cost of opening a new Filene s Basement store is approximately $4.3 million (prior to tenant allowance) including leasehold improvements, fixtures, inventory, pre-opening expenses and other costs. Preparations for opening a Filene s Basement store generally take nine weeks. We charge pre-opening expenses to operations as incurred.

We continually update our stores by changing the merchandise displays and in-store signage. The annual cost of refurbishing on a per store basis is generally not substantial and is treated as on-going cost of operations.

Distribution

Filene s Basement s merchandise is processed and distributed from a 457,000 square foot leased distribution facility situated on 32.8 acres with adjacent rail service in Auburn, Massachusetts, outside of metropolitan Boston, Massachusetts. In 2005, the Auburn distribution center was upgraded to accommodate the current volume of business and the anticipated growth in new stores. Filene s Basement plans to invest capital dollars in the 2008 fiscal year to further improve the existing facility.

We have a dedicated contract carrier that manages the fleet of road tractors and our semi-trailers. Our contract carrier makes the majority of all deliveries to the stores.

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License Agreements and Leased Departments

Filene s Basement licenses fine jewelry, cosmetics and certain other incidental departments to independent third parties. The aggregate annual license fees for the 2007 fiscal year were approximately $9.5 million. Filene s Basement also has an agreement with DSW to supply the in-store shoe departments on a leased department basis in 36 of its stores; Value City supplied the in-store shoe department to the Downtown Crossing Boston Filene s Basement store until it temporarily closed in the late summer of 2007. Until November, 2007, Retail Ventures Jewelry, Inc., a wholly owned subsidiary of Retail Ventures, operated the jewelry departments in all Filene s Basement stores. Beginning in November 2007, the fine jewelry departments in the Filene s Basement stores are operated by a third party as a leased department. The intercompany activity is eliminated in our consolidated financial statements.

Third party licensees supply their own merchandise and generally supply their own store fixtures. In most instances, licensees utilize Filene s Basement associates to operate their departments and reimburse Filene s Basement for all associated costs. Leased departments are operated under the general supervision of Filene s Basement and licensees are required to abide by its policies with regard to pricing, quality of merchandise, refunds, store hours and associate conduct. Leased departments complement the operations of the stores and facilitate the uniformity of the in-store merchandising strategy.

DSW has operated leased shoe departments for Filene s Basement since March 2000. Effective as of January 30, 2005, DSW updated and reaffirmed its contractual arrangement with Filene s Basement. Under the new agreement, DSW owns the merchandise, records sales of merchandise net of returns and sales tax, and provides supervisory assistance in all covered locations and pays a percentage of net sales as rent. Filene s Basement provides the fixtures and sales associates. In three of these locations, Filene s Basement licenses and uses the DSW name in connection with the leased shoe department. This intercompany activity is eliminated in our consolidated financial statements.

Segment Seasonality

Filene s Basement s business is affected by the pattern of seasonality common to most retail businesses. Historically, increased sales and operating profit have been generated during the early fall and winter holiday selling seasons.

Service Marks, Trademarks and Tradenames

Filene s Basement has an exclusive, perpetual, worldwide, royalty free license to use the name Filene s Basement and Filene s Basement of Boston trademark and service mark registrations**,** as well as certain other tradenames. Filene s Basement s exclusive licensee status with respect to these registered marks has been recorded with the United States Patent and Trademark Office and relevant state offices. Other trademarks and tradenames used by Filene s Basement have been protected as well.

MANAGEMENT INFORMATION AND CONTROL SYSTEMS

***Retail Ventures*.** We believe a high level of automation is essential to maintaining and improving our competitive position. On December 5, 2006, we entered into an Amended and Restated Shared Services Agreement with our subsidiary, DSW, effective as of October 29, 2006 (the Amended Shared Services Agreement). Under the terms of the Amended Shared Services Agreement, we receive information technology services from DSW. The transfer of technology services to DSW placed the requirement on DSW related to maintaining both the investment in infrastructure and the investments needed to support the shared services infrastructure.

We rely upon computerized systems to provide information at all levels of our segments, including warehouse operations, store billing, inventory control, merchandising and automated accounting. We utilize registers with full scanning capabilities to increase speed and accuracy at customer checkouts and facilitate inventory restocking. We utilize automated distribution center systems to track and control the receipt, processing, storage and shipping of product to the stores.

DSW. In order to promote DSW s continued growth, DSW undertook several major initiatives in the past to build upon the merchandise management system and warehouse management systems that support DSW. With DSW s top vendors, DSW utilizes an electronic data interchange for product UPC barcodes and electronic exchange of purchase orders, Advance Shipment Notifications and invoices. In DSW stores, DSW utilizes Point of Sale (POS) registers with full scanning capabilities to increase speed and accuracy at customer checkouts and facilitate inventory restocking. DSW uses enterprise data warehouse and customer relationship management software to manage the DSW Rewards program. This allows DSW to support, expand and integrate DSW Rewards with the POS system to improve the customer experience.

Filene s Basement. Filene s Basement utilizes the JDA merchandise management system to track and manage merchandise inventory at its stores. A warehouse management system is used at the distribution center to process and distribute merchandise to the stores. Filene s Basement utilizes POS registers with full scanning capabilities to increase speed and accuracy at customer checkout and facilitate inventory restocking. Filene s Basement has automatic replenishment capabilities to improve the in-stock position in the stores for basics programs. Filene s Basement systems run on an AS/400 and open systems computers.

Associates

The mission of the Company s human resource functions includes ensuring that the Company s business plans, organization structure, talent development and bench strength meet the Company s needs for employee effectiveness to improve quality of work product, superior customer service, shareholder value and our profit.

As of February 2, 2008, we had approximately 11,800 associates across all segments of which approximately 4,300 were full-time and the remaining balance were part-time. We believe that, in general, we have satisfactory relations with our associates.

Competition

The retail industry is highly competitive. We compete with a variety of conventional and discount retail stores, including national, regional and local independent department and specialty stores, as well as with catalog operations, on-line providers, factory outlet stores and other off-price stores. The DSW and Filene s Basement operating segments have different target customers and different strategies, but each focuses on this basic principle: the value to the customer is the result of the quality of the merchandise in relationship to the price paid.

DSW believes that its customers prefer the wide selection of on-trend merchandise compared to product offerings of typical traditional department stores, mall-based company stores, national chains, single-brand specialty retailers and independent shoe retailers because those retailers generally offer a more limited selection at higher average prices and in a less convenient format than DSW does. In addition, DSW believes that it successfully competes against competitors who have attempted to duplicate DSW s format.

Filene s Basement provides perceived high value by offering easily recognized brand-name merchandise at discounted prices. We believe Filene s Basement s niche, however, is the top-tier of the off-price retailing category and its sales events help shape its image as having a special cachet. We believe that Filene s Basement is more upscale than its off-price competitors and, in addition to its exclusive selection of prestige couture merchandise, carries a broader and more complete selection of better designer brands than the competition. Filene s Basement also offers a shopping environment that is typically more fashionable than its off-price competition.

Available Information

RVI files reports with the Securities and Exchange Commission (the SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and amendments to such reports. The public may read and copy any materials that RVI files with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. Additionally, information about RVI, including its reports filed with the SEC, is available through RVI s web site at http://www.retailventuresinc.com. Such reports are accessible at no charge through RVI s web site and are made available as soon as reasonably practicable after such material is filed with or furnished to the SEC. The reference to the Company website address does not constitute incorporation by reference of the information contained on the website and that website information should not be considered part of this document.

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ITEM 1A. RISK FACTORS.

In addition to the other information in this Annual Report on Form 10-K, shareholders or prospective investors should carefully consider the following risk factors when evaluating RVI. If any of the events described below occurs, our business, financial condition and results of operations and future growth prospects could suffer.

We may be unable to open all the DSW and Filene s Basement stores contemplated by our growth strategy on a timely basis, and new stores we open may not be profitable or may have an adverse impact on the profitability of existing stores, either of which could have a material adverse effect on our business, financial condition, cash flow and results of operations.

We intend to open at least 30 DSW stores per year in each fiscal year from 2008 through 2010, and at least one Filene s Basement store in fiscal 2008. However, we may not achieve our planned expansion on a timely and profitable basis or achieve results in new locations similar to those achieved in existing locations in prior periods. Our ability to open and operate new DSW and Filene s Basement stores successfully on a timely and profitable basis depends on many factors, including, among others, our ability to:

- identify suitable markets and sites for new store locations;
- negotiate favorable lease terms;
- build-out or refurbish sites on a timely and effective basis;
- obtain sufficient levels of inventory to meet the needs of new stores;
- obtain sufficient financing and capital resources or generate sufficient cash flows from operations to fund growth;
- successfully open new DSW and Filene s Basement stores in regions of the United States in which we currently have few or no stores;
- open new stores at costs not significantly greater than those anticipated;
- control the costs of other capital investments associated with store openings, including, for example, those related to the expansion of distribution facilities;
- hire, train and retain qualified managers and store personnel; and
- successfully integrate new stores into our existing infrastructure, operations and management and distribution systems or adapt such infrastructure, operations and systems to accommodate our growth.

As a result, we may be unable to open new stores at the rates expected or at all. If we fail to successfully implement our growth strategy, the opening of new stores could be delayed or prevented, could cost more than anticipated and could divert resources from other areas of our business, any of which could have a material adverse effect on our business, financial condition, cash flow and results of operations.

To the extent that we open new stores in our existing markets, we may experience reduced net sales in existing stores in those markets. As the number of our stores increases, our stores will become more concentrated in the markets we serve. As a result, the number of customers and financial performance of individual stores may decline and the average sales per square foot at our stores may be reduced. This could have a material adverse effect on our business, financial condition, cash flow and results of operations.

We intend to open at least 30 new DSW stores per year from fiscal 2008 to 2010, which could strain our resources and have a material adverse effect on our business and financial performance.

Our continued and future growth in our DSW segment largely depends on our ability to successfully open and operate new stores on a profitable basis. During fiscal 2007, 2006 and 2005, DSW opened 37, 29 and 29 new stores, respectively. DSW intends to continue to open at least 30 new stores per year in each fiscal year from fiscal 2008 through 2010. As of February 2, 2008, DSW has signed leases for an additional 37 new stores to be opened in fiscal 2008 and fiscal 2009. During fiscal 2007, the average investment required to open a typical new DSW store was approximately $1.6 million. This continued expansion could place increased demands on

DSW s financial, managerial, operational and administrative resources. For example, DSW s planned expansion will require DSW to increase the number of people it employs, as well as to monitor and upgrade its management information and other systems and its distribution facilities. These increased demands and operating complexities could cause DSW to operate its business less efficiently, have a material adverse effect on its operations and financial performance and slow its growth.

The temporary cessation of operations at the Downtown Crossing Boston Filene s Basement store could lead to reduced sales when that location resumes operations.

The Downtown Crossing Boston Filene s Basement is the original, landmark Filene s Basement store. The Downtown Crossing store generated 12.9% and 15.1% of Filene s Basement segment sales during fiscal 2006 and 2005, respectively. Filene s Basement temporarily ceased operations at the Downtown Crossing Boston store in the fall of 2007 due to the complex redevelopment of the building housing the original store. Filene s Basement plans to resume operations in the new development in the spring of 2009. The approximately 18-month temporary cessation of business in this Downtown Crossing store could result, upon its reopening, in reduced customer traffic and sales at this location.

DSW plans to launch an e-commerce business in the first half of fiscal 2008 which may not be successful and could adversely affect DSW s results of operations or distract management from DSW s core business.

DSW plans to launch an e-commerce business to sell shoes and related accessories through its website in fiscal 2008. As of February 2, 2008, DSW has invested $26.3 million in capital for the development of this e-commerce business. In addition, DSW has entered into a ten-year lease agreement for space to serve as fulfillment center for e-commerce distribution. The development and launch of such a business channel could cost more than expected, distract management from DSW s core business, take business from DSW s existing store base resulting in lower sales in DSW stores, or be unsuccessful. In addition, as this is a new business channel, DSW will be purchasing inventory based upon anticipated sales. In the event that DSW s sales are lower than planned, DSW will likely need to take markdowns on inventory which will adversely affect gross margin. In the event that DSW spends more than anticipated, loses focus on its core business, impacts sales in its existing store base, or is unsuccessful in the development or execution of an e-commerce business, this may have a material adverse effect to DSW s business, results of operations or financial condition.

We rely on our good relationships with vendors and their factors which provide vendor financing to purchase brand name and designer merchandise at favorable prices. If these relationships were to be impaired, we may not be able to obtain a sufficient selection of merchandise at attractive prices, and we may not be able to respond promptly to changing fashion trends, either of which could have a material adverse effect on our competitive position, business and financial performance.

Except for those few vendors with whom we have licensed department arrangements, we do not have long-term supply agreements or exclusive arrangements, and, therefore, our success depends on maintaining good relations with our vendors in all business segments. Since our business is fundamentally dependent on selling brand name and designer merchandise at attractive prices, we must continue to obtain from our vendors a wide selection of this merchandise at favorable wholesale prices. Our growth strategy depends to a significant extent on the willingness and ability of our vendors to supply us with sufficient inventory to stock our stores, and of their factors to provide them with vendor financing. If we fail to continue to deepen and strengthen our relations with our existing vendors and their factors, or to enhance the quality of merchandise they supply us, and if we cannot maintain or acquire new vendors of in-season brand name and designer merchandise, this may limit our ability to obtain a sufficient amount and variety of merchandise at favorable prices, which could have a negative impact on our competitive position.

During fiscal 2007, merchandise supplied to our DSW segment by three key vendors accounted for in the aggregate approximately 21.0% of DSW s net sales. During fiscal 2007, merchandise supplied to our Filene s Basement segment by three key vendors accounted for in the aggregate approximately 12.4% of Filene s Basement s net sales. The loss or reduction in the amount of merchandise made available by any one of these key vendors could have a material adverse effect on our business.

We may be unable to anticipate and respond to fashion trends and consumer preferences in the markets in which we operate, which could materially adversely affect our business, financial condition, cash flow and

results of operations.

Our merchandising strategy is based on identifying each region s customer base and having the proper mix of products in each store across our segments to attract its target customers. This requires us to anticipate and respond to numerous and fluctuating variables in fashion trends and other conditions in the markets in which our stores are situated. A variety of factors will affect our ability to maintain the proper mix of products in each store, including:

variations in local economic conditions, which could affect our customers discretionary spending;

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- unanticipated fashion trends;
- our success in developing and maintaining vendor relationships that provide us access to in-season merchandise at attractive prices;
- our success in distributing merchandise to our stores in an efficient manner; and
- changes in weather patterns, which in turn affect consumer preferences.

If we are unable to anticipate and fulfill the merchandise needs of each region, we may experience decreases in our net sales and may be forced to increase markdowns in relation to slow-moving merchandise, either of which could have a material adverse effect on our business, financial condition, cash flow and results of operations.

Our operations are affected by seasonal variability.

Our operations have been historically seasonal, with a disproportionate amount of sales and a majority of net income occurring in the early fall and winter holiday selling seasons for Filene s Basement. DSW net sales have typically been higher in spring and early fall. As a result of seasonality, any factors negatively affecting us during these periods, including adverse weather, the timing and level of markdowns or unfavorable economic conditions, could have a material adverse effect on our financial condition, cash flow and results of operations for the entire year.

Our comparable store sales and quarterly financial performance may fluctuate for a variety of reasons in addition to seasonal factors, which could result in a decline in the price of our common shares.

Our business is sensitive to customers spending patterns, which in turn are subject to prevailing regional and national economic conditions and the general level of economic activity. Our comparable store sales and quarterly results of operations have fluctuated in the past, and we expect them to continue to fluctuate in the future. In addition to seasonal fluctuations, including weather patterns, a variety of other factors affect our comparable store sales and quarterly financial performance, including:

- changes in our merchandising strategy;
- timing and concentration of new store openings and related pre-opening and other start-up costs;
- levels of pre-opening expenses associated with new stores;
- changes in our merchandise mix;
- changes in and regional variations in demographic and population characteristics;
- timing of promotional events;
- actions by our competitors; and
- general United States economic conditions and, in particular, the retail sales environment.

Accordingly, our results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, and comparable store sales for any particular future period may decrease. In the future, our financial performance may fall below the expectations of securities analysts and investors. In that event, the price of our common shares would likely decline.

Retail Ventures is a holding company and relies on its subsidiaries to make payments on its indebtedness and meet its obligations.

Retail Ventures is a holding company and all our operations are conducted through our subsidiaries. Therefore, we rely on the cash flow of our subsidiaries to meet our obligations, including our obligations under the PIES. The ability of our subsidiaries to distribute to Retail Ventures by way of dividends, distributions, interest or other payments (including intercompany loans) is subject to various restrictions, including restrictions imposed by the credit facilities governing our and our subsidiaries indebtedness, and future indebtedness may also limit or prohibit such payments. In addition, the ability of our subsidiaries to make such payments may be limited by relevant provisions of the laws of their respective jurisdictions of organization.

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As a result of our disposition of 81% of our ownership interest in the Value City subsidiary, we now rely on our remaining operating segments to make payments on our indebtedness and meet our obligations. For example, Filene s Basement and DSW will need to absorb certain costs previously paid by Value City. DSW, Filene s Basement and Value City receive shared services from and through RVI, and DSW provides services to RVI and its subsidiaries and to Value City. The costs associated with many of these shared services are allocated among the entities based upon the percent of an entity s sales compared to total sales, or, in some cases, a usage based charge. In the event that Value City significantly reduces or ceases operations, its allocation percentage of shared expenses would decrease, which would increase DSW s and Filene s Basement allocation percentage of future shared service expenses. Additionally, in the event that Value City significantly reduces or ceases operations, DSW would not be able to allocate as much or any expense to Value City relating to Value City s utilization of information technology and shoe processing services. This increased allocation percentage and reduction in expense allocation could be material and have a negative effect on the financial position of the Company.

If Value City decides to discontinue its operations or otherwise not pay creditors whose obligations RVI has guaranteed, RVI may become subject to various risks associated with such refusal to pay creditors, any insolvency or bankruptcy proceedings.

On January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City Department Stores business to VCHI Acquisition Co., a newly formed entity owned by VCDS Acquisition Holdings, LLC, Emerald Capital Management LLC and Crystal Value, LLC. If Value City decides to significantly reduce or cease its operations or otherwise does not pay creditors whose obligations RVI has guaranteed, RVI may become subject to risks associated with any such possible failure to pay or a possible insolvency or bankruptcy filing by Value City. There are risks and uncertainties inherent in such events and RVI is unable to predict the precise effect of any Value City reorganization and/or liquidation process on RVI s operations and financial condition. In the event of a Value City bankruptcy filing, creditors of Value City may seek to assert claims against RVI and its subsidiaries, whether or not such claims currently exist or have any merit. If such claims were successfully asserted and proved, RVI would have to obtain funding sources to the extent cash on hand, lending facilities, cash generated from operations or other assets were insufficient to satisfy those claims. RVI may also be required to record impairment charges or write-offs as a result of any bankruptcy proceeding and to incur expenses and liabilities associated with any bankruptcy proceeding. Additionally, any Value City bankruptcy and the publicity surrounding its filing could adversely affect RVI s and its subsidiaries businesses and relationships with employees, customers and suppliers. All of the foregoing circumstances or events could have a material adverse impact on RVI s financial condition and results of operations.

If Value City defaults on its lease for the premises at 3241 Westerville Rd., RVI and DSW may become subject to various risks associated with the location of operations on these premises.

Concurrent with RVI s disposition of its 81% ownership interest in the Value City business, RVI and DSW entered into an Occupancy Licensing Agreement with Value City to provide for RVI s and DSW s continuing occupancy of a portion of the premises at 3241 Westerville Road. If Value City defaults on its lease of this premises, RVI and DSW may become subject to risks associated with such a default, including the inability to access the premises, which could have a material adverse impact on RVI s and DSW s financial condition and results of operations. RVI s corporate offices as well as significant IT operations are located at this premises.

We have debt which could have consequences if we were unable to repay the balances or interest due.

We have debt on our balance sheet which could have consequences if we were unable to repay the balances or interest due. For example, it could:

- limit our flexibility in planning for, or reacting to, changes in our industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit our ability to seek and borrow additional funds; and
- expose us to risks inherent in interest rate fluctuations because some of our borrowings are at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

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Our business may not generate sufficient cash flow from operating activities or future availability under our credit facilities may not be in amounts sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before maturity. We may not be able to refinance any of our indebtedness on commercially reasonable terms or at all.

Upon the occurrence of an event of default under our existing credit facilities, the lenders could elect to declare the applicable outstanding indebtedness immediately due and payable and terminate all commitments to extend further credit. We cannot be sure that our lenders would waive a default or that we could pay the indebtedness in full if it were accelerated.

Filene s Basement and DSW s secured revolving credit facilities could limit operational flexibility.

$100 Million Secured Revolving Credit Facility The Filene s Basement Revolving Loan

Under the Filene s Basement Revolving Loan expiring January 23, 2013, Filene s Basement is named as the borrower. The Filene s Basement Revolving Loan is guaranteed by Retail Ventures and certain of its wholly-owned subsidiaries. Neither DSW nor DSWSW are borrowers or guarantors under the Filene s Basement Revolving Loan. The Filene s Basement Revolving Loan has borrowing base restrictions and provides for borrowings at variable interest rates based on the London Interbank Offered Rate or LIBOR, the prime rate and the Federal Funds effective rate, plus a margin. In addition to the borrowing base restrictions, 10% of the facility is deemed an excess reserve and is not available for borrowing. Obligations under the Filene s Basement Revolving Loan are secured by a lien on substantially all of the personal property of Filene s Basement, and of Retail Ventures and its other wholly-owned subsidiaries, excluding shares of DSW owned by Retail Ventures. In addition, the secured revolving credit facility contains usual and customary restrictive convenants relating to the management and operation of our business. These covenants, among other things, restrict Filene s Basement s ability to grant liens on Filene s Basement s assets, incur additional indebtedness, open or close stores, pay cash dividends and redeem Filene s Basement s stock, enter into transactions with affiliates and merge or consolidate with another entity. These covenants could restrict Filene s Basement s operational flexibility, and any failure to comply with these convenents or Filene s Basement s payment obligations would limit Filene s Basement s ability to borrow under the secured revolving credit facility and, in certain circumstances, may allow the lenders thereunder to require repayment.

$150 Million Secured Revolving Credit Facility The DSW Revolving Loan

DSW has entered into a $150 million secured revolving credit facility with a term expiring July 2010. Under this facility, DSW and its subsidiary DSWSW, are named as co-borrowers. This facility is subject to a borrowing base restriction and provides for borrowings at variable interest rates based on the London Interbank Offered Rate, or LIBOR, the prime rate and the Federal Funds effective rate, plus a margin. DSW s obligations under its secured revolving credit facility are secured by a lien on substantially all DSW s personal property and a pledge of DSW s shares of DSWSW. In addition, the secured revolving credit facility contains usual and customary restrictive covenants relating to the management and operation of our business. These covenants, among other things, restrict DSW s ability to grant liens on DSW s assets, incur additional indebtedness, open or close stores, pay cash dividends and redeem DSW s stock, enter into transactions with affiliates and merge or consolidate with another entity. In addition, if at any time DSW utilizes over 90% of DSW s borrowing capacity under the facility, DSW must comply with a fixed charge coverage ratio test set forth in the facility documents. These covenants could restrict DSW s operational flexibility, and any failure to comply with these covenants or DSW s payment obligations would limit DSW s ability to borrow under the secured revolving credit facility and, in certain circumstances, may allow the lenders thereunder to require repayment.

Our stock price may fluctuate significantly, which could negatively affect the trading of our common shares.

The market price of our common shares has fluctuated significantly in the past and may likely continue to fluctuate in the future, which could negatively affect the trading of our common shares. Various factors and events have caused this fluctuation and are likely to cause the fluctuations to continue. These factors include, among others:

- developments related to DSW and fluctuations in the market price of DSW shares;
- quarterly variations in actual or anticipated operating results;

changes by securities analysts in estimates regarding Retail Ventures;

conditions in the retail industry;

the condition of the stock market; and

general economic conditions.

Our failure to retain our existing senior management team and to continue to attract qualified new personnel could materially adversely affect our business.

Our business requires disciplined execution at all levels of our organization to ensure that we continually have sufficient inventories of assorted brand name merchandise at below traditional retail prices. This execution requires an experienced and talented management team. If we were to lose the benefit of the experience, efforts and abilities of our key executive and key buying personnel, our business could be materially adversely affected. We have entered into employment agreements with certain of these key personnel. Furthermore, our ability to manage our retail expansion will require us to continue to train, motivate and manage our employees and to attract, motivate and retain additional qualified managerial and merchandising personnel. Competition for these personnel is intense, and we may not be successful in attracting, assimilating and retaining the personnel required to grow and operate profitably.

We may be unable to compete favorably in our highly competitive markets.

The off-price retail, department store and retail footwear markets are highly competitive with few barriers to entry. We compete against a diverse group of retailers, both small and large, including locally owned, regional and national department stores, specialty retailers, discount chains and off-price retailers. Some of our competitors are larger and have substantially greater resources than we do. Our success depends on our ability to remain competitive with respect to style, price, brand availability and customer service. The performance of our competitors, as well as a change in their pricing policies, marketing activities and other business strategies, could have a material adverse effect on our business, financial condition, cash flow, results of operations and our market share.

SSC and/or its affiliates may compete directly against us.

Corporate opportunities may arise in the area of potential competitive business activities that may be attractive to SSC and us in the area of employee recruiting and retention. Any competition could intensify if SSC acquired a business that carried an assortment of shoes or merchandise in these stores similar to those found in our stores, targeted customers similar to ours or adopted a similar business model or strategy for its shoe businesses. Given that RVI and DSW are not wholly-owned by SSC, SSC may be inclined to direct relevant co