RETAIL VENTURES INC
Form 10-Q
September 10, 2009

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

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

For the quarterly period ended August 1, 2009

OR

o **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. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

Indicate by checkmark 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.

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company 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 Exchange Act). o Yes þ No

The number of outstanding Common Shares, without par value, as of August 31, 2009 was 48,937,729.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	August 1, 2009	January 31, 2009
ASSETS		
Cash and equivalents	$ 58,972	$ 94,308
Restricted cash		261
Short-term investments, net	139,687	101,404
Accounts receivable, net	6,347	7,142
Accounts receivable from related parties, net	187	332
Inventories	264,295	244,008
Prepaid expenses and other current assets	23,418	27,249
Deferred income taxes	26,598	22,243
Current assets held for sale		66,678
Total current assets	519,504	563,625
Property and equipment, net	223,187	236,355
Goodwill	25,899	25,899
Tradenames and other intangibles, net	3,241	3,668
Conversion feature of long-term debt	68,568	77,761
Deferred income taxes		805
Other assets	5,017	6,856
Non-current assets held for sale		38,793
Total assets	$ 845,416	$ 953,762

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

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

	August 1, 2009	January 31, 2009
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	$ 101,341	$ 93,088
Accounts payable to related parties	3,088	3,125
Accrued expenses:		
Compensation	9,822	12,632
Taxes	18,658	14,857
Gift cards and merchandise credits	13,976	15,491
Guarantees from discontinued operations	5,037	2,909
Other	30,847	31,175
Warrant liability	7,184	6,292
Current maturities of long-term obligations		250
Current liabilities held for sale		76,030
Total current liabilities	189,953	255,849
Long-term obligations, net of current maturities	128,643	127,576
Long-term guarantees of discontinued operations	19,347	9,980
Other noncurrent liabilities	98,647	99,310
Deferred income taxes	24,524	29,806
Noncurrent liabilities held for sale		36,055
Commitments and contingencies		
Shareholders equity:		
Common shares, without par value; 160,000,000 authorized; issued and outstanding, including 7,551 treasury shares, 48,945,280 and 48,691,280, respectively	308,283	306,868
Accumulated deficit	(103,218)	(76,930)
Treasury shares, at cost, 7,551 shares	(59)	(59)
Warrants		124
Accumulated other comprehensive loss	(614)	(655)
Accumulated other comprehensive loss held for sale		(6,734)
Total Retail Ventures shareholders equity	204,392	222,614
Noncontrolling interests	179,910	172,572
Total shareholders equity	384,302	395,186
Total liabilities and shareholders equity	$ 845,416	$ 953,762

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

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

	Three months ended		Six months ended	
	August 1, 2009	August 2, 2008	August 1, 2009	August 2, 2008
Net sales	$ 369,490	$ 357,175	$ 755,336	$ 723,439
Cost of sales	(210,267)	(198,515)	(427,867)	(409,613)
Gross profit	159,223	158,660	327,469	313,826
Selling, general and administrative expenses	(151,235)	(140,981)	(366,169)	(280,141)
Change in fair value of derivative instruments	(8,689)	16,733	(10,077)	53,901
Operating (loss) profit	(701)	34,412	(48,777)	87,586
Interest expense	(3,227)	(3,649)	(6,442)	(7,190)
Interest income	794	2,675	1,265	5,573
Interest expense, net	(2,433)	(974)	(5,177)	(1,617)
Non-operating income, net	528		133	
(Loss) income from continuing operations before income taxes	(2,606)	33,438	(53,821)	85,969
Income tax expense	(1,763)	(7,616)	(2,429)	(14,238)
(Loss) income from continuing operations	(4,369)	25,822	(56,250)	71,731
Income from discontinued operations, net of tax Value City	624	10,494	581	6,873
Income (loss) from discontinued operations, net of tax Filene s Basement	22,708	(14,628)	33,409	(23,959)
Total income (loss) from discontinued operations, net of tax	23,332	(4,134)	33,990	(17,086)
Net income (loss)	18,963	21,688	(22,260)	54,645
Less: net income attributable to the noncontrolling interests	(2,810)	(3,954)	(5,459)	(7,760)
Net income (loss) attributable to Retail Ventures, Inc.	$ 16,153	$ 17,734	$ (27,719)	$ 46,885
Basic and diluted earnings (loss) per share:				
Basic (loss) earnings per share from continuing operations attributable to Retail Ventures, Inc. common shareholders	$ (0.15)	$ 0.45	$ (1.26)	$ 1.31
	$ (0.15)	$ 0.45	$ (1.26)	$ 1.27

Diluted (loss) earnings per share from continuing operations attributable to Retail Ventures, Inc. common shareholders								
Basic earnings (loss) per share from discontinued operations attributable to Retail Ventures, Inc. common shareholders	$	0.48	$	(0.08)	$	0.70	$	(0.35)
Diluted earnings (loss) per share from discontinued operations attributable to Retail Ventures, Inc. common shareholders	$	0.48	$	(0.08)	$	0.70	$	(0.34)
Basic earnings (loss) per share attributable to Retail Ventures, Inc. common shareholders	$	0.33	$	0.36	$	(0.57)	$	0.96
Diluted earnings (loss) per share attributable to Retail Ventures, Inc. common shareholders	$	0.33	$	0.36	$	(0.57)	$	0.93
Shares used in per share calculations:								
Basic		48,934		48,675		48,813		48,657
Diluted		48,934		48,970		48,813		50,296
Amounts attributable to Retail Ventures, Inc. common shareholders:								
(Loss) income from continuing operations, net of tax	$	(7,179)	$	21,868	$	(61,709)	$	63,971
Discontinued operations, net of tax		23,332		(4,134)		33,990		(17,086)
Net income (loss)	$	16,153	$	17,734	$	(27,719)	$	46,885

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		Retail Ventures, Inc. Shareholders						
	Common Shares	Common Shares in Treasury	Common Shares	Retained Earnings (Accumulated Deficit)	Treasury Shares	Warrants	Total Accumulated Other Comprehensive Loss	Non-controlling Interests	Total
Balance, February 2, 2008	48,623	8	$ 305,254	$ (130,577)	$ (59)	$ 124	$ (1,819)	$ 160,349	$ 333,272
Net income from continuing operations				63,971				7,760	71,731
Net loss from discontinued operations				(17,086)					(17,086)
Unrealized loss on available-for-sale securities, net of tax benefit of $115							(175)		(175)
Total comprehensive income									*$ 54,470*
Capital transactions of subsidiary				1,404				1,151	2,555
Stock based compensation expense, before related tax effects			685						685
Exercise of stock options	62		194						194
Balance, August 2, 2008	48,685	8	$ 306,133	$ (82,288)	$ (59)	$ 124	$ (1,994)	$ 169,260	$ 391,176
Balance, January 31, 2009	48,691	8	$ 306,868	$ (76,930)	$ (59)	$ 124	$ (7,389)	$ 172,572	$ 395,186
Net (loss) income from continuing operations				(61,709)				5,459	(56,250)
				33,990					33,990

Net income from discontinued operations									
Unrealized loss on available-for-sale securities							(74)		(74)
Total comprehensive loss									*$ (22,334)*
Capital transactions of subsidiary				1,431				1,879	3,310
Stock based compensation expense, before related tax effects			909						909
Exercise of stock options	254		506						506
Other comprehensive income of discontinued operations							6,734		6,734
Cumulative effect of adoption of new accounting pronouncement						(115)	115		
Reclassification of warrants to liability						(9)			(9)
Balance, August 1, 2009	48,945	8	$ 308,283	$ (103,218)	$ (59)	$	$ (614)	$ 179,910	$ 384,302

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

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

	Six months ended August 1, 2009	Six months ended August 2, 2008
Cash from operating activities:		
Net (loss) income	$ (22,260)	$ 54,645
Less: (income) loss from discontinued operations, net of tax	(33,990)	17,086
(Loss) income before discontinued operations	$ (56,250)	$ 71,731
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of debt issuance costs and discount on debt	1,742	1,825
Stock based compensation expense	909	685
Stock based compensation expense of subsidiary	1,431	1,404
Depreciation and amortization	22,981	16,971
Change in fair value of derivative instruments	10,077	(53,901)
Deferred income taxes and other noncurrent liabilities	(15,714)	(4,221)
Impairment charges on long-lived assets	1,645	730
Non-operating income, net	(133)	
Loss on disposal of assets	271	301
Impairment charges on receivables from Filene s Basement	57,864	
Other	1,879	1,226
Change in working capital, assets and liabilities:		
Accounts receivable	1,681	6,188
Inventories	(20,287)	(24,832)
Prepaid expenses and other current assets	3,729	(1,221)
Accounts payable	7,163	11,535
Proceeds from lease incentives	4,867	10,416
Accrued expenses	(11,656)	(1,342)
Net cash provided by operating activities from continuing operations	12,199	37,495
Net cash provided by (used in) operating activities from discontinued operations	20,563	(9,748)
Cash flows from investing activities:		
Cash paid for property and equipment	(11,094)	(42,609)
Purchases of available-for-sale investments	(109,313)	(107,639)
Maturities and sales from available-for-sale investments	77,530	110,618
Purchases of held-to-maturity investments	(5,175)	(2,000)
Transfer of cash from restricted cash	10,261	
Transfer of cash to restricted cash	(10,000)	
Net cash used in investing activities from continuing operations	(47,791)	(41,630)
Net cash used in investing activities from discontinued operations	(158)	(988)

Cash flows from financing activities:				
Payment of current maturities on long-term obligations		(250)		
Proceeds from exercise of stock options		506		194
Net cash provided by financing activities from continuing operations		256		194
Net cash (used in) provided by financing activities from discontinued operations		(25,181)		12,500
Net decrease in cash and equivalents from continuing operations	$	(35,336)	$	(3,941)
Cash and equivalents from continuing operations, beginning of period		94,308		107,260
Cash and equivalents from continuing operations, end of period	$	58,972	$	103,319
Net (decrease) increase in cash and equivalents from discontinued operations	$	(4,776)	$	1,764
Cash and equivalents from discontinued operations, beginning of period		4,776		5,691
Cash and equivalents from discontinued operations, end of period	$		$	7,455

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 two segments in the United States of America (United States). DSW Inc. (DSW) is a specialty branded footwear retailer. As of August 1, 2009, DSW operated a total of 306 stores located throughout the United States and dsw.com. DSW also supplies shoes, under supply arrangements, for 358 locations for four retailers in the United States. The Corporate segment consists of all revenue and expenses that are not allocated to the other segment.

As of August 1, 2009, Retail Ventures owned Class B Common Shares of DSW representing approximately 62.8% 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 (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 of $76.2 million on the transaction as of August 1, 2009. As part of the transaction, Retail Ventures, Inc. 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. The warrants expired in the quarter ended August 1, 2009. 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. On October 26, 2008, Value City filed for bankruptcy protection and announced that it would close its remaining stores. The Company 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. As of August 1, 2009, the Company is still providing Value City with limited transition services.

On April 21, 2009, Retail Ventures entered into and consummated the transactions contemplated by a definitive agreement dated April 21, 2009 (the Purchase Agreement) to dispose of Filene s Basement, Inc. and certain related entities to FB II Acquisition Corp., a newly formed entity owned by Buxbaum Holdings, Inc. (Buxbaum). Retail Ventures did not realize any cash proceeds from this transaction and will pay a fee of $1.3 million to Buxbaum, of which $0.4 million has been paid through August 1, 2009, and has reimbursed $0.4 million of Buxbaum s costs associated with the transaction. Retail Ventures has also agreed to indemnify Buxbaum, FB II Acquisition Corp. and their owners against certain liabilities. Retail Ventures has recognized an after-tax gain of $64.9 million on the transaction as of August 1, 2009. As a result of the disposition, Filene s Basement is no longer a related party of Retail Ventures. On May 4, 2009, Filene s Basement filed for bankruptcy protection. On June 18, 2009, following bankruptcy court approval, SYL LLC, a subsidiary of Syms Corp (Syms), purchased certain assets of Filene s Basement. All references to liquidating Filene s Basement refer to the debtor, formerly known as Filene s Basement Inc., and its debtor subsidiaries remaining after the asset purchase by a subsidiary of Syms. All references to New Filene s Basement refer to the stores operated by Syms. The Company negotiated with Syms to provide transition services in exchange for payment. As of August 1, 2009, the Company is still providing transition services to Syms.

DSW. DSW is a leading U.S. specialty branded footwear retailer operating stores in 39 states as of August 1, 2009. Its stores offer a remarkable selection of better-branded dress, casual and athletic footwear for women and men. As of August 1, 2009, DSW, pursuant to supply agreements, operated 269 leased shoe departments for Stein Mart, Inc., 65 for Gordmans, Inc., 23 for Filene s Basement and one for Frugal Fannie s Fashion Warehouse. Supply agreements results are included within the DSW segment. During the six months ended August 1, 2009, DSW opened eight new DSW stores, ceased operations in 20 leased departments and added one new leased department.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Corporate. The Corporate segment represents the corporate assets, liabilities and expenses not allocated to the other segment, debt related expenses and income on investments.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2009, as filed with the Securities and Exchange Commission (the SEC) on April 30, 2009 (the 2008 Annual Report).

In the opinion of management, the unaudited condensed consolidated interim 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.

Allowance for Doubtful Accounts The Company monitors its exposure for losses and records related allowances for doubtful accounts. Allowances are estimated based upon specific accounts receivable balances, where a risk of default has been identified. As of August 1, 2009 and January 31, 2009, the Company s allowance for doubtful accounts was $6.7 million and $1.2 million, respectively. The increase in the allowance is primarily related to allowances recorded related to receivables from liquidating Filene s Basement. In addition, during the quarter ended May 2, 2009, there was an allowance recorded for $52.6 million to fully reserve for the notes receivable from liquidating Filene s Basement.

Inventories Merchandise inventories are stated at net realizable value, determined using the first-in, first-out basis, or market, using the retail inventory method. The retail method is widely used in the retail industry due to its practicality. Under the retail inventory method, the valuation of inventories at cost and the resulting gross profits are calculated by applying a calculated cost to retail ratio to the retail value of inventories. The cost of the inventory reflected on the balance sheet is decreased by charges to cost of sales at the time the retail value of the inventory is lowered through the use of markdowns, which are reductions in prices due to customers perception of value. Hence, earnings are negatively impacted as the merchandise is marked down prior to sale.

Inherent in the calculation of inventories are certain significant management judgments and estimates, including setting the original merchandise retail value, markdowns, and estimates of losses between physical inventory counts, or shrinkage, which combined with the averaging process within the retail method, can significantly impact the ending inventory valuation at cost and the resulting gross profit.

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

Tradenames and Other Intangible Assets, net Tradenames and other intangible assets are comprised of values assigned to names the Company acquired and leases acquired. The accumulated amortization for these assets is $9.7 million and $9.2 million at August 1, 2009 and January 31, 2009, respectively.

The asset value and accumulated amortization of intangible assets is as follows:

	August 1, 2009	January 31, 2009
	(in thousands)	
Not subject to amortization		
Domain names	$ 21	$ 21
Subject to amortization		
Tradenames:		
Gross asset	$ 12,750	$ 12,750
Accumulated amortization	(9,563)	(9,138)
Subtotal	$ 3,187	$ 3,612
Favorable leases:		
Gross asset	$ 140	$ 140
Accumulated amortization	(107)	(105)
Subtotal	$ 33	$ 35
Tradenames and other intangible assets, net	$ 3,241	$ 3,668

Amortization expense for each of the three and six months ended August 1, 2009 and August 2, 2008 was $0.2 million and $0.4 million, respectively. Amortization associated with the net carrying amount of intangible assets at August 1, 2009 is estimated to be $0.5 million for the remainder of fiscal year 2009, $0.9 million in each of fiscal years 2010 through 2012 and $0.2 million in fiscal year 2013.

Customer Loyalty Program The Company maintains a customer loyalty program for the DSW stores and dsw.com in which program members earn reward certificates that result in discounts on future purchases. Upon reaching the target-earned threshold, the members receive reward certificates for these discounts which must be redeemed within six months. The Company accrues the anticipated redemptions of the discount earned at the time of the initial purchase. To estimate these costs, DSW is required to make assumptions related to customer purchase levels and redemption rates based on historical experience. The accrued liability as of August 1, 2009 and January 31, 2009 was $7.8 million and $7.3 million, respectively.

Noncontrolling Interests During both the three and six months ended August 1, 2009 and August 2, 2008, there was an immaterial impact to the net income (loss) attributed to Retail Ventures, Inc. as a result of the additional DSW common shares outstanding from DSW director stock unit grants. The Company granted 43,627 director stock units and 45,130 director stock units during the three and six months ended August 1, 2009, respectively and granted 38,882 and 41,229 during the three and six months ended August 2, 2008, respectively.

Sales and Revenue Recognition Revenues from merchandise sales are recognized upon customer receipt of merchandise, are net of returns and sales tax and are not recognized until collectability is reasonably assured. For dsw.com, the Company estimates a time lag for shipments to record revenue when the customer receives the goods. Net sales also include revenue from shipping and handling while the related costs are included in cost of sales.

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(unaudited)

Revenue from gift cards is deferred and recognized upon redemption of the gift card. The Company s policy is to recognize income from breakage of gift cards when the likelihood of redemption of the gift card is remote. The Company recognized $0.2 million as miscellaneous income from gift card breakage during each of the three months ended August 1, 2009 and August 2, 2008 and recognized $0.4 million and $0.3 million as miscellaneous income from gift card breakage during the six months ended August 1, 2009 and August 2, 2008, respectively.

Income Taxes Income taxes are accounted for using the asset and liability method as required by Financial Accounting Standards Board (FASB) Statement No. 109, *Accounting for Income Taxes* (FAS 109). Under this method, deferred income taxes arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. A valuation allowance is established against deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Sale of Subsidiary Stock Sales of stock by a subsidiary are accounted for by Retail Ventures as capital transactions.

Subsequent Events The Company has evaluated subsequent events through September 10, 2009, the date the Company s financial statements were issued.

3. ADOPTION OF ACCOUNTING STANDARDS

In December 2007, the FASB issued FASB Statement No. 141R, *Business Combinations* (FAS 141R), FAS 141R establishes a framework for how an acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination. FAS 141R was effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. Adoption of FAS 141R during the first quarter of fiscal year 2009 did not impact the Company s consolidated financial statements.

In December 2007, the FASB issued FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (previously referred to as minority interest) and for the deconsolidation of a subsidiary. This statement shall be applied prospectively as of the beginning of the fiscal year in which this statement is initially adopted, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. The statement was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, with early adoption prohibited. The adoption of this statement during the first quarter of fiscal year 2009 resulted in enhanced disclosures regarding the minority interests of DSW as well as some presentation changes of minority interests within the balance sheets, statements of operations and statements of changes in shareholders equity.

In March 2008, the FASB issued FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, (FAS 161). This statement establishes enhanced disclosures about the entity s derivative and hedging activities. This statement was effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Adoption of FAS 161 during the first quarter of fiscal year 2009 resulted in enhanced disclosure regarding the Company s derivative instruments. See note 7 for additional information regarding Retail Ventures derivative instruments.

In June 2008, the FASB issued Emerging Issues Task Force (EITF) Issue 07-5, *Determining whether an Instrument (or Embedded Feature) is indexed to an Entity s Own Stock* (EITF No. 07-5). This Issue was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. Paragraph 11(a) of Statement of Financial Accounting Standard No. 133, Accounting for Derivatives and Hedging Activities (FAS 133), specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company s own stock and (b) classified in stockholders equity in the statement of financial position would not be considered a derivative financial instrument. EITF No. 07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer s own stock and thus able to qualify for the FAS 133 paragraph 11(a) scope exception. The adoption of EITF No. 07-5 during the first quarter of fiscal year 2009 resulted in the redesignation and reclassification of the VCHI Warrants from Equity to Liability within the balance sheets. In addition, the VCHI Warrants were marked to market as of the date of the adoption and continued to be marked to market through their expiration date.

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

In November 2008, the FASB issued EITF Issue 08-8, *Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity s Consolidated Subsidiary* (EITF No. 08-8). This Issue was effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. EITF No. 08-8 supersedes EITF No. 00-6 and amends EITF 00-19 such that provided that the subsidiary is a substantive entity, instruments indexed to the stock of a subsidiary could be considered indexed to the entity s own stock within the consolidated financial statements. The instruments should be evaluated using EITF No. 07-5 and other applicable guidance to determine the classification of the instrument. The adoption of EITF 08-8 during the first quarter of fiscal year 2009 did not have any impact on the consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position (FSP) FAS142-3, *Determination of the Useful Life of Intangible Assets*, (FSP FAS 142-3). FSP FAS 142-3 amends factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this FSP is to improve consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure its fair value. This FSP was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. The guidance within FSP FAS 142-3 was prospectively applied to intangible assets acquired after the effective date. The disclosure requirements of FSP FAS 142-3 was applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. The adoption of FSP FAS 142-3 during the first quarter of fiscal year 2009 did not have any impact on the consolidated financial statements.

In May 2008, the FASB issued FSP APB14-1, *Accounting for Convertible Debt Instruments that May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1). FSP APB 14-1 applies to convertible debt instruments that may be settled in cash (including partial cash settlement) unless the embedded conversion option is required to be separately accounted for as a derivative under FAS 133. FSP APB 14-1 requires that the convertible debt instrument is separated into a liability-classified component and an equity-classified component in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP APB 14-1 during the first quarter of fiscal year 2009 did not have any impact on the consolidated financial statements. Additional disclosures related to the Company s convertible debt have been included in Note 7 as a result of the adoption of FSP APB 14-1.

In June 2008, the FASB issued EITF No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF No. 03-6-1). FSP EITF No 03-6-1 addresses whether awards granted in unvested share-based payment transactions that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and therefore need to be included in computing earnings per share under the two-class method, as described in FAS No. 128, Earnings Per Share. This FSP was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and was applied retrospectively in accordance with the FSP. The adoption of FSP EITF No. 03-6-1 during the first quarter of fiscal year 2009 did not have any impact on the consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157*, (FSP 157-2), which delayed the effective date of FASB Statement No. 157, *Fair Value Measurements* (FAS 157) for non-financial assets and liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. FAS 157, which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. Refer to Note 8 for additional information regarding the Company s fair value measurements.

In April 2009, the Financial Accounting Standards Board issued FASB Staff Position FAS 157-4, *Determining Fair Value when the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly* (FSP 157-4). FSP 157-4 affirms that the objective of fair value when the market for an asset is not active is 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 under current market conditions. The FSP provides guidance for estimating fair value when the volume and level of market activity for an asset or liability have significantly decreased and determining whether a transaction was orderly. This FSP applies to all fair value measurements when appropriate. The adoption of FSP 157-4 during the second quarter of fiscal year 2009 did not have an impact on the Company s consolidated financial statements.

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In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP 115-2). FSP 115-2 amends existing guidance for determining whether an other-than-temporary impairment of debt securities has occurred. FSP 115-2 replaces the existing requirement that an entity s management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert (a) it does not have the intent to sell the security, and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. The adoption of FSP 115-2 during the second quarter of fiscal year 2009 did not have an impact on the Company s consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1). FSP 107-1 requires an entity to provide the annual disclosures required by FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, in its interim consolidated financial statements. The adoption of FSP 107-1 during the second quarter of fiscal year 2009 did not have a significant impact on the consolidated financial statements.

In May 2009, the FASB issued FASB Statement No. 165, *Subsequent Events* (FAS 165). FAS 165 requires an entity to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. This statement should not result in significant changes in the subsequent events the entity reports, either through recognition or disclosure, in its financial statements. FAS 165 is effective for interim periods or fiscal years ending after June 15, 2009. The adoption of FAS 165 during the second quarter of fiscal year 2009 did not have an impact on the Company s consolidated financial statements.

In June 2009, the FASB issued FAS No. 166, *Accounting for Transfers of Financial Assets, an amendment to FASB Statement No. 140*, (FAS 166). This Statement eliminates the concept of a qualifying special-purpose entity from Statement of Financial Accounting Standard No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125, (FAS 140) and removes the exception from applying FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, (FIN 46(R)) to qualifying special-purpose entities. FAS 166 is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years, and will not impact the Company s consolidated financial statements.

In June 2009, the FASB issued FAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, (FAS 167). The Statement requires ongoing assessments using a primarily qualitative approach rather than the quantitative-based risks and rewards calculation in determining which entity has a controlling interest in a variable interest entity. In addition, an additional reconsideration assessment should be completed when an event causes a change in facts or circumstances. Lastly, the Statement requires additional disclosures about an entity s involvement in variable interest entities. FAS 167 is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years, and will not impact the Company s consolidated financial statements.

In June 2009, the FASB issued the FASB Statement No. 168, *FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FAS 168). The Codification will be the sole source of authoritative U.S. accounting and reporting standards recognized by the FASB. Rules and interpretive releases of the SEC are also sources of authoritative GAAP. FAS 168 is effective for financial statements issued for periods ending after September 15, 2009. The adoption of FAS 168 will not have an impact on the Company s financial position or results of operations. Upon adoption of FAS 168, references within financial statement disclosures will be modified to reference the Codification.

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4. DISCONTINUED OPERATIONS

Value City

As mentioned above, on January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City operations. 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. The warrants expired in the quarter ended August 1, 2009. Retail Ventures received no net cash proceeds from the sale and paid a fee of $500,000 to the purchaser. Retail Ventures recognized an aggregate after-tax loss related to the Value City disposition of $76.2 million as of August 1, 2009, including a decrease in the loss of $0.6 million recognized in the six months ended August 1, 2009. The decrease in the loss consisted primarily of revaluations of the liabilities due to the passage of time for the guarantees recorded by Retail Ventures. As of August 1, 2009, Retail Ventures is still providing Value City with limited transition services.

Filene s Basement

As previously discussed, on April 21, 2009, RVI disposed of its Filene s Basement operations. RVI did not realize any cash proceeds from this transaction and will pay a fee of $1.3 million to Buxbaum, of which $0.4 million has been paid through August 1, 2009, and reimbursed $0.4 million of Buxbaum s costs associated with the transaction. RVI also agreed to indemnify Buxbaum, FB II Acquisition Corp. and their owners against certain liabilities. As of August 1, 2009, RVI had recorded a liability of $12.0 million for the guarantees of Filene s Basement commitments, including but not limited to $2.5 million under lease obligations related to leases not assumed by New Filene s Basement and $9.5 million under certain laws, related to certain employee benefit plans. RVI has recognized an after-tax gain of $64.9 million on the transaction as of August 1, 2009. The $64.9 million gain on the disposition of Filene s Basement is comprised of the write-off of the investment in Filene s Basement partially offset by the recording of guarantees of $12.0 million, other transaction related expenses of $3.1 million, impairment charges of $1.8 million and income tax expenses of $1.8 million.

On August 16, 2006, Filene s Basement entered into a Promissory Note with Retail Ventures for $27.6 million, due August 16, 2013. In addition, on January 3, 2008, Filene s Basement entered into a Promissory Note with Retail Ventures for $25.0 million, due February 1, 2013. The interest on each note between Filene s Basement and Retail Ventures accrues at 13% per annum. The notes and related interest receivable were fully reserved for during the quarter ended May 2, 2009.

On May 4, 2009, liquidating Filene s Basement filed for bankruptcy protection. As a result of the filing, RVI has determined that the notes receivable from liquidating Filene s Basement, the related accrued interest receivable and accounts receivable from liquidating Filene s Basement were fully impaired and recorded bad debt expense of $57.4 million related to these assets. In addition, DSW recorded bad debt expense related to the impairment of certain accounts receivable from liquidating Filene s Basement of $0.5 million. Therefore, included in the consolidated results of operations of RVI for the six months ended August 1, 2009, is bad debt expense of $57.9 million related to the impairment of these items.

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The following table presents the significant components of Filene s Basement operating results included in discontinued operations. As previously discussed, on April 21, 2009, RVI disposed of its Filene s Basement operations.

	Three months ended August 1, 2009	Three months ended August 2, 2008	Six months ended August 1, 2009	Six months ended August 2, 2008
	(in thousands)			
Net sales		$ 102,611	$ 63,351	$ 202,631
Loss before income taxes		$ (14,563)	$ (31,195)	$ (24,038)
Income tax (provision) benefit		(65)	(345)	79
Gain on sale	$ 22,708		64,949	
Income (loss) from discontinued operations, net of tax Filene s Basement	$ 22,708	$ (14,628)	$ 33,409	$ (23,959)

The following table presents the financial classification of assets and liabilities of Filene s Basement reflected as held for sale in the Condensed Consolidated Balance Sheets as of January 31, 2009 (in thousands):

	January 31, 2009
Cash	$ 4,776
Accounts receivable, net	1,670
Inventories	58,384
Prepaid expenses and other	1,848
Total current assets	66,678
Property and equipment, net	33,590
Tradenames and intangibles, net	4,255
Other non current assets	948
Total non current assets	38,793
Total assets	$ 105,471
Accounts payable, net	$ 18,805
Accrued expenses	17,642
Revolving credit facility	39,583
Total current liabilities	76,030
Other non current liabilities	36,055

Total non current liabilities		36,055
Total liabilities	$	112,085

As of January 31, 2009, Filene s Basement had accumulated other comprehensive loss of $6.7 million related to the minimum pension liability.

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5. STOCK BASED COMPENSATION

Retail Ventures Stock Compensation Plans

The Company has an Amended and Restated 2000 Stock Incentive Plan (the 2000 Plan) that provides for the issuance of equity awards covering up to 13.0 million common shares, including stock options, stock appreciation rights and restricted stock, to management, key employees of Retail Ventures and affiliates, consultants (as defined in the plan), and non-employee directors of Retail Ventures. Options granted under the plan generally vest 20% per year on a cumulative basis and remain exercisable for a period of ten years from the date of grant.

The Company has an Amended and Restated 1991 Stock Option Plan that provided for the grant of equity awards covering up to 4.0 million common shares. Options granted under the plan are generally exercisable 20% per year on a cumulative basis and remain exercisable for a period of ten years from the date of grant.

During the six months ended August 1, 2009 and August 2, 2008, included in income from continuing operations is stock based compensation expense of approximately $4.2 million and $3.2 million, respectively, which includes approximately $2.9 million and $2.0 million, respectively, of expenses recorded by DSW, before accounting for the noncontrolling interests.

The following tables summarize the activity of the Company s stock options, stock appreciation rights (SARs) and restricted stock units (RSUs) for the six months ended August 1, 2009 (in thousands):

Six months ended August 1, 2009	Stock Options	SARs	RSUs
Outstanding beginning of period	1,247	395	12
Granted	25		
Exercised	(254)		(6)
Forfeited	(200)	(164)	
Outstanding end of period	818	231	6
Exercisable end of period	768	209	

Stock Options

The following table illustrates the weighted-average assumptions used in the option-pricing model for options granted in each of the periods presented.

	Six months ended	
	August 1, 2009	August 2, 2008
Assumptions:		
Risk-free interest rate	1.9%	2.8%
Expected volatility of Retail Ventures common shares	83.3%	55.9%
Expected option term	5.0 years	5.0 years
Expected dividend yield	0.0%	0.0%

The weighted-average grant date fair value of options granted in the three months ended August 1, 2009 and August 2, 2008 was $1.96 per share and $2.71 per share, respectively, and for the six months ended August 1, 2009 and August 2, 2009 was $1.77 per share and $3.31 per share, respectively.

Stock Appreciation Rights

Expense of $0.7 million and $0.6 million was recorded in continuing operations during the six months ended August 1, 2009 and August 2, 2008, respectively, relating to SARs.

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Restricted Stock Units

The Company s continuing operations recorded a reduction of compensation expense of less than $0.1 million and compensation expense of $0.1 million related to the restricted stock units in the six months ended August 1, 2009 and August 2, 2008, respectively. The amount of restricted stock units accrued at both August 1, 2009 and January 31, 2009 was less than $0.1 million.

Restricted Shares

The Company issues restricted common shares to certain key employees pursuant to individual employment agreements and certain other grants from time to time, which are approved by the Board of Directors. The agreements condition the vesting of the shares generally upon continued employment with the Company with such restrictions expiring over various periods ranging from three to five years. The market value of the shares at the date of grant is charged to expense on a straight-line basis over the period that the restrictions lapse. As of January 31, 2009, the Company had 50,000 restricted common shares outstanding, which were all attributed to the discontinued operations. All 50,000 restricted shares were forfeited during the quarter ended May 2, 2009.

DSW Stock Compensation Plan

DSW has a 2005 Equity Incentive Plan (the Plan) that provides for the issuance of equity awards to purchase up to 7.6 million common shares, including stock options and restricted stock units to management, key employees of DSW and affiliates, consultants (as defined in the Plan) and directors of DSW. DSW stock options, RSUs and director stock units are not included in the number of shares used in the basic or dilutive calculation of earnings per share of Retail Ventures. During the six months ended August 1, 2009 and August 2, 2008, DSW recorded stock based compensation expense of approximately $2.9 million and $2.0 million, respectively.

The following tables summarize the activity of DSW s stock options and RSUs for the six months ended August 1, 2009 (in thousands):

	Stock Options	RSUs
Outstanding beginning of period	2,125	226
Granted	934	177
Exercised		(73)
Forfeited	(304)	(58)
Outstanding end of period	2,755	272
Exercisable end of period	895	

Stock Options

The weighted-average grant date fair value of each option granted in the three months ended August 1, 2009 and August 2, 2008 was $6.42 and $6.10 per share, respectively, and for the six months ended August 1, 2009 and August 2, 2009 was $5.07 per share and $5.88 per share, respectively. The following table illustrates the weighted-average assumptions used in the Black-Scholes option-pricing model for options granted in each of the periods presented:

	Six months ended	
	August 1, 2009	August 2, 2008
Assumptions:		
Risk-free interest rate	1.9%	2.7%
Expected volatility of DSW common shares	57.6%	48.1%
Expected option term	4.9 years	4.9 years
Expected dividend yield	0.0%	0.0%

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Restricted Stock Units

The total aggregate intrinsic value of nonvested restricted stock units at August 1, 2009 was $3.7 million. As of August 1, 2009, the total compensation cost related to nonvested restricted stock units not yet recognized was approximately $2.7 million with a weighted average expense recognition period remaining of 2.0 years. The weighted average exercise price for all restricted stock units is zero.

Director Stock Units

DSW issues stock units to directors who are not employees of DSW or RVI. During the six months ended August 1, 2009 and August 2, 2008, DSW granted 45,130 and 41,229 director stock units, respectively, and expensed $0.6 million in each respective three and six month period for these grants. As of August 1, 2009, 128,331 director stock units had been issued and no director stock units had been settled.

6. INVESTMENTS

The Company determines the appropriate balance sheet classification of its investments at the time of purchase and evaluates the classification at each balance sheet date. If the Company has the intent and ability to hold the investments to maturity, investments are classified as held-to-maturity. Held-to-maturity securities are stated at amortized cost plus accrued interest. As of August 1, 2009, the Company had held-to-maturity investments of $5.2 million in tax exempt term notes that will mature in the third quarter of fiscal 2009. All other investments are classified as available-for-sale and stated at current market value.

Short-term investments, classified as available-for-sale, as of August 1, 2009 and January 31, 2009 include tax exempt, tax advantaged and taxable bonds, variable rate demand notes, tax exempt commercial paper, certificates of deposit and an auction rate security. The Company also participates in the Certificate of Deposit Account Registry Service® (CDARS). CDARS provides FDIC insurance on deposits of up to $50.0 million. Certificates of deposit mature every 28 to 91 days. The other types of short-term investments generally have interest reset dates of every 3 to 7 days. Despite the long-term nature of the stated contractual maturities of certain short-term investments, the Company has the ability to quickly liquidate these securities. As a result, the Company has classified these securities as available-for-sale.

For the six months ended August 1, 2009, the Company recorded a net temporary impairment of less than $0.1 million related to its auction rate security. In the second quarter of fiscal 2009, the Company recorded an unrealized gain of $0.2 million related to this security. The net impairment recorded during the six months ended August 1, 2009 is in addition to temporary impairments of $0.7 million recorded in fiscal 2008 related to this security. The Company believes the impairment is temporary as the security is a perpetual preferred security that possesses certain debt-like characteristics and the Company believes it has the ability to hold the security until it can recover its value.

In the first quarter of fiscal 2009, the Company received preferred shares as distributions-in-kind on two of its auction rate securities. The Company sold these preferred shares during the second quarter of fiscal 2009 for a realized gain of $0.5 million, excluding the other-than-temporary impairments recorded in fiscal 2008 and the first quarter of fiscal 2009.

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The following table discloses the major categories of the Company s investments as of August 1, 2009 and January 31, 2009:

	Short-term investments, net		Long-term investments, net	
	August 1, 2009	Jan. 31, 2009	August 1, 2009	Jan. 31, 2009
	(in thousands)			
Available for sale:				
Tax exempt, tax advantaged and taxable bonds	$ 106,186	$ 65,829		
Variable rate demand notes	13,555	16,580		
Tax exempt commercial paper		2,000		
Certificates of deposit	13,000	14,000		
Auction rate securities	2,500	3,650		$ 2,400
Other-than-temporary impairment				(1,134)
Unrealized losses included in accumulated other comprehensive loss	(729)	(655)		
Total available for sale	$ 134,512	$ 101,404		$ 1,266
Held-to-maturity:				
Tax exempt term notes	$ 5,175			
Total investments	$ 139,687	$ 101,404		$ 1,266

7. LONG-TERM OBLIGATIONS AND WARRANT LIABILITIES

Long-term obligations of continuing operations consist of the following (in thousands):

	August 1, 2009	January 31, 2009
Credit facilities:		
Senior Loan Agreement related parties		$ 250
Premium Income Exchangeable Securities (PIES)	$ 133,750	133,750
Discount on PIES	(5,107)	(6,174)
	128,643	127,826
Less: current maturities		(250)
Total long term obligations of continuing operations	$ 128,643	$ 127,576
Letters of credit outstanding under DSW revolving credit facility	$ 20,228	$ 17,709
Availability under DSW revolving credit facility	$ 129,772	$ 132,291

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DSW has a $150 million secured revolving credit facility with a term of five years that will expire on July 5, 2010. Under this facility, the Company and its subsidiaries are named as co-borrowers. The facility has borrowing base restrictions and provides for borrowings at variable interest rates based on LIBOR, the prime rate and the Federal Funds effective rate, plus a margin. DSW s obligations under this facility are secured by a lien on substantially all of its and its subsidiary s personal property and a pledge of its shares of DSW Shoe Warehouse, Inc. (DSWSW). In addition, the secured revolving credit facility contains usual and customary restrictive covenants relating to the management and the operation of the business. These covenants, among other things, restrict the DSW s ability to grant liens on its assets, incur additional indebtedness, open or close stores, pay cash dividends and redeem its stock, enter into transactions with affiliates and merge or consolidate with another entity. In addition, if at any time DSW utilizes over 90% of its borrowing capacity under the facility, DSW must comply with a fixed charge coverage ratio test set forth in the facility documents. DSW intends to refinance the DSW Revolving Loan on a long-term basis. As of August 1, 2009 and January 31, 2009, there were no outstanding borrowings and there was availability under the facility of $129.8 million and $132.3 million, respectively. DSW had outstanding letters of credit of $20.2 million and $17.7 million, respectively, as of August 1, 2009 and January 31, 2009.

Deferred Rent

Many of the Company s operating leases contain predetermined fixed increases of the minimum rental rate during the initial lease terms. For these leases, the Company recognizes the related rental expense on a straight-line basis and records the difference between the amount charged to expense and the rent paid as deferred rent and begins amortizing such deferred rent upon the delivery of the lease location by the lessor. The amounts of deferred rent included in the other non-current liabilities caption, excluding discontinued operations, were $34.2 million and $33.5 million at August 1, 2009 and January 31, 2009, respectively.

Tenant and Construction Allowances

The Company receives cash allowances from landlords, which are deferred and amortized on a straight-line basis over the original terms of the lease as a reduction of rent expense. The unamortized allowances included in the other non-current liabilities caption, excluding discontinued operations, were $62.1 million and $63.7 million at August 1, 2009 and January 31, 2009, respectively.

Derivative Instruments

The Company has derivative instruments, warrants and the conversion feature of convertible debt, that it has issued in conjunction with past financing activities. As of August 1, 2009 and January 31, 2009, Retail Ventures did not have any derivatives designated as hedges nor has Retail Ventures entered into derivative instruments for trading purposes. FAS 133 requires recognition of all qualifying derivative instruments as either assets or liabilities on the balance sheet at fair value. Retail Ventures utilizes the Black-Scholes pricing model to compute the fair value of its derivative instruments. The Company s derivative instruments outstanding as of August 1, 2009, are described in detail below.

$143,750,000 Premium Income Exchangeable Securities^{SM} (PIES)

The Premium Income Exchangeable Securities^{SM} (PIES) bear a coupon at an annual rate of 6.625% of the principal amount and mature on September 15, 2011. Except to the extent RVI exercises its cash settlement option, the PIES are mandatorily exchangeable, on the maturity date, into Class A Common Shares of DSW, no par value per share, which are issuable upon exchange of DSW Class B Common Shares, no par value per share, beneficially owned by RVI. On the maturity date, each holder of the PIES will receive a number of DSW Class A Common Shares per $50.0 principal amount of PIES equal to the exchange ratio described in the RVI prospectus filed with the SEC on August 11, 2006, or if RVI elects, the cash equivalent thereof or a combination of cash and DSW Class A Common Shares. The exchange ratio is equal to the number of DSW Class A Common Shares determined as follows: (i) if the applicable market value of DSW Class A Common Shares equals or exceeds $34.95, the exchange ratio will be 1.4306 shares; (ii) if the applicable market value of DSW Class A Common Shares is less than $34.95 but greater than $27.41, the exchange ratio will be between 1.4306 and 1.8242 shares; and (iii) if the applicable market value of DSW Class A Common Shares is less than or equal to $27.41, the exchange ratio will be 1.8242 shares, subject to adjustment as provided in the PIES. The maximum aggregate number of DSW Class A Common Shares deliverable upon exchange of the PIES is 5,244,575 DSW Class A Common Shares subject to adjustment as provided in the PIES.

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The embedded exchange feature of the PIES is accounted for as a derivative, which is recorded at fair value based upon the income approach using the Black-Scholes pricing model in accordance with FAS 157 using level 2 inputs such as current market rates and changes in fair value are reflected in the statement of operations. Accordingly, the accounting for the embedded derivative addresses the variations in the fair value of the obligation to settle the PIES when the market value exceeds or is less than the threshold appreciation price. The fair value of the conversion feature at the date of issuance of $11.7 million was equal to the amount of the discount of the PIES and is being amortized into interest expense over the term of the PIES. As of August 1, 2009, the discount on the PIES has a remaining amortization period of 2.1 years. The amount of interest expense recognized and the effective interest rate for the PIES were as follows:

	Six months ended	
	August 1, 2009	August 2, 2008
	(in thousands)	
Contractual interest expense	$ 4,709	$ 4,788
Amortization of debt discount	$ 1,067	$ 1,151
Total interest expense	$ 5,776	$ 5,939
Effective interest rate	8.6%	8.6%

During the three and six months ended August 1, 2009, the Company recorded a charge of $7.8 million and $9.2 million, respectively, related to the change in fair value of the conversion feature of the PIES. During the three and six months ended August 2, 2008, the Company recorded a reduction of expenses of $8.0 million and $26.8 million, respectively, related to the change in fair value of the conversion feature of the PIES. As of August 1, 2009 and January 31, 2009, the fair value asset recorded for the conversion feature was $68.6 million and $77.8 million, respectively.

The fair value of the conversion feature of the PIES at August 1, 2009 and January 31, 2009 was estimated using the Black-Scholes Pricing Model with the following assumptions:

	August 1, 2009	January 31, 2009
Assumptions:		
Risk-free interest rate	1.9%	3.0%
Expected volatility of common shares	71.5%	58.0%
Expected option term	2.1 years	2.6 years
Expected dividend yield	0.0%	0.0%

Warrants

VCHI Acquisition Co. Warrants

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. As part of the transaction, Retail Ventures issued warrants (the VCHI 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. The warrants expired in the quarter ended August 1, 2009.

The Company adopted EITF No. 07-5 during the quarter ended May 2, 2009. The adoption of EITF No. 07-5 resulted in the redesignation and reclassification of the VCHI Warrants from Equity to Liabilities within the balance sheets. In addition, the VCHI Warrants were marked to market as of the date of the adoption and continued to be marked to market through their expiration date. A charge of $0.1 million was recorded in other comprehensive income as of February 1, 2009, the date of adoption, which represented the change in fair value of the VCHI Warrants from the date of issuance to the date of adoption of EITF No. 07-5. During the three and six months ended August 1, 2009, the Company recorded an immaterial charge related to the change in fair value of the VCHI warrants.

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Term Loan Warrants and Conversion Warrants

As of August 1, 2009, the Company had outstanding 3,683,959 Term Loan Warrants and no Conversion Warrants (together, the Warrants). As of January 31, 2009, the Company had outstanding 3,683,959 Term Loan Warrants and 8,333,333 Conversion Warrants. On June 10, 2009, the 8,333,333 outstanding Conversion Warrants expired and Retail Ventures repaid in full the $250,000 remaining balance on the Non-Convertible Loan along with the related accrued interest. The Term Loan Warrants expire on June 11, 2012.

For the three and six months ended August 1, 2009, the Company recorded a charge for the change in the fair value of the Warrants of $0.8 million and $0.9 million, respectively, of which the portion held by related parties was a reduction of expenses of less than $0.1 million and $0.6 million, respectively. For the three and six months ended August 2, 2008, the Company recorded a reduction of expenses for the change in the fair value of the Warrants of $8.7 million and $27.1 million, respectively, of which the portion held by related parties was a reduction of expenses of $7.3 million and $22.5 million, respectively. No tax benefit has been recognized in connection with these charges. These derivative instruments do not qualify for hedge accounting under FAS 133 therefore; changes in the fair values are recognized in earnings in the period of change. As the Warrants may be exercised for either common shares of RVI or common shares of DSW owned by RVI, the settlement of the Warrants will not result in a cash outlay by the Company.

In accordance with FAS 133 and FAS 157, Retail Ventures estimates the fair values of derivatives based on the income approach using the Black-Scholes pricing model using level 2 inputs such as current market rates and records all derivatives on the balance sheet at fair value.

The fair value of the Term Loan Warrants was $7.2 million, of which the portion held by related parties was $3.4 million at August 1, 2009. The fair value of the Term Loan Warrants and Conversion Warrants was $6.3 million, of which the portion held by related parties was $3.9 million at January 31, 2009.

The values ascribed to the Term Loan Warrants were estimated as of August 1, 2009 and the values ascribed to the Term Loan Warrants and Conversion Warrants as of January 31, 2009 were estimated using the Black-Scholes Pricing Model with the following assumptions. As previously noted, the Conversion Warrants expired on June 10, 2009.

	Term Loan Warrants		Conversion Warrants
	August 1, 2009	January 31, 2009	January 31, 2009
Assumptions:			
Risk-free interest rate	1.6%	1.3%	0.3%
Expected volatility of common shares	106.5%	95.9%	114.3%
Expected option term	2.9 years	3.4 years	0.4 years
Expected dividend yield	0.0%	0.0%	0.0%

The fair values and balance sheet locations of the Company s derivative assets (liabilities) are as follows (in thousands):

	Balance Sheet Location	August 1, 2009	January 31, 2009
Warrants	Warrant liability	$ (7,184)	$ (6,292)
Conversion feature of long-term debt	Conversion feature of long-term debt	68,568	77,761
Total		$ 61,384	$ 71,469

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The effect of derivative instruments on the Company s condensed consolidated statements of operations is as follows (in thousands):

	Three months ended		Six months ended	
	August 1, 2009	August 2, 2008	August 1, 2009	August 2, 2008
Warrants	$ (840)	$ 8,740	$ (884)	$ 27,116
Conversion feature of long-term debt	(7,849)	7,993	(9,193)	26,785
(Expense) income related to the change in fair value of derivative instruments	$ (8,689)	$ 16,733	$ (10,077)	$ 53,901

8. FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined 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, the Company classifies its fair value measurements under the following 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 August 1, 2009 consisted of the following:

	Balance at August 1, 2009	Level 1	Level 2	Level 3
		(in thousands)		
Assets:				
Cash and equivalents	$ 58,972	$ 58,972		
Short-term investments	139,687		$ 137,916	$ 1,771
Conversion feature of long-term debt	68,568		68,568	
	$ 267,227	$ 58,972	$ 206,484	$ 1,771
Liabilities:				
Warrant liabilities	$ 7,184		$ 7,184	
	$ 7,184		$ 7,184	

Cash and equivalents primarily represent cash deposits and investments in money market funds held with financial institutions, as well as credit card receivables that settle in fewer than three days. The Company s investment in an auction rate security is recorded at fair value using an income approach valuation model that uses level 3 inputs such as the financial condition of the issuers of the underlying securities, expectations regarding the next successful auction, risks in the auction rate securities market and other various assumptions. The Company s other types of investments and derivative instruments are valued using a market based approach using level 2 inputs such as prices of similar assets in active markets.

See Note 6 for fair value disclosures regarding investments and Note 7 for fair value disclosure regarding long-term obligations.

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The activity related to level 3 investments for the six months ended August 1, 2009 is summarized below:

	Short-term investments, net	Long-term investments, net
Carrying value as of January 31, 2009	$ 1,845	$ 1,266
Transfer out of Level 3		(1,266)
Unrealized losses included in accumulated other comprehensive loss	(74)	
Carrying value as of August 1, 2009	$ 1,771	

Non-financial assets and liabilities measured at fair value on a nonrecurring basis as of August 1, 2009 consisted of the following:

	Balance at August 1, 2009	Level 1	Level 2	Level 3
		(in thousands)		
Assets:				
Long-lived assets to be held and used	$ 398			$ 398
	$ 398			$ 398

Long-lived assets to be held and used with a carrying amount of $2.0 million were written down to their fair value of $0.4 million, resulting in an impairment charge of $1.6 million, which was included in earnings for the six months ended August 1, 2009.

The Company periodically evaluates the carrying amount of its long-lived assets, primarily property and equipment, and finite life intangible assets when events and circumstances warrant such a review to ascertain if any assets have been impaired. The carrying amount of a long-lived asset is considered impaired when the carrying value of the asset exceeds the expected future cash flows from the asset. The Company reviews are conducted at the lowest identifiable level, which include a store. The impairment loss recognized is the excess of the carrying value of the asset over its fair value, based on a discounted cash flow analysis using a discount rate determined by management. Should an impairment loss be realized, it will generally be included in cost of sales. The impairment charges were recorded within the DSW reportable segment.

9. EARNINGS PER SHARE

Basic earnings (loss) per share are based on the net income (loss) and a simple weighted average of common shares outstanding. Diluted earnings (loss) per share reflects the potential dilution of common shares, related to outstanding stock options, SARs and Warrants, calculated using the treasury stock method. The numerator for the diluted earnings (loss) per share calculation is the net income (loss). The denominator is the weighted average number of shares outstanding.

The following table shows the composition of the number of shares used for the computations of dilutive earnings per share (in thousands):

	Three months ended		Six months ended	
	August 1, 2009	August 2, 2008	August 1, 2009	August 2, 2008

Weighted average shares outstanding	48,934	48,675	48,813	48,657
Assumed exercise of dilutive SARs		1		13
Assumed exercise of dilutive stock options		154		212
Assumed exercise of dilutive Term Loan Warrants		48		490
Assumed exercise of dilutive Conversion Warrants		92		924
Number of shares for computations of dilutive earnings per share	48,934	48,970	48,813	50,296

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The amount of securities outstanding at August 1, 2009 and August 2, 2008 that were not included in the computation of dilutive earnings per share because the equity unit s exercise price was greater than the average market price of the common shares for the period and, therefore, the effect would be anti-dilutive, was as follows (in thousands):

	August 1, 2009	August 2, 2008
SARs	231	364
Stock options	759	369
VCHI Warrants		150
Term Loan Warrants	3,684	
Total of all potentially dilutive instruments	4,674	883

10. TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS

The balance sheet caption Accumulated Other Comprehensive Loss was $0.6 million and $0.7 million at August 1, 2009 and January 31, 2009, respectively. At August 1, 2009 and January 31, 2009, the Accumulated Other Comprehensive Loss primarily related to the unrealized loss on available-for-sale securities, net of income tax. For the six months ended August 1, 2009 the comprehensive loss was $22.3 million. For the six months ended August 2, 2008 the comprehensive income was $54.5 million.

11. INCOME TAXES

Effective February 4, 2007, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). The Company establishes valuation allowances for deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. The Company has determined that there is a probability that future taxable income may not be sufficient to fully utilize deferred tax assets. The valuation allowance as of August 1, 2009 and January 31, 2009 was $54.1 million and $50.7 million, respectively. Based on available data, the Company believes it is more likely than not that the remaining deferred tax assets will be realized.

The tax rate of negative 4.5% for the six month period ended August 1, 2009 reflects the impact of the change in fair value of warrants, included in book income but not tax income and an increase in valuation allowance of $3.4 million on federal and state deferred tax assets.

The Company is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for the fiscal years prior to 2000. The Company is currently under audit by the IRS for 2005, and there are several state audits and appeals ongoing for fiscal years from 2000 through 2006. The Company estimates the range of possible changes that may result from the examinations to be insignificant at this time.

Consistent with its historical financial reporting, the Company has elected to classify interest expense related to income tax liabilities, when applicable, as part of the interest expense in its condensed consolidated statement of income rather than income tax expense. The Company will continue to classify income tax penalties as part of operating expenses in its condensed consolidated statements of income. $1.2 million and $1.1 million was accrued for the payment of interest and penalties at August 1, 2009 and January 31, 2009, respectively.

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12. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

A supplemental schedule of cash flow information is presented below (in thousands):

	Six months ended	
	August 1, 2009	August 2, 2008
Cash paid during the period for:		
Interest	$ 4,762	$ 4,762
Income taxes	$ 7,323	$ 13,096
Noncash activities:		
Decrease in accounts payable and accrued expenses from asset purchases	$ (1,840)	$ (6,295)

13. SEGMENT REPORTING

The Company is operated in two segments: DSW and Corporate. All of the operations are located in the United States. As a result of RVI s disposition of the Filene s Basement operations on April 21, 2009, the results of the previously disclosed Filene s Basement segment are included in discontinued operations and Filene s Basement is therefore no longer included as a reportable segment of the Company.

The Company has identified its segments based on chief operating decision maker responsibilities and measures segment profit (loss) as operating profit (loss), which is defined as profit (loss) before interest expense, income taxes and minority interest. The goodwill balance of $25.9 million outstanding at August 1, 2009 and January 31, 2009 is recorded in the DSW segment. The Corporate segment includes activities that are not allocated to the other segment.

The tables below present segment information for the three and six months ended August 1, 2009 and August 2, 2008 and as of August 1, 2009 and January 31, 2009 (in thousands):

	DSW	Corporate	Total
Three months ended August 1, 2009			
Net Sales	$ 369,490		$ 369,490
Operating profit (loss)	11,361	$ (12,062)	(701)
Depreciation and amortization	11,595	112	11,707
Interest expense	188	3,039	3,227
Interest income	766	28	794
Provision for income taxes	(4,900)	3,137	(1,763)
Capital expenditures	4,731		4,731

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	DSW	Corporate	Total
Three months ended August 2, 2008			
Net Sales	$ 357,175		$ 357,175
Operating profit	17,679	$ 16,733	34,412
Depreciation and amortization	8,213	602	8,815
Interest expense	304	3,345	3,649
Interest income	724	1,951	2,675
Provision for income taxes	(7,142)	(474)	(7,616)
Capital expenditures	24,264	2	24,266
Six months ended August 1, 2009			
Net Sales	$ 755,336		$ 755,336
Operating profit (loss)	23,464	$ (72,241)	(48,777)
Depreciation and amortization	22,724	257	22,981
Interest expense	371	6,071	6,442
Interest income	1,203	62	1,265
Provision benefit for income taxes	(9,717)	7,288	(2,429)
Capital expenditures	13,140		13,140
Six months ended August 2, 2008			
Net Sales	$ 723,439		$ 723,439
Operating profit	33,685	$ 53,901	87,586
Depreciation and amortization	15,711	1,260	16,971
Interest expense	578	6,612	7,190
Interest income	1,721	3,852	5,573
Provision for income taxes	(13,583)	(655)	(14,238)
Capital expenditures	43,926	11	43,937
As of August 1, 2009			
Total assets	$ 746,820	$ 98,596	$ 845,416
As of January 31, 2009			
Total assets	$ 719,615	$ 128,676	$ 848,291

14. COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal proceedings that are incidental to the conduct of its business. The Company estimates the range of liability related to pending litigation where the amount of the range of loss can be estimated. The Company records its best estimate of a loss when the loss is considered probable. Where a liability is probable and there is a range of estimated loss, the Company records the most likely estimated liability related to the claim. In the opinion of management, the amount of any potential liability with respect to current legal proceedings will not be material to the Company s results of operations or financial condition. As additional information becomes available, the Company will assess the potential liability related to its pending litigation and revise the estimates as needed. Revisions in its estimates and potential liability could materially impact the Company s results of operations and financial condition.

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Guarantees

As discussed above, RVI completed the disposition of an 81% ownership interest in its Value City business segment on January 23, 2008. Retail Ventures or its wholly-owned subsidiary, Retail Ventures Services, Inc. (RVS), has guaranteed and in certain circumstances may be responsible for certain liabilities of Value City. If Value City does not pay creditors whose obligations RVI and RVS had guaranteed, RVI may become subject to various risks associated with such refusal to pay creditors or any insolvency or bankruptcy proceedings.

As of August 1, 2009, RVI had recorded an estimated potential liability of $12.4 million, of which $2.5 million is classified as short-term, for the guarantees of Value City commitments including, but not limited to: guaranteed severance for certain Value City employees of $0.1 million; amounts recognized under certain income tax liabilities of approximately $5.1 million; amounts owed under certain employee benefit plans of approximately $4.0 million for the amount that may be due if the plans are not fully funded on a termination basis; approximately $0.8 million for the guarantee of certain workers compensation claims for events prior to the disposition date and other amounts totaling $2.4 million. As of January 31, 2009, RVI had recorded an estimated liability of $12.9 million for the guarantees of Value City commitments described above as well as guarantees with various financing institutions for Value City inventory purchases made prior to the disposition date. The reduction in the liability from January 31, 2009 to August 1, 2009 was primarily due to payments made and revaluation of guarantees due to the passage of time. Changes in the amount of guarantees are included in the loss from discontinued operations on the statements of operations.

If the underlying obligations are paid down or otherwise liquidated by Value City, subject to certain statutory requirements, RVI will recognize a reduction of the associated liability. In certain instances, RVI or RVS may have the ability to reduce the estimated potential liability of $12.4 million. The amount of any reduction is not reasonably estimable.

As discussed above, on April 21, 2009, RVI disposed of its Filene s Basement operations. RVI agreed to indemnify Buxbaum, FB II Acquisition Corp. and their owners against certain liabilities. As of August 1, 2009, RVI had recorded a liability of $12.0 million for the guarantees of Filene s Basement commitments, related to leases not assumed by New Filene s Basement, of which $2.5 million was current. The guarantees of Filene s Basement commitments included but were not limited to $2.5 million under lease obligations and $9.5 million under certain laws, related to certain employee benefit plans.

If the underlying obligations are paid down or otherwise liquidated by Filene s Basement, subject to certain statutory requirements, RVI will recognize a reduction of the associated liability. In certain instances, RVI or RVS may have the ability to reduce the estimated potential liability of $12.0 million. The amount of any reduction is not reasonably estimable.

Contractual Obligations

The Company has continued to enter into various construction commitments, including capital items to be purchased for projects that were under construction or for which a lease has been signed. The obligations under these commitments aggregated $0.1 million at August 1, 2009. In addition, DSW has signed lease agreements for three new store locations that are expected to open over the next 18 months, with total annual rent of approximately $0.9 million. Associated with the new lease agreements, the Company will receive $1.2 million of construction and tenant allowances which will offset future capital expenditures.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

As used in this Quarterly Report on Form 10-Q (this Report) and except as the context otherwise may require, RVI , Retail Ventures Company , we , us , and our refers to Retail Ventures, Inc. and its wholly-owned subsidiary DSW Inc. (DSW), a controlled subsidiary, and DSW s wholly-owned subsidiaries, including but not limited to, DSW Shoe Warehouse, Inc. (DSWSW).

OVERVIEW

Retail Ventures is a holding company operating retail stores in one of its two segments. DSW is a leading U.S. branded footwear specialty retailer operating 306 shoe stores in 39 states as of August 1, 2009 and dsw.com. DSW offers a large selection of better-branded merchandise. DSW s typical customers are brand, quality and style-conscious shoppers who have a passion for footwear and accessories. The Corporate segment consists of all corporate assets, liabilities and expenses that are not allocated to the other segment.

As of August 1, 2009, Retail Ventures owned Class B Common Shares of DSW representing approximately 62.8% 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 traded on the New York Stock Exchange under the symbol DSW .

On January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City Department Stores (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 of $76.2 million on the transaction as of August 1, 2009. As part of the transaction, Retail Ventures, Inc. 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. The warrants expired in the quarter ended August 1, 2009. 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. On October 26, 2008, Value City filed for bankruptcy protection and announced that it would close its remaining stores. The Company 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. As of August 1, 2009, the Company is still providing Value City with limited transition services.

On April 21, 2009, Retail Ventures disposed of Filene s Basement, Inc. and certain related entities to FB II Acquisition Corp., a newly formed entity owned by Buxbaum Holdings, Inc. (Buxbaum). Retail Ventures did not realize any cash proceeds from this transaction, will pay a fee of $1.3 million to Buxbaum, of which $0.4 million has been paid through August 1, 2009, and has reimbursed $0.4 million of Buxbaum s costs associated with the transaction. Retail Ventures has also agreed to indemnify Buxbaum, FB II Acquisition Corp. and their owners against certain liabilities. Retail Ventures has recognized an after-tax gain of $64.9 million on the transaction as of August 1, 2009. On May 4, 2009, Filene s Basement filed for bankruptcy protection. On June 18, 2009, following bankruptcy court approval, SYL LLC, a subsidiary of Syms Corp (Syms), purchased certain assets of Filene s Basement. All references to liquidating Filene s Basement refer to the debtor, formerly known as Filene s Basement Inc., and its debtor subsidiaries remaining after the asset purchase by a subsidiary of Syms. All references to New Filene s Basement refer to the stores operated by Syms. The Company will provide transition services to Syms in exchange for payment.

We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. The discussion also provides information about the financial results of the various segments of our business to provide a better understanding of how those segments and their results affect the financial condition and results of operations of the Company as a whole. This discussion should be read in conjunction with our condensed consolidated financial statements and accompanying notes as of August 1, 2009.

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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 Quarterly Report on Form 10-Q 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, potenti continues, may, should, seeks, approximately, predicts, intends, plans, estimates, anticipates words or the negative version of those words. Any forward-looking statements contained in this Quarterly Report on Form 10-Q 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 the risks discussed in Part I, Item 1A, Risk Factors in each of our Annual Report on Form 10-K for the fiscal year ended January 31, 2009, as filed with the Securities and Exchange Commission (the SEC) on April 30, 2009 (the 2008 Annual Report), and other factors discussed from time to time in our other filings with the SEC, 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 ability to manage and enhance liquidity;
- DSW s success in opening and operating new stores on a timely and profitable basis;
- continuation of DSW s supply agreements and the financial condition of its leased business partners;
- 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;
- the realization of our bankruptcy claims related to liquidating Filene s Basement and Value City Department Stores
- the impact of the disposition of Filene s Basement and 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 and liquidating Filene s Basement not paying us or their creditors, for which Retail Ventures may have some liability;
- the risk of New Filene s Basement not paying obligations related to the assets it has assumed from liquidating Filene s Basement if such obligations are subject to ongoing guarantee by us;
- the impact of Value City and Filene s Basement on our liquidity;
- disruption of our distribution operations;
- our dependence on DSW for key services;
- 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;
- risks inherent to international trade with countries that are major manufacturers of footwear;
- the success of dsw.com;
- lease of an office facility;
- liquidity and investment risks related to our investments; and
- DSW s ability to secure additional credit upon the termination of its existing credit facility.

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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CRITICAL ACCOUNTING POLICIES

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses the results of operations and financial condition as reflected in our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. As discussed in the Notes to the Consolidated Financial Statements that are included in our 2008 Annual Report, the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including, but not limited to, those related to inventory valuation, depreciation, amortization, recoverability of long-lived assets including intangible assets, the calculation of retirement benefits, estimates for self-insurance reserves for health and welfare, workers compensation and casualty insurance, income taxes, contingencies and litigation. Management bases its estimates and judgments on its historical experience and other relevant factors, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, product mix, and in some cases, actuarial and appraisal techniques. We constantly re-evaluate these significant factors and make adjustments where facts and circumstances dictate.

While we believe that our historical experience and other factors considered provide a meaningful basis for the accounting policies applied in the preparation of the consolidated financial statements, we cannot guarantee that our estimates and assumptions will be accurate. As the determination of these estimates requires the exercise of judgment, actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

We believe the following represent the most critical estimates and assumptions, among others, used in the preparation of our consolidated financial statements. We have discussed the selection, application and disclosure of the critical accounting policies with the Audit Committee and our Board of Directors.

Revenue recognition. Revenues from merchandise sales are recognized upon customer receipt of merchandise, are net of returns and sales tax and are not recognized until collectability is reasonably assured. For dsw.com, the Company estimates a time lag for shipments to record revenue when the customer receives the goods. Net sales also include revenue from shipping and handling while the related costs are included in cost of sales. Revenue from gift card is deferred and recognized upon redemption of the gift card. The Company s policy is to recognize income from breakage of gift cards when the likelihood of redemption of the gift card is remote. The Company recognized $0.2 million as miscellaneous income from gift card breakage during each of the three months ended August 1, 2009 and August 2, 2008, and the Company recognized $0.4 million and $0.3 million as miscellaneous income from gift card breakage during the six months ended August 1, 2009 and August 2, 2008.

Cost of sales and merchandise inventories. Merchandise inventories are stated at net realizable value, determined using the first-in, first-out basis, or market, using the retail inventory method. The retail method is widely used in the retail industry due to its practicality. Under the retail inventory method, the valuation of inventories at cost and the resulting gross profits are calculated by applying a calculated cost to retail ratio to the retail value of inventories. The cost of the inventory reflected on the condensed consolidated balance sheet is decreased by charges to cost of sales at the time the retail value of the inventory is lowered through the use of markdowns, which are reductions in prices due to customers perception of value. Hence, earnings are negatively impacted as the merchandise is marked down prior to sale.

Inherent in the calculation of inventories are certain significant management judgments and estimates, including setting the original merchandise retail value, markdowns, and estimates of losses between physical inventory counts, or shrinkage, which combined with the averaging process within the retail method, can significantly impact the ending inventory valuation at cost and the resulting gross profit.

Investments. DSW determines the appropriate balance sheet classification of its investments at the time of purchase and evaluates the classification at each balance sheet date. If DSW has the intent and ability to hold the investments to maturity, investments are classified as held-to-maturity. Held-to-maturity securities are stated at amortized cost plus accrued interest. As of August 1, 2009, the Company had held-to-maturity investments of $5.2 million in tax exempt term notes that will mature in the third quarter of fiscal 2009. All other investments are classified as available-for-sale and stated at current market value.

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DSW s investments in auction rate securities are recorded at fair value under FAS 157 using an income approach valuation model that uses level 3 inputs such as the financial condition of the issuers of the underlying securities, expectations regarding the next successful auction, risks in the auction rate securities market and other various assumptions. The other types of investments are valued using a market based approach using level 2 inputs such as prices of similar assets in active markets. DSW believes that changes in its valuation model would not result in a material change to earnings.

DSW evaluates its investments for impairment and whether an impairment is other-than-temporary. In determining whether an impairment has occurred, DSW reviews information about the underlying investment that is publicly available and assesses its ability to hold the securities for the foreseeable future. Based on the nature of the impairment(s), DSW would record a temporary impairment as an unrealized loss in other comprehensive income or an other-than-temporary impairment in earnings. The investment is written down to its current market value at the time the impairment is deemed to have occurred.

Asset impairment and long-lived assets. The Company periodically evaluates the carrying amount of its long-lived assets, primarily property and equipment, and finite life intangible assets when events and circumstances warrant such a review to ascertain if any assets have been impaired. The carrying amount of a long-lived asset is considered impaired when the carrying value of the asset exceeds the expected future cash flows from the asset. The Company reviews are conducted at the lowest identifiable level, which includes a store. The impairment loss recognized is the excess of the carrying value of the asset over its fair value, based on discounted cash flow analysis using a discount rate determined by management. Should an impairment loss be realized, it will generally be included in operating expenses. Assets acquired for stores that have been previously impaired are not capitalized when acquired if the store s expected future cash flow remains negative. We believe as of August 1, 2009 that the carrying values and useful lives of long-lived assets continue to be appropriate. We do not believe that there will be material changes in the estimates or assumptions we use to calculate asset impairments. To the extent these future projections or our strategies change, the conclusion regarding impairment may differ from our current estimates.

Self-insurance reserves. We record estimates for certain health and welfare, workers compensation and casualty insurance costs that are self-insured programs. Self-insurance reserves include actuarial estimates of both claims filed, carried at their expected ultimate settlement value, and claims incurred but not yet reported. Our liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet date. Health and welfare, workers compensation and general liability estimates are calculated utilizing claims development estimates based on historical experience and other factors. We have purchased stop loss insurance to limit our exposure to any significant exposure on a per person basis for health and welfare and on a per claim basis for workers compensation and casualty insurance. Although we do not anticipate the amounts ultimately paid will differ significantly from our estimates, self-insurance reserves could be affected if future claims experience differs significantly from the historical trends and the actuarial assumptions. For example, for workers compensation and general liability estimates, a 1% increase or decrease to the assumptions for claims costs and loss development factors would increase or decrease our self-insurance by approximately $0.1 million. The self-insurance reserves, excluding discontinued operations, were $2.6 million and $2.5 million at August 1, 2009 and January 31, 2009, respectively.

Customer loyalty program. DSW maintains a customer loyalty program for the DSW stores and dsw.com in which program members earn reward certificates that result in discounts on future purchases. Upon reaching the target-earned threshold, the members receive reward certificates for these discounts which must be redeemed within six months. DSW accrues the anticipated redemptions of the discount earned at the time of the initial purchase. To estimate these costs, DSW is required to make assumptions related to customer purchase levels and redemption rates based on historical experience. The accrued liability as of August 1, 2009 and January 31, 2009 was $7.8 million and $7.3 million, respectively.

Change in fair value of derivative instruments. In accordance with FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended,* (FAS 133) the Company recognizes all derivatives on the balance sheet at fair value. For derivatives that are not designated as hedges under FAS 133, changes in the fair values are recognized in earnings in the period of change. The Company uses the Black-Scholes Pricing

Model to calculate the fair value of derivative instruments.

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Income taxes. We are required to determine the aggregate amount of income tax expense to accrue and the amount which will be currently payable based upon tax statutes of each jurisdiction in which we do business. In making these estimates, we adjust income based on a determination of generally accepted accounting principles for items that are treated differently by the applicable taxing authorities. Deferred tax assets and liabilities, as a result of these differences, are reflected on our balance sheet for temporary differences that will reverse in subsequent years. A valuation allowance is established against deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized. If our management had made these determinations on a different basis, our tax expense, assets and liabilities could be different. During the quarter ended August 1, 2009, we increased the valuation allowance on net deferred tax assets in the amount of approximately $3.4 million which resulted from a change in deferred tax assets.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage relationships to net sales of the listed items included in the Company s Condensed Consolidated Statements of Operations.

	Three months ended		Six months ended	
	August 1, 2009	August 2, 2008	August 1, 2009	August 2, 2008
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	(56.9)	(55.6)	(56.6)	(56.6)
Gross profit	43.1	44.4	43.4	43.4
Selling, general and administrative expenses	(40.9)	(39.5)	(48.5)	(38.7)
Change in fair value of derivative instruments	(2.3)	4.7	(1.4)	7.4
Operating (loss) profit	(0.1)	9.6	(6.5)	12.1
Interest expense	(0.9)	(1.0)	(0.9)	(1.0)
Interest income	0.2	0.7	0.2	0.8
Interest expense, net	(0.7)	(0.3)	(0.7)	(0.2)
Non-operating income, net	0.1			
(Loss) income from continuing operations before income taxes	(0.7)	9.3	(7.2)	11.9
Income tax expense	(0.5)	(2.1)	(0.3)	(2.0)
(Loss) income from continuing operations	(1.2)%	7.2%	(7.5)%	9.9%

THREE MONTHS ENDED AUGUST 1, 2009 COMPARED TO THREE MONTHS ENDED AUGUST 2, 2008

Net Sales. Net sales for the three months ended August 1, 2009 increased $12.3 million, or 3.4%, to $369.5 million compared to $357.2 million for the three months ended August 2, 2008. The following table summarizes the increase in our net sales:

	Three months ended August 1, 2009 (in millions)
Net sales for the three months ended August 2, 2008	$ 357.2
Decrease in comparable store sales	(9.8)
Net increase from 2008 and 2009 new stores, dsw.com and closed store sales	22.1

Net sales for the three months ended August 1, 2009	$	369.5

The decrease in comparable store sales was primarily a result of the continued challenging economic environment, as evidenced by the decrease in traffic and units per transaction.
DSW comparable store sales decreased in women s by 2.4%, men s by 10.0% and the athletic category by 1.8%. For accessories, DSW comparable store sales increased by 12.2% primarily due to our handbag initiative.

Gross Profit. Total gross profit increased $0.5 million from $158.7 million for the three months ended August 2, 2008 to $159.2 million for the three months ended August 1, 2009. Gross profit decreased, as a percent of net sales, from 44.4% for the three months ended August 2, 2008 to 43.1% for the three months ended August 1, 2009. The decrease in gross profit, as a percentage of sales, was primarily a result of a shift in clearance markdown activity related to mid-season promotional sales.

Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expenses increased $10.2 million from $141.0 million in the second quarter of fiscal year 2008 to $151.2 million for the second quarter of fiscal year 2009. As a percent of net sales, SG&A expense was 40.9% for the second quarter of 2009 compared to 39.5% in the comparable quarter last year.

DSW segment SG&A expense increased $6.9 million and increased as a percent of net sales for the three months ended August 1, 2009 to 40.0% compared to 39.5% for the three months ended August 2, 2008. Store and home office expenses decreased as a percentage of net sales and were offset by increases in marketing and depreciation as a percentage of net sales. Marketing expenses as a percentage of net sales increased by 80 basis points due to increases in media spending and expenses related to our DSW Rewards program. Depreciation expense increased 80 basis points due to significant capital investments in our store growth, dsw.com and system initiatives over the previous two years.

Corporate segment SG&A expense increased $3.3 million for the three months ended August 1, 2009 compared to the three months ended August 2, 2008. The increase in SG&A expense was due to expenses no longer being allocated to Filene s Basement. Expenses were allocated to Filene s Basement through the date of sale in April 2009.

Change in Fair Value of Derivative Instruments. During the three months ended August 1, 2009 and August 2, 2008, the Company recorded a non-cash charge of $0.8 million and a reduction of expenses of $8.7 million, respectively, representing the changes in fair value of the Conversion Warrants and Term Loan Warrants. During the three months ended August 1, 2009 and August 2, 2008, a charge of $7.8 million and a reduction of expenses of $8.0 million, respectively, was recorded related to the change in the fair value of the conversion feature of the PIES. The change in the fair value of the derivatives is primarily due to the changes in the RVI and DSW stock prices.

Operating (Loss) Profit. Operating loss for the quarter ended August 1, 2009 was $0.7 million compared to operating profit of $34.4 million for the quarter ended August 2, 2008, a decrease of $35.1 million. Operating loss, as a percentage of net sales, for the quarter ended August 1, 2009 was 0.1% compared to operating profit, as a percentage of net sales, for the quarter ended August 2, 2008 of 9.6%.

The decrease in the Corporate segment operating profit for the quarter ended August 1, 2009 and August 2, 2008 is primarily due to the charges related to the change in fair value of derivative instruments.

Interest Expense. Interest expense for the quarter ended August 1, 2009 decreased $0.4 million to $3.2 million compared to the second quarter of fiscal year 2008.

Interest Income. Interest income decreased $1.9 million in the second quarter of fiscal year 2009 over the same period last year. The decrease was primarily attributable to the absence of interest income from the notes receivable from Filene s Basement during fiscal year 2009. In addition, while short term investments increased compared to the second quarter of fiscal 2008, the increase was offset by a decrease in interest rates.

Non-operating income, net. Non-operating income for the second quarter of fiscal 2009 represents the realized gain related to the sale of our investments in preferred shares. There was no non-operating income for the second quarter of fiscal 2008.

Income Taxes. The effective tax rate for the three months ended August 1, 2009 was negative 67.7% compared to a 22.8% effective tax rate for the three months ended August 2, 2008. The effective tax rate reflects the impact of the change in fair value of the Term Loan Warrants and Conversion Warrants which are included for book income but not tax income and a decrease in the valuation allowance of $3.4 million on federal and state deferred tax assets.

(Loss) Income from Continuing Operations. For the second quarter of fiscal year 2009, loss from continuing operations was $4.4 million compared to income from continuing operations of $25.8 million during the second quarter of fiscal year 2008 and represents 1.2% of net sales versus 7.2% of net sales, respectively. The change in the results from continuing operations for the second quarter of fiscal year 2009 compared to the second quarter of fiscal 2008 was primarily attributable to the changes in the fair value of the derivative instruments.

Income from Discontinued Operations Value City. The $9.9 million, net of tax, decrease in the income from discontinued operations Value City is primarily due to adjustments of guarantees recorded during the three months ended August 1, 2009 compared to adjustments of the guarantees recorded during the three months ended August 2, 2008.

Income (Loss) from Discontinued Operations Filene s Basement. During the quarter ended August 1, 2009, the gain from discontinued operations Filene s Basement of $22.7 million was primarily due to adjustments of the guarantees recorded in the quarter ended May 2, 2009.

Noncontrolling Interests. For the second quarter of fiscal year 2009, net income attributable to Retail Ventures was impacted by $2.8 million to reflect that portion of the income attributable to DSW minority shareholders.

SIX MONTHS ENDED AUGUST 1, 2009 COMPARED TO SIX MONTHS ENDED AUGUST 2, 2008

Net Sales. Net sales for the six months ended August 1, 2009 increased $31.9 million, or 4.4%, to $755.3 million compared to $723.4 million for the six months ended August 2, 2008. The following table summarizes the increase in our net sales:

		Six months ended August 1, 2009 (in millions)
Net sales for the three months ended August 2, 2008	$	723.4
Decrease in comparable store sales		(26.3)
Net increase from 2008 and 2009 new stores, dsw.com and closed store sales		58.2
Net sales for the three months ended August 1, 2009	$	755.3

The decrease in comparable store sales was primarily a result of the continued challenging economic environment, as evidenced by the decrease in traffic and units per transaction. DSW comparable store sales decreased in women s by 3.7%, men s by 11.4% and the athletic category by 1.6%. In accessories, DSW comparable store sales increased by 12.1% primarily due to our handbag initiative.

Gross Profit. Total gross profit increased $13.7 million from $313.8 million for the six months ended August 2, 2008 to $327.5 million for the six months ended August 1, 2009. Gross profit, as a percent of net sales, was 43.4% for both six months ended August 2, 2008 and August 1, 2009.

Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expenses increased $86.1 million from $280.1 million for the six months ended August 2, 2008 to $366.2 million for the six months ended August 1, 2009. As a percent of net sales, SG&A expense was 48.5% for the six months ended August 1, 2009 compared to 38.7% for the six months ended August 2, 2008.

DSW segment SG&A expense increased $23.9 million and increased as a percent of net sales for the six months ended August 1, 2009 to 40.2% compared to 38.7% for the six months ended August 2, 2008. The increase in operating expenses as a percentage of net sales was the result of an increase in marketing and depreciation expense partially offset by decreases as a percentage of net sales in store and home office expenses. Marketing expenses as a percentage of net sales increased by 110 basis points due to increases in media and broadcast production spending, as well as an increase in expenses related to our DSW Rewards program. Depreciation expense increased 80 basis points due to significant capital investments in our store growth, dsw.com and system initiatives over the previous two years.

Corporate segment SG&A expense increased $62.2 million for the six months ended August 1, 2009 compared to the six months ended August 2, 2008. The increase in SG&A expense was primarily due to the bad debt charges of $57.4 million recorded for the notes and accounts receivable from liquidating Filene s Basement due to the bankruptcy filing of Filene s Basement on May 4, 2009. In addition, the increase in SG&A expense was due to expenses not being allocated to Filene s Basement after the date of sale in April 2009.

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Change in Fair Value of Derivative Instruments. During the six months ended August 1, 2009 and August 2, 2008, the Company recorded a non-cash charge of $0.9 million and a reduction of expenses of $27.1 million, respectively, representing the changes in fair value of the Conversion Warrants and Term Loan Warrants. During the six months ended August 1, 2009 and August 2, 2008, a charge of $9.2 million and a reduction of expenses of $26.8 million, respectively, was recorded related to the change in the fair value of the conversion feature of the PIES. The change in the fair value of the derivatives is primarily due to the changes in the RVI and DSW stock prices.

Operating (Loss) Profit. Operating loss for the six months ended August 1, 2009 was $48.8 million compared to operating profit of $87.6 million for the six months ended August 2, 2008, a decrease of $136.4 million. Operating loss, as a percentage of net sales, for the six months ended August 1, 2009 was 6.5% compared to operating profit, as a percentage of net sales, for the six months ended August 2, 2008 of 12.1%.

The decrease in the Corporate segment operating profit for the six months ended August 1, 2009 and August 2, 2008 is primarily due to the bad debt charges recorded on the notes and accounts receivable from liquidating Filene s Basement and the change in fair value of derivative instruments.

Interest Expense. Interest expense for the six months ended August 1, 2009 decreased $0.7 million to $6.4 million compared to same period last year.

Interest Income. Interest income decreased $4.3 million during the six months ended August 1, 2009 over the same period last year. The decrease was primarily attributable to the absence of interest income from the notes receivable from Filene s Basement during fiscal year 2009. In addition, while short term investments increased compared to the six months ended August 2, 2008, the increase was offset by an decrease in interest rates.

Non-operating income, net. Non-operating income for the six months ended August 1, 2009 represents the realized gain related to the sale of our investments in preferred shares. There was no non-operating income for the six months ended August 2, 2008.

Income Taxes. The effective tax rate for the six months ended August 1, 2009 was negative 4.5% compared to a 16.6% effective tax rate for the six months ended August 2, 2008. The effective tax rate reflects the impact of the change in fair value of the Term Loan Warrants and Conversion Warrants which are included for book income but not tax income and an increase in the valuation allowance of $3.4 million on federal and state deferred tax assets.

(Loss) Income from Continuing Operations. For the six months ended August 1, 2009, loss from continuing operations was $56.3 million compared to income from continuing operations of $71.7 million during the six months ended August 2, 2008 and represents 7.5% of net sales versus 9.9% of net sales, respectively. The change in the results from continuing operations for the six months ended August 1, 2009 compared to the six months ended August 2, 2008 was primarily attributable to the bad debt expense of $57.4 million recorded during the first quarter of fiscal 2009 related to notes and accounts receivable from liquidating Filene s Basement and the changes in the fair value of the derivative instruments.

Income from Discontinued Operations Value City. The $6.3 million, net of tax, decrease in the income from discontinued operations Value City is primarily due to adjustments of guarantees recorded during the six months ended August 1, 2009 compared to adjustments of the guarantees recorded during the six months ended August 2, 2008.

Income (Loss) from Discontinued Operations Filene s Basement. During the six months ended August 1, 2009, the income from discontinued operations Filene s Basement was comprised of two components; the gain on the disposition of Filene s Basement of $64.9 million partially offset by the loss from Filene s Basement operations of $31.5 million. The gain on the disposition of Filene s Basement was due to the writeoff of the investment in Filene s Basement partially offset by the recording of guarantees, other expenses relating to the disposition of Filene s Basement and income tax expense of $1.8 million in the aggregate.

The increase in the loss from the Filene s Basement operations from $24.0 million in the six months ended August 2, 2008 to $31.5 million in the six months ended August 1, 2009 was primarily the result of the recording of the remaining lease costs associated with the 11 stores that closed during the first quarter of fiscal 2009.

Noncontrolling Interests. For the six months ended August 1, 2009, net income attributable to Retail Ventures was impacted by $5.5 million to reflect that portion of the income attributable to DSW minority shareholders.

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Seasonality

Our business is affected by the pattern of seasonality common to most retail businesses. Historically, DSW net sales have typically been higher in the first and third quarters, when DSW s customers interest in new seasonal styles increases.

LIQUIDITY AND CAPITAL RESOURCES

Retail Ventures is reviewing its available options to the extent it may become necessary to manage and enhance its liquidity position. Although RVI s plan to enhance liquidity could include, among other things, the sale or collateralization of shares of common stock of DSW Inc. or a sale of equity by RVI, no assurance can be given that any such transaction can be completed on favorable terms or that such a transaction would satisfy all of RVI s liquidity requirements.

Our primary cash requirements for ongoing operations are for debt services plus seasonal and new store inventory purchases, capital expenditures in connection with DSW store expansion, improving our information systems, dsw.com, the remodeling of existing DSW stores and infrastructure growth. The primary sources of funds for these liquidity needs are cash flow from operations. For DSW, their working capital and inventory levels typically build seasonally. DSW believes that they have sufficient financial resources and access to financial resources at this time. DSW is committed to a cash management strategy that maintains liquidity to adequately support the operations of the business, its growth strategy and to withstand unanticipated business volatility. DSW believes that cash generated from DSW operations, together with its current levels of cash and equivalents and short-term investments as well as availability under its revolving credit facility, will be sufficient to maintain its ongoing operations, support seasonal working capital requirements and fund capital expenditures related to projected business growth.

Although DSW s plan of continued expansion could place increased demands on their financial, managerial, operational and administrative resources, the Company does not believe that DSW s anticipated growth plan will have an unfavorable impact on DSW operations or liquidity. The current slowdown in the United States economy has adversely affected consumer confidence and consumer spending habits, which may result in further reductions in comparable store sales in existing DSW stores with the resultant increase in inventory levels and markdowns. Reduced sales may result in reduced operating cash flows if DSW is not able to appropriately manage inventory levels or leverage expenses. These negative economic conditions may also affect future profitability and may cause DSW to reduce the number of future store openings, impair goodwill or impair long-lived assets.

Net working capital was $329.6 million and $307.8 million at August 1, 2009 and January 31, 2009, respectively, primarily due to the increase in short term investments from operating cash flows and the increase in inventory related to the fall season. Current ratios at those dates were 2.7 and 2.2, respectively.

Net cash provided by operating activities from continuing operations was $12.2 million for the six months ended August 1, 2009 as compared to $37.5 million provided by operating activities from continuing operations for the six months ended August 2, 2008. The decrease in net cash provided by operating activities is primarily due to a $10.7 million decrease in income from continuing operations, after adjusting for non-cash charges, and a $15.2 million decrease in the change in working capital assets and liabilities.

Net cash used in investing activities from continuing operations was $47.8 million for the six months ended August 1, 2009 compared to $41.6 million for the six months ended August 2, 2008. The increase in net cash used in investing activities is a result of a decrease in maturities and sales of available-for-sale securities partially offset by a decrease in capital expenditures. During the six months ended August 1, 2009, the Company incurred $13.1 million in capital expenditures, which includes previous expenditures that were accrued at January 31, 2009. Of this incurred amount, the Company incurred $5.9 million related to stores, $2.8 million related to supply chain projects and warehouses and $4.4 million related to information technology equipment upgrades and new systems.

DSW expects to spend approximately $30 million for capital expenditures in fiscal year 2009. DSW will open approximately nine stores in fiscal year 2009. During fiscal year 2008, the average investment required to open a typical new DSW store was approximately $1.6 million, prior to construction and tenant allowances. Of this amount, gross inventory typically accounted for $0.5 million, fixtures and leasehold improvements typically accounted for $1.0 million and pre-opening advertising and other pre-opening expenses typically accounted for $0.1 million. Our future capital expenditures will depend heavily on the number of new stores we open, the number of existing stores we remodel, our information technology and system investments and the timing of these expenditures.

As of August 1, 2009, DSW maintained a $150 million revolving credit facility under which DSW and its subsidiaries are named as co-borrowers (the DSW Revolving Loan). RVI also has outstanding $133,750,000 of 6.625% Mandatorily Exchangeable Notes due September 15, 2011, or PIES. Collectively, the DSW Revolving Loan and the PIES are sometimes referred to herein as the Credit Facilities.

The Company is not subject to any financial covenants; however, certain of the Credit Facilities contain numerous non-financial covenants relating to the Company s management and operation. These non-financial covenants include, among other restrictions, limitations on indebtedness, guarantees, mergers, acquisitions, fundamental corporate changes, financial reporting requirements, budget approval, disposition of assets, investments, loans and advances, liens, dividends, stock purchases, transactions with affiliates, issuance of securities and the payment of and modifications to debt instruments under these agreements.

The Credit Facilities are described more fully below:

DSW $150 Million Credit Facility DSW Revolving loan

DSW has a $150 million secured revolving credit facility with a term of five years that will expire on July 5, 2010. Under this facility, the Company and its subsidiaries are named as co-borrowers. The facility has borrowing base restrictions and provides for borrowings at variable interest rates based on LIBOR, the prime rate and the Federal Funds effective rate, plus a margin. DSW s obligations under this facility are secured by a lien on substantially all of its and its subsidiary s personal property and a pledge of its shares of DSW Shoe Warehouse, Inc. (DSWSW). In addition, the secured revolving credit facility contains usual and customary restrictive covenants relating to the management and the operation of the business. These covenants, among other things, restrict the DSW s ability to grant liens on its assets, incur additional indebtedness, open or close stores, pay cash dividends and redeem its stock, enter into transactions with affiliates and merge or consolidate with another entity. In addition, if at any time DSW utilizes over 90% of its borrowing capacity under the facility, DSW must comply with a fixed charge coverage ratio test set forth in the facility documents. DSW intends to refinance the DSW Revolving Loan on a long-term basis. As of August 1, 2009 and January 31, 2009, there were no outstanding borrowings and there was availability under the facility of $129.8 million and $132.3 million, respectively. DSW had outstanding letters of credit of $20.2 million and $17.7 million, respectively, as of August 1, 2009 and January 31, 2009.

$143,750,000 Premium Income Exchangeable Securities[SM] (PIES)

On August 16, 2006, Retail Ventures issued PIES in the aggregate principal amount of $125 million. On September 15, 2006, Retail Ventures issued an additional aggregate principal amount of $18,750,000 of PIES. RVI used a portion of the net proceeds of the PIES offering to repay an intercompany note due to Value City, and Value City used such proceeds and other funds to repay $49.5 million of the outstanding principal amount of the Non-Convertible Loan.

The PIES bear a coupon at an annual rate of 6.625% of the principal amount, payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, commencing on December 15, 2006 and ending on September 15, 2011. Except to the extent RVI exercises its cash settlement option, the PIES are mandatorily exchangeable, on the maturity date, into Class A Common Shares of DSW, no par value per share, which are issuable upon exchange of DSW Class B Common Shares, no par value per share, beneficially owned by RVI. On the maturity date, each holder of the PIES will receive a number of DSW Class A Common Shares per $50.0 principal amount of PIES equal to the exchange ratio described in the RVI prospectus filed with the SEC on August 11, 2006, or if RVI elects, the cash equivalent thereof or a combination of cash and DSW Class A Common Shares. The exchange ratio is equal to the number of DSW Class A Common Shares determined as follows: (i) if the applicable market value of DSW Class A Common Shares equals or exceeds $34.95, the exchange ratio will be 1.4306 shares; (ii) if the applicable market value of DSW Class A Common Shares is less than $34.95 but greater than $27.41, the exchange ratio will be between 1.4306 and 1.8242 shares; and (iii) if the applicable market value of DSW Class A Common Shares is less than or equal to $27.41, the exchange ratio will be 1.8242 shares, subject to adjustment as provided in the PIES. The maximum aggregate number of DSW Class A Common Shares deliverable upon exchange of the PIES is 5,244,575 DSW Class A Common Shares subject to adjustment as provided in the PIES.

The embedded exchange feature of the PIES is accounted for as a derivative, which is recorded at fair value with changes in fair value in the statement of operations. Accordingly, the accounting for the embedded derivative addresses the variations in the fair value of the obligation to settle the PIES when the market value exceeds or is less than the threshold appreciation price. The fair value of the conversion feature at the date of issuance of $11.7 million was equal to the amount of the discount of the PIES and will be amortized into interest expense over the term of the PIES.

On October 10, 2008, Retail Ventures repurchased 200,000 units of PIES for an aggregate purchase price of $5.6 million, which resulted in a reduction of the long-term obligation of $10.0 million. Retail Ventures recorded a gain of $1.5 million on the repurchase.

During the three and six months ended August 1, 2009, the Company recorded a charge of $7.8 million and $9.2 million, respectively, related to the change in fair value of the conversion feature of the PIES. During the three and six months ended August 2, 2008, the Company recorded a reduction of expenses of $8.0 million and $26.8 million, respectively, related to the change in fair value of the conversion feature of the PIES. As of August 1, 2009 and January 31, 2009, the fair value of the asset recorded for the conversion feature of the PIES was $68.6 million and $77.8 million, respectively.

$0.25 Million Senior Non-Convertible Loan

On August 16, 2006, the Non-Convertible Loan was again amended and restated whereby the Company (i) paid $49.5 million of the then aggregate $50.0 million outstanding balance, (ii) secured the remaining $0.5 million balance with cash collateral accounts, (iii) pledged DSW stock sufficient for the exercise of the Conversion Warrants, and (iv) obtained a release of the capital stock of DSW held by RVI used to secure the Non-Convertible Loan. On June 11, 2007, the outstanding principal balance of the Non-Convertible Loan of $0.25 million owed to Cerberus was prepaid, together with accrued interest thereon, when Cerberus completed the exercise of its remaining Conversion Warrants. This loan and cash collateral was assumed by RVI in connection with the disposition of Value City on January 23, 2008. On June 10, 2009, the 8,333,333 outstanding Conversion Warrants expired and Retail Ventures repaid in full the $250,000 remaining balance on the Non-Convertible Loan along with the related accrued interest.

Liquidity and Capital Resources Considerations Relating to the Value City Disposition

RVI completed the disposition of an 81% ownership interest in its Value City business on January 23, 2008. Retail Ventures or its wholly-owned subsidiary, Retail Ventures Services, Inc. (RVS), guaranteed or may, in certain circumstances, be responsible for certain liabilities of Value City including, but not limited to: amounts owed under certain guarantees with various financing institutions for Value City inventory purchases made prior to the disposition date; amounts owed for guaranteed severance for certain Value City employees; amounts owed under lease obligations for certain equipment leases; amounts owed under certain employee benefit plans if the plans are not fully funded on a termination basis; amounts owed for certain workers compensation claims for events prior to the disposition date; amounts owed under certain income tax liabilities and the guarantee of the amount of unpaid management fees from Value City to VCHI for a period of one year following the transaction.

As of August 1, 2009 and January 31, 2009, the amount of RVI s guarantees of Value City commitments was $12.4 million and $12.9 million, respectively. On October 26, 2008, Value City filed for bankruptcy protection and announced that it would close its remaining stores. RVI may become subject to risks associated with the bankruptcy filing by Value City, if creditors whose obligations RVI has guaranteed are not paid.

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 to Value City for a period of one year unless otherwise extended by both parties. We have negotiated an agreement with Value City to continue to provide services post bankruptcy filing until the liquidation is complete, including risk management, financial services, benefits administration, payroll and information technology services, in exchange for a weekly payment. As of August 1, 2009 Retail Ventures is still providing Value City with limited transition services. We have submitted a proof of claim in the bankruptcy proceeding seeking payment in full for all amounts owed to us. However, there is no assurance that we will be able to collect all or any of the amounts owed to us.

Liquidity and Capital Resources Considerations Relating to the Filene s Basement Disposition

On April 21, 2009, we sold all of the outstanding capital stock of Filene s Basement and certain related entities to FB II Acquisition Corp., a newly formed entity owned by Buxbaum Holdings, Inc. Retail Ventures guaranteed or may, in certain circumstances, be responsible for certain liabilities of Filene s Basement, including, but not limited to, amounts owed under lease obligations related to leases not assumed by New Filene s Basement. As of August 1, 2009, RVI has recorded a liability of $12.0 million for the guarantees of Filene s Basement commitments. The guarantees of Filene s Basement commitments included but were not limited to $2.5 million under lease obligations and $9.5 million under certain laws, related to certain employee benefit plans. On May 4, 2009, liquidating Filene s Basement filed for bankruptcy protection. On June 18, 2009, following bankruptcy court approval, Syms purchased certain assets of Filene s Basement. The Company negotiated with Syms to provide transition services in exchange for payment.

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Certain Liquidity Issues of RVI

Except as otherwise noted, the above discussion relates to the consolidated financial position of RVI. However, RVI is a holding company and has no net sales on a standalone basis and DSW has indicated that it does not intend to declare dividends for the foreseeable future. RVI also does not have any credit facilities under which it can borrow funds. RVI has continuing cash obligations in connection with its operations, including the coupon on the PIES. In addition, as indicated above, RVI has guaranteed certain obligations of Filene s Basement and Value City. Value City filed bankruptcy on October 26, 2008 and Filene s Basement filed bankruptcy on May 4, 2009.

Retail Ventures is reviewing its available options to the extent it may become necessary to manage and enhance its liquidity position. Although RVI s plan to enhance liquidity could include, among other things, the sale or collateralization of shares of common stock of DSW Inc. or a sale of equity by RVI, no assurance can be given that any such transaction can be completed on favorable terms or that such a transaction would satisfy all of RVI s liquidity requirements.

Contractual Obligations and Off-Balance Sheet Arrangements

As of August 1, 2009, DSW has entered into various construction commitments, including capital items to be purchased for projects that were under construction, or for which a lease has been signed. DSW s obligations under these commitments aggregated to $0.1 million as of August 1, 2009. In addition, DSW has signed lease agreements for three new store locations expected to be opened over the next 18 months, with total annual rent of approximately $0.9 million. In connection with the new lease agreements, DSW will receive a total of $1.2 million of construction and tenant allowance reimbursements for expenditures at these locations.

The Company operates all its stores, warehouses and corporate office space from leased facilities. Lease obligations are accounted for either as operating leases or as capital leases based on lease by lease review at lease inception. The Company had no capital leases outstanding as of August 1, 2009 or January 31, 2009.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as of August 1, 2009 and January 31, 2009 as that term is defined by the SEC.

PROPOSED ACCOUNTING STANDARDS

The FASB periodically issues statements and interpretations, some of which require implementation by a date falling within or after the close of the fiscal year. See Note 3 to the Condensed Consolidated Financial Statements for a discussion of the new accounting standards issued or implemented during the six months ended August 1, 2009.

In November 2008, the SEC released a proposed roadmap regarding the potential mandatory adoption of International Financial Reporting Standards (IFRS). Under the proposed roadmap, the Company, as an accelerated filer, may be required to prepare financial statements in accordance with IFRS as early as 2015. In 2011, the SEC will decide on the mandatory adoption of IFRS. The Company is currently investigating the implications should it be required to adopt IFRS in the future.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in interest rates, which may adversely affect our financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, we manage exposures through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. We do not use financial instruments for trading or other speculative purposes and are not party to any leveraged financial instruments.

We are exposed to interest rate risk primarily through our borrowings under the DSW Revolving Loan. At August 1, 2009, there were no direct borrowings and $20.2 million of letters of credit were outstanding against these revolving credit facilities. Future borrowings, if any, would be interest at negotiated rates and would be subject to interest rate risk.

Our cash and equivalents have maturities of 90 days or less. DSW also has investments in tax exempt, tax advantaged and taxable bonds, tax-exempt term notes, variable rate demand notes, tax exempt commercial paper, certificates of deposit, an auction rate security and preferred shares. DSW has $13.0 million invested in certificates of deposit and participate in the Certificate of Deposit Account Registry Service® (CDARS). CDARS provides FDIC insurance on deposits of up to $50.0 million. Certificates of deposit mature every 28 to 91 days. DSW s other types of short-term investments generally have interest rate reset dates of every 3 to 7 days. These financial instruments may be subject to interest rate risk through lost income should interest rates increase during their limited term to maturity or resetting of interest rates and thus may limit DSW s ability to invest in higher interest investments.

Warrants

For derivatives that are not designated as hedges under FAS 133, changes in the fair values are recognized in earnings in the period of change. Retail Ventures estimates the fair value of derivatives based on pricing models using current market rates and records all derivatives on the balance sheet at fair value. As of August 1, 2009 and January 31, 2009, Retail Ventures did not have any derivatives designated as hedges.

VCHI Acquisition Co. Warrants

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. As part of the transaction, Retail Ventures issued warrants (the VCHI 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. The warrants expired in the quarter ended August 1, 2009.

The Company adopted EITF No. 07-5 during the quarter ended May 2, 2009. The adoption of EITF No. 07-5 resulted in the redesignation and reclassification of the VCHI Warrants from Equity to Liabilities within the balance sheets. In addition, the VCHI Warrants were marked to market as of the date of the adoption and continued to be marked to market through their expiration date. A charge of $0.1 million was recorded in other comprehensive income as of February 1, 2009, the date of adoption, which represented the change in fair value of the VCHI Warrants from the date of issuance to the date of adoption of EITF No. 07-5. During the three and six months ended August 1, 2009, the Company recorded an immaterial charge related to the change in fair value of the VCHI warrants.

Term Loan Warrants and Conversion Warrants

For the three and six months ended August 1, 2009, the Company recorded a charge for the change in the fair value of the Warrants of $0.8 million and $0.9 million, respectively. The $7.2 million value ascribed to the Term Loan Warrants was estimated as of August 1, 2009 using the Black-Scholes Pricing Model with the following assumptions: risk-free interest rate of 1.6%; expected life of 2.9 years; expected volatility of 106.5%; and an expected dividend yield of 0.0%. The Conversion Warrants expired on June 10, 2009. The Term Loan Warrants expire on June 11, 2012. As the Term Loan Warrants may be exercised for either RVI Common Shares or Class A Common Shares of DSW owned by RVI, the settlement of these warrants will not result in a cash outlay by the Company.

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Conversion Feature of PIES

During the three and six months ended August 1, 2009, the Company recorded a charge of $7.8 million and $9.2 million, respectively, related to the change in fair value of the conversion feature of the PIES. As of August 1, 2009, the fair value asset recorded for the conversion feature of the PIES was $68.6 million and was estimated using the Black-Scholes Pricing Model with the following assumptions: risk-free interest rate of 1.9%; expected life of 2.1 years; expected volatility of 71.5%; and an expected dividend yield of 0.0%. The fair value of the conversion feature at the date of issuance of $11.7 million is equal to the amount of the discount of the PIES and is being amortized into interest expense over the term of the PIES.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, to allow timely decisions regarding required disclosures.

The Company, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, performed an evaluation of the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Company s principal executive and principal financial officers concluded, as of August 1, 2009, that such disclosure controls and procedures were effective.

No change in the Company s internal control over financial reporting occurred during the Company s fiscal quarter ended August 1, 2009 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is involved in various legal proceedings that are incidental to the conduct of its business. The Company estimates the range of liability related to pending litigation where the amount of the range of loss can be estimated. The Company records its best estimate of a loss when the loss is considered probable. Where a liability is probable and there is a range of estimated loss, the Company records the most likely estimated liability related to the claim. In the opinion of management, the amount of any potential liability with respect to current legal proceedings will not be material to the Company s results of operations or financial condition. As additional information becomes available, the Company will assess the potential liability related to its pending litigation and revise the estimates as needed. Revisions in its estimates and potential liability could materially impact the Company s results of operations and financial condition.

Item 1A. Risk Factors.

We caution that certain information in this Form 10-Q, particularly information regarding future economic performance and finances, and plans, expectations and objectives of management, is forward-looking (as such term is defined in the Private Securities Litigation Reform Act of 1995) and is subject to change based on various important factors. The factors previously disclosed under the caption Risk Factors in our 2008 Annual Report, and other factors discussed from time to time in our filings with the SEC, could affect our actual results and cause such results to differ materially from those expressed in forward-looking statements.

Other than the items below and the June 10, 2009 expiration of the Conversion Warrants, there have been no material changes to the Company s risk factors set forth in Part I, Item 1A of our 2008 Annual Report.

Risk Factor Relating to DSW

Filene s Basement has filed for bankruptcy protection. Liquidating Filene s Basement owes DSW approximately $0.6 million as of August 1, 2009 and DSW may not be able to collect this amount. Further, DSW has signed an agreement with SYL LLC, who purchased certain assets of liquidating Filene s Basement, to provide transition services for up to one year, after which time DSW may not be able to charge New Filene s Basement a portion of its expenses, which will lead to increased expense to DSW.

On May 4, 2009, Filene s Basement filed for bankruptcy protection. On June 18, 2009, SYL LLC acquired real property leases relating to 23 Filene s Basement store locations and its distribution center, fixed assets and equipment at these locations, inventory at all Filene s Basement locations, certain contracts (including the shoe supply contract with DSW), certain intellectual property and certain other related assets. New Filene s Basement also assumed certain obligations of liquidating Filene s Basement under acquired contracts and real property leases. In connection with the sale of assets to New Filene s Basement, DSW entered into a Transition Services Agreement whereby DSW agreed to provide transition services to New Filene s Basement business for up to one year in exchange for a monthly payment. As of August 1, 2009, liquidating Filene s Basement owes DSW approximately $0.6 million for services rendered by DSW prior to the filing of bankruptcy. DSW has fully reserved this receivable. DSW plans on submitting a proof of claim in the bankruptcy proceeding seeking payment in full for all amounts owed to them. However, there is no assurance that DSW will be able to collect all or any of the amounts owed to them.

Further, after the end of the transition services period, DSW will no longer be able to allocate a portion of its expenses to New Filene s Basement, which will lead to increased expenses for DSW. The amount of this increased expense could be material and may have a negative impact on DSW s results of operations and financial position.

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Risk Factor Relating to RVI

RVI has a long-term lease and in the event it is not able to support its lease obligations using the rent paid by a third-party subtenant, the amount of this increased expense could be material.

RVI is party to a lease for an office facility in Columbus, Ohio (the Premises) as of September 2003. In April 2005, RVI sublet the Premises to a third-party. Receipts from the sub-tenant do not at this time cover all expenses of the tenancy, however RVI remains liable under the lease. DSW, through the master separation agreement entered into with RVI at the time of DSW s IPO, agreed to pay two-thirds of any net expense and receive two-thirds of any net profit from the lease. In the event the third-party subtenant defaults under the sublease or vacates the premises and is not swiftly replaced by a new subtenant, the amount of this increased expense could be material and may have a negative impact on our financial position and liquidity.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) Recent Sales of Unregistered Securities. Not applicable

(b) Use of Proceeds. Not applicable

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Retail Ventures made no purchases of its common shares during the second quarter of the 2009 fiscal year.

We have paid no cash dividends and we do not anticipate paying cash dividends on our common shares during fiscal year 2009. Presently we expect that all of our future earnings will be retained for development of our businesses. The payment of any future cash dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, operations, capital requirements, our general financial condition and general business conditions. The DSW Revolving Loan restricts the payment of dividends by any borrower or guarantor, other than dividends paid in stock of the issuer or paid to another affiliate, and cash dividends can only be paid to Retail Ventures by any borrower or guarantor up to the aggregate amount of $5.0 million less the amount of any loans or advances made to Retail Ventures by any borrower or guarantor.

Item 3. Defaults Upon Senior Securities. None

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

Retail Ventures held its 2009 Annual Meeting of Shareholders on July 9, 2009. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934. Holders of 44,326,657 common shares of Retail Ventures were voted, representing 90.6% of Retail Ventures 48,933,729 common shares issued and outstanding and entitled to vote.

Proposal No. 1

The following persons were elected as members of Retail Ventures Board of Directors to serve until the annual 2010 meeting of shareholders or until their successors are duly elected and qualified. Each person received the number of votes for or the number of shareholder votes with authority withheld indicated below.

	Shares voted FOR	Shares WITHHELD
Henry L. Aaron	44,082,121	244,536
Ari Deshe	18,207,332	26,119,325
Jon P. Diamond	18,204,070	26,122,587
Elizabeth M. Eveillard	43,907,734	418,923
Lawrence J. Ring	43,901,903	424,754
Jay L. Schottenstein	43,732,003	594,654
Harvey L. Sonnenberg	43,011,086	1,315,571
James L. Weisman	43,901,903	424,754

No other matters were submitted to a vote of our shareholders at the annual meeting.

Item 5. Other Information. None

Item 6. Exhibits. See Index to Exhibits.

SIGNATURE

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

	RETAIL VENTURES, INC. (Registrant)
Date: September 10, 2009	By: /s/ James A. McGrady James A. McGrady Chief Executive Officer, Chief Financial Officer, President and Treasurer

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INDEX TO EXHIBITS

Exhibit Number	Description
12	Ratio of Earnings to Fixed Charges
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer