RETAIL VENTURES INC
Form 10-Q
September 08, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 31, 2004

OR

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

For the transition period from ___________ to ______________

Commission file number 1-10767

RETAIL VENTURES, INC.
(Exact name of registrant as specified in its charter)

Ohio	20-0090238
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3241 Westerville Road, Columbus, Ohio	43224
(Address of principal executive offices)	(Zip Code)

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

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES [X] NO [ ]

The number of outstanding Common Shares, without par value, as of August 31, 2004 was 34,076,155.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)
(UNAUDITED)

	July 31,	January 31,

	2004	2004
ASSETS		
Cash and equivalents	$ 2,728	$ 14,226
Accounts receivable, net	13,066	8,969
Receivables from related parties	991	137
Inventories	517,547	420,338
Prepaid expenses and other assets	24,766	10,651
Deferred income taxes	47,794	44,933
Total current assets	606,892	499,254
Property and equipment, net	258,731	251,818
Goodwill	37,619	37,619
Tradenames and other intangibles, net	45,554	43,638
Other assets	32,113	31,616
Total assets	$ 980,909	$ 863,945
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$ 196,612	$ 147,771
Accounts payable to related parties	3,170	3,335
Accrued expenses	113,249	112,550
Current maturities of long-term obligations	613	741
Total current liabilities	313,644	264,397
Long-term obligations, net of current maturities		
Non-related	215,436	154,724
Related parties	173,228	172,216
Other noncurrent liabilities	61,640	55,841
Commitments and contingencies		
Common shares, without par value; 80,000,000 authorized; issued, including treasury shares, 34,083,706 and 33,990,707 shares, respectively	143,395	143,077
Warrants	6,074	6,074
Retained earnings	73,934	74,321
Deferred compensation expense, net	(372)	(635)
Treasury shares, at cost, 7,551 shares	(59)	(59)
Accumulated other comprehensive loss	(6,011)	(6,011)
Total shareholders' equity	216,961	216,767
Total liabilities and shareholders' equity	$ 980,909	$ 863,945

The accompanying notes are an integral part of the condensed consolidated financial statements.

RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Three months ended		Six months ended	
	July 31, 2004	August 2, 2003	July 31, 2004	Augu 200
Net sales, excluding sales of licensed departments	$ 631,654	$ 604,594	$ 1,277,954	$ 1,193
Cost of sales	(372,088)	(368,228)	(758,955)	(740
Gross profit	259,566	236,366	518,999	453
Selling, general and administrative expenses	(249,261)	(234,885)	(503,465)	(464
License fees and other income	1,566	1,291	3,123	2
Operating profit (loss)	11,871	2,772	18,657	(9
Interest expense, net				
Non-related	(3,078)	(2,102)	(5,858)	(6
Related parties	(6,836)	(6,957)	(13,451)	(13
Income (loss) before income taxes	1,957	(6,287)	(652)	(28
(Provision) benefit for income taxes	(797)	2,639	265	11
Net income (loss)	$ 1,160	$ (3,648)	$ (387)	$ (16
Basic and diluted income (loss) per share:				
Basic	$ 0.03	$ (0.11)	$ (0.01)	$ (
Diluted	$ 0.03	$ (0.11)	$ (0.01)	$ (
Shares used in per share calculations:				
Basic	33,903	33,720	33,882	33
Diluted	37,094	33,720	33,882	33

The accompanying notes are an integral part of the condensed consolidated financial statements.

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RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS)
(UNAUDITED)

Number of Shares		
	Common	Deferred

	Common Shares	Shares in Treasury	Common Shares	Warrants	Retained Earnings	Compensation Expense
BALANCE, FEBRUARY 1, 2003	33,913	8	$143,183	$6,074	$78,767	$(981)
Net loss					(16,821)	
Exercise of stock options	7					
Amortization of deferred compensation expense						193
Net unrealized gain on derivative instruments, net of taxes of $413						
BALANCE, AUGUST 2, 2003	33,920	8	$143,183	$6,074	$61,946	$(788)
BALANCE, JANUARY 31, 2004	33,991	8	$143,077	$6,074	$74,321	$(635)
Net loss					(387)	
Exercise of stock options	109		422			
Forfeiture of restricted shares	(16)		(104)			104
Amortization of deferred compensation expense						159
BALANCE, JULY 31, 2004	34,084	8	$143,395	$6,074	$73,934	$(372)

The accompanying notes are an integral part of the condensed consolidated financial statements.

RETAIL VENTURES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Six months ended	
	July 31, 2004	August 2, 2003
Cash flows from operating activities:		
Net loss	$ (387)	$(16,821)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discount and issuance costs	3,158	3,009
Amortization of deferred compensation	159	193
Depreciation and amortization	25,619	25,796
Deferred income taxes and other noncurrent liabilities	(5,327)	(7,862)
Loss on disposal of assets	726	279
Change in working capital, assets and liabilities:		
Receivables	(4,951)	2,724
Inventories	(97,209)	(87,369)
Prepaid expenses and other assets	(13,771)	6,189

Accounts payable	48,676	42,303
Accrued expenses	300	(23,362)
Net cash used in operating activities	(43,007)	(54,921)
Cash flows from investing activities:		
Capital expenditures	(30,800)	(23,504)
Proceeds from sale of assets	62	13
Tradename acquisition	(4,037)	
Proceeds from lease incentives	5,716	3,684
Net cash used in investing activities	(29,059)	(19,807)
Cash flows from financing activities:		
Principal payments of capital lease obligations and other debt	(416)	(411)
Net increase in revolving credit facility	61,000	96,000
Debt issuance costs	(438)	
Proceeds from exercise of stock options	422	
Net cash provided by financing activities	60,568	95,589
Net (decrease) increase in cash and equivalents	(11,498)	20,861
Cash and equivalents, beginning of period	14,226	11,059
Cash and equivalents, end of period	$ 2,728	$ 31,920

The accompanying notes are an integral part of the condensed consolidated financial statements.

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

1. BUSINESS OPERATIONS

Retail Ventures, Inc. and its wholly owned subsidiaries are herein referred to collectively as the Company. The Company operates three segments. Value City Department Stores ("Value City") and Filene's Basement, Inc. ("Filene's Basement") segments operate full-line, off-price department stores. The DSW Shoe Warehouse, Inc. ("DSW") segment sells better-branded off-price shoes and accessories. As of July 31, 2004, there are a total of 116 Value City Department Stores located principally in the Midwestern, Eastern and Southern states, 158 DSW stores located throughout the United States and 24 Filene's Basement stores located primarily in major metropolitan areas. DSW also supplies, under supply arrangements, to 197 locations for other non-related retailers in the United States.

On October 8, 2003, the Company reorganized its corporate structure into a holding company form whereby Retail Ventures, Inc., an Ohio corporation, became the successor issuer to Value City Department Stores, Inc. As a result of the reorganization, Value City Department Stores, Inc. became a wholly-owned subsidiary of Retail Ventures, Inc.

In connection with the reorganization, holders of common shares of Value City became holders of an identical number of common shares of Retail Ventures, Inc. The reorganization was effected by a merger which was previously approved by the Company's shareholders. Since October 8, 2003, the Company's common shares have been listed for trading under the ticker symbol "RVI" on the New York Stock Exchange.

VALUE CITY. We operate a chain of 116 off-price department stores located in the Midwestern, Eastern and Southern states, principally under the name Value City. For over 80 years, our strategy has been to provide exceptional value by offering a broad selection of brand name merchandise at prices substantially below conventional retail prices.

DSW. We operate a chain of 158 DSW stores located throughout the United States. The DSW stores are upscale shoe stores offering a wide selection of branded dress and casual footwear below traditional retail prices. Additionally, Shonac Corporation, the parent company of DSW, pursuant to license agreements with Value City and Filene's Basement, operates licensed shoe departments in most Value City and Filene's Basement stores. Results of operations of the licensed shoe departments are included with the Value City and Filene's Basement segments. Shonac Corporation has also entered into agreements to supply merchandise to unrelated third parties' shoe departments. The results of substantially all supply agreements are included with the DSW segment.

FILENE'S BASEMENT. We operate 24 Filene's Basement stores with 18 of the total stores located in the Boston, New York City and Washington, D.C. metropolitan areas. Filene's Basement focuses on providing the top tier brand names at everyday low prices for men's and women's apparel, jewelry, shoes, accessories and home goods.

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

2. BASIS OF PRESENTATION

The accompanying unaudited interim financial statements should be read in conjunction with the 2003 Annual Report on Form 10-K.

In the opinion of management, the unaudited interim financial statements reflect all adjustments consisting of only normal recurring adjustments, which are necessary to present fairly the consolidated financial position and results of operations for the periods presented. To facilitate comparisons with the current year, certain previously reported balances have been reclassified to conform to the current period presentation.

3. TRADENAMES AND OTHER INTANGIBLES

The Company acquired during the six months ended July 31, 2004, the "Leslie Fay" tradename for approximately $4.0 million. The anticipated life of the amortizing asset has been initially assigned 15 years.

4. LONG-TERM OBLIGATIONS

During July, 2004 the Company extended the terms of both the $350 million Revolving Credit Agreement and the $100 million Term Loans by one year. The Revolving Credit Agreement and the Term Loans originally set to expire on June 11, 2005, have been extended through June 11, 2006, under substantially the same terms and conditions.

5. PENSION BENEFIT PLANS

The Company has three qualified defined benefit pension plans assumed at the time of previous acquisitions. The Company's funding policy is to contribute an amount annually that satisfies the minimum funding requirements of ERISA and that is tax deductible under the Internal Revenue Code. Contributions provide not only for benefits attributed to service to date but also for those anticipated to be earned in the future. The Company uses a January 31 measurement date for its plans.

The following table shows the components of net periodic benefit cost for the three and six months ended July 31, 2004 and August 2, 2003:

	Three months ended		Six months ended	
	July 31, 2004	August 2, 2003	July 31, 2004	August 2003
	(in thousands)			
Service cost	$ 10	$ 8	$ 21	$ 17
Interest cost	351	323	701	646
Expected return on plan assets	(359)	(322)	(718)	(643
Amortization of transition asset	(10)	(18)	(19)	(37
Amortization of net loss	145	149	290	298
Net periodic benefit cost	$ 137	$ 140	$ 275	$ 281

The Company had anticipated contributing approximately $1.5 million in fiscal 2004 to meet minimum funding requirements. In April 2004, the Company contributed approximately $1.6 million.

6. SHAREHOLDERS' EQUITY

On September 26, 2002, the Company issued 2,954,792 warrants ("Warrants") to purchase common shares, at an initial exercise price of $4.50 per share, to Cerberus Partners, L.P., Schottenstein Stores Corporation and Back Bay Capital Funding LLC (the "Term Loan C Lenders"). The Warrants are exercisable at any time prior to June 11, 2012. The Company has granted the Term Loan C Lenders registration rights with respect to the shares issuable upon exercise of the Warrants. The $6.1 million value ascribed to the Warrants was estimated as of the date of issuance using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 5.6%; expected life of 10 years; expected volatility of 47%; illiquidity discount of 10%; and an expected dividend yield of 0%. The related debt discount is amortized into interest expense over the life of the debt.

The number of shares issuable varies upon the occurrence of the following:

(i) the issuance of additional common shares without consideration or for a consideration per share less than the Warrant exercise price; (ii) the declaration of any dividend; (iii) the combination or consolidation of the outstanding common shares into a lesser number of shares; (iv) the issuance or sale of additional shares at a price per share less than the current market price but greater than the Warrant exercise price; (v) the issuance of convertible securities which are convertible into common shares; and/or (vi) the exchange of shares in a merger or other business combination.

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

$75 Million Senior Subordinated Convertible Loan - Related Parties

The Company amended and restated its $75.0 million Senior Subordinated Convertible Loan Agreement on June 11, 2002 (the "Convertible Loan"). As amended, borrowings under the Convertible Loan will bear interest at 10% per annum. At the Company's option, interest may be paid-in-kind ("PIK"), from the closing date to the second anniversary thereof, and thereafter, at the option of the Company, up to 50% of the interest due may be PIK until maturity. PIK interest accrued with respect to the Convertible Loan is added to the outstanding principal balance, on a quarterly basis and is payable in cash upon the maturity of the debt. The Convertible Loan is guaranteed by all principal subsidiaries and is secured by a lien on assets junior to liens granted in favor of the lenders on the Revolving Credit Agreement and Term Loans. The Convertible Loan is not subject to prepayment until June 11, 2007. The agent has the right to designate two observers to the Board of Directors for so long as the agent is the beneficial owner of at least 50% of the advances initially made by it and has the right to designate two individuals to the Board of Directors for so long as the agent is the beneficial owner of at least 50% of the conversion shares issued or issuable upon conversion of the advances initially made by it.

The Convertible Loan is convertible at the option of the holders into common shares of the Company and has a conversion price of $4.50. The maturity date is June 10, 2009.

7. EARNINGS PER SHARE

Basic earnings per share are based on the net income (loss) and a simple weighted average of common shares outstanding. Diluted earnings per share reflects the potential dilution of common shares, related to outstanding stock options, Stock Appreciation Rights (SARS) and warrants, calculated using the treasury stock method and convertible debt calculated using the if-converted method. The numerator for the diluted earnings per share calculation is the net income (loss) adjusted to remove the effect of interest, adjusted for tax, on the convertible debt.

	Three months ended		Six mont
	July 31, 2004	August 2, 2003	July 31, 2004
		(in thousands)	

Weighted average shares outstanding	33,903	33,720	33,882
Assumed exercise of dilutive SARS	134	--	--
Assumed exercise of dilutive warrants	1,208	--	--
Assumed exercise of dilutive stock options	1,849	--	--
Number of shares for computation of dilutive earnings per share	37,094	33,720	33,882

For the three months ended July 31, 2004 all potentially dilutive convertible debt was anti-dilutive. For the three months ended August 2, 2003 and the six months ended July 31,

2004 and August 2, 2003 all potentially dilutive instruments: stock options, SARS, warrants and convertible debt, were anti-dilutive.

8. ADOPTION OF ACCOUNTING STANDARDS

The Financial Accounting Standards Board ("FASB") periodically issues Statements of Financial Accounting Standards ("SFAS"), some of which require implementation by a date falling within or after the close of the fiscal year.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), which requires the consolidation of certain entities considered to be variable interest entities (VIEs). An entity is considered to be a VIE when it has equity investors who lack the characteristics of having a controlling financial interest, or its capital is insufficient to permit it to finance its activities without additional subordinated financial support. Consolidation of a VIE by an investor is required when it is determined that the investor will absorb a majority of the VIE's expected losses or residual returns if they occur. FIN 46 pro vides certain exceptions to these rules, relating to qualifying special purpose entities (QSPE's) subject to the requirements of SFAS No. 140. Upon its original issuance, FIN 46 required that VIEs created after January 31, 2003 would be consolidated immediately, while VIEs created prior to February 1, 2003 were to be consolidated as of July 1, 2003.

In October 2003, the FASB deferred the effective date for consolidation of VIEs created prior to February 1, 2003 to December 31, 2003 for calendar year-end companies, with earlier application encouraged.

In December 2003, the FASB published a revision to FIN 46 (FIN 46R) to clarify some of the provisions of the original interpretation and to exempt certain entities from its requirements. FIN 46R provides special effective date provisions to enterprises that fully or partially applied to FIN 46 prior to the issuance of the revised interpretation. In particular, entities that have already adopted FIN 46 are not required to adopt FIN 46R until the quarterly reporting period ended July 31, 2004. Adoption of the required sections of FIN 46, as modified and interpreted, including the provisions of FIN 46R, did not have any effect on the Company's consolidated financial statements or disclosures.

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The balance sheet caption accumulated other comprehensive loss of $6.0 million at July 31, 2004 and January 31, 2004, relates to the minimum pension liability, net of income tax.

The Company's interest rate swap expired during the six months ended August 2, 2003 and was not renewed.

10. STOCK BASED COMPENSATION

The Company has various stock-based employee compensation plans. The Company accounts for those plans in accordance with APB No.25. "Accounting For Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost is reflected in net loss, as no options granted under those plans had an exercise price less than the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition of SFAS 123, "Accounting for Stock-Based Compensation."

	Three months ended		Six months
	July 31, 2004	August 2, 2003	July 31, 2004
	(in thousands, except per share amounts)		
Net income (loss), as reported	$1,160	$(3,648)	$ (387)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(776)	(1,280)	(1,427)
Pro forma net income (loss)	$ 384	$(4,928)	$(1,814)
Income (loss) per share:			
Basic and diluted as reported	$0.03	$(0.11)	$ (0.01)
Basic and diluted pro forma	$0.01	$(0.15)	$ (0.05)

11. TAX VALUATION

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. For the six months ended July 31, 2004, no additional allowance has been provided. During the previous fiscal year ended January 31, 2004 an allowance of $1.5 million was provided for as the Company determined that it was more likely than not that future taxable income may not be sufficient to fully utilize deferred tax assets.

The tax rate of 40.7% reflects the impact of the non-deductible warrant amortization included for book income but not tax.

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

12. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

A supplemental schedule of non-cash investing and financing activities is presented below:

	Six months ended	
	July 31, 2004	August 2, 2003
	(in thousands)	
Cash paid during the period for:		
Interest		
Non-related parties	$ 4,339	$ 8,898
Related parties	11,828	11,289
Income taxes	$10,365	$ 1,558

13. SEGMENT REPORTING

The Company is managed in three operating segments: Value City, DSW and Filene's Basement. All of the operations are located in the United States. The Company has identified such segments based on management responsibility and measures segment profit as operating profit (loss), which is defined as income before interest expense and income taxes.

The tables below present segment income statement information for the three and six months ended July 31, 2004 and August 1, 2003 and balance sheet information as of July 31, 2004 and January 31, 2004.

	Value City	DSW	Filene's Basement	Total
		(in thousands)		
Three months ended July 31, 2004				
Net sales	$317,589	$228,424	$85,641	$631,65
Operating profit (loss)	(2,509)	14,990	(610)	11,87
Capital expenditures	4,954	7,659	4,169	16,78
Depreciation and amortization	6,482	5,138	1,785	13,40

Value City	DSW	Filene's Basement	Total

	(in thousands)			
Three months ended August 2, 2003				
Net sales	$336,522	$192,338	$75,734	$604,5
Operating profit (loss)	(9,932)	11,147	1,557	2,7
Capital expenditures	9,452	2,023	1,182	12,6
Depreciation and amortization	8,503	3,053	1,443	12,9

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

	Value City	DSW	Filene's Basement	Total
		(in thousands)		
Six months ended July 31, 2004				
Net sales	$656,685	$455,701	$165,568	$1,277,
Operating profit (loss)	(6,163)	28,215	(3,395)	18,
Capital expenditures	9,068	13,217	8,515	30,
Depreciation and amortization	13,048	9,207	3,364	25,
As of July 31, 2004				
Identifiable assets	509,269	324,443	147,197	980,

	Value City	DSW	Filene's Basement	Total
		(in thousands)		
Six months ended August 2, 2003				
Net sales	$679,416	$375,389	$138,321	$1,193,
Operating (loss) profit	(22,614)	13,976	(403)	(9,
Capital expenditures	13,478	8,216	1,810	23,
Depreciation and amortization	16,929	5,930	2,937	25,
As of January 31, 2004				
Identifiable assets	477,213	271,205	115,527	863,

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 and 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 minimum estimated liability related to the claim. In the opinion of management, the amount of any liability with respect to these proceedings will not be material. As additional information becomes available, the Company assesses the potential liability related to its pending litigation and revises the estimates. Revisions in the Company's estimates and potential liability could materially impact its results of operations.

RETAIL VENTURES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RISK FACTORS AND SAFE HARBOR STATEMENT

We caution that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Report and/or other risk factors that may be described in the Safe Harbor Statement and Business Risks section of the Company's Annual Report on Form 10-K for the year ended January 31, 2004, or contained in other filings with the Securities and Exchange Commission or made by our management involve risks and uncertainties, and are subject to change based on various important factors. The following factors, among others, in some cases have affected the matters discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations. These same factors could cause our future financial performance in fiscal 2004 and beyond to differ materially from those expressed or implied in any such forward-looking statements. These factors include: decline in demand for our merchandise, our ability to achieve our business plans, expected cash flow from operations, vendor and their factor relations, flow of merchandise, compliance with our credit agreements, our ability to strengthen our liquidity and increase our credit availability, the availability of desirable store locations on suitable terms, changes in consumer spending patterns, marketing strategies, consumer preferences and overall economic conditions, the impact of competition and pricing, changes in weather patterns, changes in existing or potential duties, tariffs or quotas, paper and printing costs, the ability to hire and train associates and development of management information systems.

Our operations have been historically seasonal, with a disproportionate amount of sales and a majority of net income occurring in the back-to-school and Christmas selling seasons for Value City and Filene's Basement. DSW seasonal sales occur both in early Spring and Fall. As a result of seasonality, any factors negatively affecting us during these periods, including adverse weather, the timing and level of markdowns or unfavorable economic conditions, could have a material adverse effect on our financial condition and results of operations for the entire year.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis 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 Notes to Consolidated Financial Statements that are included in our Annual Report on Form 10-K for the year ended January 31, 2004 that is filed with the Securities and Exchange Commission, 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 insur-

RETAIL VENTURES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

ance reserves for health and welfare, workers' compensation and casualty insurance, income taxes, contingencies, litigation and revenue recognition. 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 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 our audit committee.

- Revenue recognition. Revenues from our retail operations are recognized at the latter of point of sale or the delivery of goods to the customer. Retail revenues are reduced by a provision for anticipated returns based on historical trends.

- Cost of sales and merchandise inventories. We use the retail method of accounting for substantially all of our merchandise inventories. Merchandise inventories are stated at the lower of cost, 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 margins are calculated by applying a calculated cost to retail ratio to the retail value of inventories. The cost of the inventory reflected on our 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. Hence, earnings are negatively impacted as merchandise is marked down prior to sale. Reserves to value inventory at the lower of cost or market were $37.7 million on July 31, 2004 and $34.2 million at January 31, 2004.

  Inherent in the calculation of inventories are certain significant management judgments and estimates including, setting the original merchandise retail value or markon, markups of initial prices established, reduction of pricing due to customer's value perception or perceived value known as 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 margins.

RETAIL VENTURES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

- Long-lived assets. In evaluating the fair value and future benefits of long-lived assets, we perform an analysis of the anticipated undiscounted future cash flows of the related long-lived asset and reduce the carrying value by the excess where the recorded value exceeds the fair value. Goodwill is tested on an annual basis using a fair value based approach.

  For the six months ended July 31, 2004 we recorded an impairment of $0.7 million related to the Value City segment for store assets. For the period ended August 2, 2003, we recorded no impairments related to long-lived assets.

  We believe at this time that the remaining long-lived assets' carrying values and useful lives continue to be appropriate. 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. These estimates are based on actuarial assumptions and are subject to change based on actual results. Should a greater amount of claims occur compared to what was estimated for costs of certain health and welfare, workers compensation and casualty insurance increase beyond what was anticipated, reserves recorded may not be sufficient and to the extent actual results vary from assumptions, earnings would be impacted.

- Pension. The obligations and related assets of defined benefit retirement plans are included in the Company's Annual Report on Form 10-K Notes to Condensed Consolidated Financial Statements for the year ended January 31, 2004. Plan assets, which consist primarily of marketable equity and debt instruments, are valued using market quotations. Plan obligations and the annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Key assumptions in measuring the plan obligations include the discount rate, the rate of salary increases and the estimated future return on plan assets. In determining the discount rate, we utilize the yield on fixed-income investments currently available with maturities corresponding to the anticipated timing of the benefit payments. Salary increase assumptions are based upon historical experience and anticipated future management actions. Asset returns are based upon the anticipated average rate of earnings expected on the invested funds of the plans. At July 31, 2004, the actuarial assumptions of our plans have remained unchanged from our Annual Report on Form 10-K for the year ended January 31, 2004 filed with the Securities and Exchange Commission. To the extent actual results vary from assumptions, earnings would be impacted.

- Customer loyalty program. We maintain a customer loyalty program for our DSW operations in which customers receive a future discount on qualifying purchases. The "Reward Your Style" program is designed to promote customer awareness and loyalty plus provide the Company with the ability to communicate with our customers and enhance our understanding of their spending trends. Upon reaching the target level, customers may redeem these discounts on a future purchase. Generally, these future discounts must be redeemed within six months. We accrue the estimated costs of the anticipated redemptions of the discount earned at the time of the initial purchase and charge such costs to selling, general and administrative expense based on historical experience. The estimates of the costs associated with the loyalty program require us to make assumptions related to customer purchase levels and redemption rates. Accrued liability as of July 31, 2004 and January 31, 2004 was $3.7 million and $3.0 million, respectively. To the extent assumptions of purchases and redemption rates vary from actual results, earnings would be impacted.

- Income taxes. We do business in numerous jurisdictions that impose taxes. Management is 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. The estimation process involves adjusting income determined by the application of generally accepted accounting principles for items that are treated differently by the applicable taxing authorities. Deferred tax assets and liabilities are reflected on our balance sheet for temporary differences that will reverse in subsequent years. If different management judgments had been made, our tax expense, assets and liabilities could be different. During fiscal 2003, we established a reserve for deferred income tax assets of $1.5 million for carry forwards related to state and local net operating losses and for excess contribution carry forwards.

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 Consolidated Statements of Operations.

	Three months ended(1)		Six months end	
	July 31, 2004	August 2, 2003	July 31, 2004	A
Net sales, excluding sales of licensed departments	100.0%	100.0%	100.0%	

Cost of sales	(58.9)	(60.9)	(59.4)
Gross profit	41.1	39.1	40.6
Selling, general and administrative expenses	(39.5)	(38.8)	(39.4)
License fees and other income	0.2	0.2	0.3
Operating profit (loss)	1.8	0.5	1.5
Interest expense, net	(1.5)	(1.5)	(1.5)
Income (Loss) before income taxes	0.3	(1.0)	(0.0)
(Provision) Benefit for income taxes	(0.1)	0.4	0.0
Net income (loss)	0.2%	(0.6)%	(0.0)%

(1) Because of the seasonal nature of our retail business cycle, the results of operations for the 13 weeks and 26 weeks ended July 31, 2004 and August 2, 2003 (which do not include the back-to-school or Christmas holiday season) are not necessarily indicative of such results for the fiscal year.

THREE MONTHS ENDED JULY 31, 2004 COMPARED TO THREE MONTHS ENDED AUGUST 2, 2003

Net sales increased $27.1 million, or 4.5%, from $604.6 million to $631.7 million. Comparable store sales decreased 1.7% and were by segment:

	Three months ended	
	July 31, 2004	August 2, 2003
Value City	(5.6)%	0.6%
DSW	2.8	4.5
Filene's Basement	5.1	0.3
Total	(1.7)%	1.6%

Value City comparable stores sales for the quarter decreased 5.6% due to a decline in customer traffic against the comparable period partially offset by higher average unit retail. DSW and Filene's Basement sales increased for the same period due to increases in customer traffic and average unit retail.

Value City's segment sales decreased $18.9 million to $317.6 million, a 5.6% comparable store sales decrease in the quarter. The decrease in comparable sales is comprised of an increase in

non-apparel hardlines of 0.1%, a decrease in apparel of 7.7% and a decrease of 13.9% in Jewelry. The merchandise categories of mens, ladies and childrens had decreases of 6.4%, 9.4% and 6.0%. Shoe sales in the Value City segment were a negative 4.7% in the quarter.

DSW segment sales were $228.4 million, an 18.8% increase in the quarter which includes a net increase of 27 stores over the comparable period along with the comparable store sales increase of 2.8%. The DSW operations in the segment merchandise categories of womens and athletic areas had increases of 1.2% and 6.8% while the mens area had a decrease of 0.2%. During the quarter we had a net increase of 43 leased shoe departments covered under various supply agreements.

Filene's Basement sales increased 13.1% in the quarter to $85.6 million which includes a net increase of 3 stores over the prior year's period and a comparable store sales increase of 5.1%. Merchandise categories of mens, ladies and childrens had comparative increases of 8.2%, 4.0% and 28.8%, respectively. The shoe and home categories had increases of 6.9% and 17.3%, respectively. Jewelry sales in the segment decreased 2.8%.

Total gross profit increased $23.2 million to $259.6 million. Gross profit, as a percentage of sales, increased to 41.1% compared to 39.1% for the prior year. The increase in our overall margin rate is attributable to higher initial markups for all retail business operations. The Value City segment improved average unit retail, initial retail markup and reduced markdowns to obtain the gross margin increase. The continued improvement in comparative sales in DSW and Filene's Basement segments reduced the need for promotional markdowns during the period. Gross profit, as a percent of sales by segment in the second quarter, was:

	Three months ended	
	July 31, 2004	August 2, 2003
Value City	40.9%	39.2%
DSW	43.3	41.0
Filene's Basement	35.9	33.7
Total	41.1%	39.1%

Selling, general and administrative expenses ("SG&A") increased $14.4 million from $234.9 to $249.3 million. Approximately $1.4 million is associated with the pre-opening expenses incurred during the three months ended July 31, 2004. Total SG&A expense associated with stores opened subsequent to August 2, 2003 and through July 31, 2004 was $12.8 million and represents approximately 88.9% of the increase in SG&A expense. As a percentage of sales SG&A was 39.5% compared to 38.8% in the comparable quarter last year. SG&A as a percent of sales by segment in the second quarter was:

Three months ended

	July 31, 2004	August 2, 2003
Value City	42.0%	42.4%
DSW	36.8	35.4
Filene's Basement	37.1	32.1
Total	39.5%	38.8%

License fees and other income were $1.6 million and $1.3 million for the comparative periods. License fees and other income are comprised of fees from licensees, layaway fees and vending income. These sources of income can vary based on customer traffic and contractual arrangements.

Operating profit increased to $11.9 million from $2.8 million and increased as a percentage of sales from 0.5% to 1.8%.

Net interest expense for the quarter increased $0.9 million to $9.9 million. The increase is due primarily to an increase in our weighted average borrowing rate and an increase of $9.3 million in average borrowings from last year to this year.

The effective tax rate for the three months ended July 31, 2004 was 40.7% as compared to 42.0% for the three months ended August 2, 2003.

SIX MONTHS ENDED JULY 31, 2004 COMPARED TO SIX MONTHS ENDED AUGUST 2, 2003

Net sales increased $84.8 million, or 7.1% from $1,193 million to $1,278 million. Comparable stores sales for the six-month period were negative for Value City and positive for DSW and Filene's Basement. Comparable store sales by segment were:

	Six months ended	
	July 31, 2004	August 2, 2003
Value City	(3.3)%	(1.8)%
DSW	6.6	0.4
Filene's Basement	10.1	(3.8)
Total	1.2%	(1.5)%

Value City's segment sales were $656.7 million, a 3.3% decrease in the six-month period. Value City's non-apparel comparable sales decreased 0.3% while apparel sales decreased 4.7%. Non-apparel sales were positively impacted by increases in domestics and housewares up 5.9% and 0.8%, respectively. Of the three apparel divisions mens and ladies had negative comparable sales for the six-month period of 4.1% and 7.1% while childrens increased 0.7%. The customer traffic decrease from the comparable six months a year ago is partially offset by average unit retail increase.

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DSW segment sales were $455.7 million, a 21.4% increase in the six-month period, which includes a net increase of 27 DSW stores and the net increase of 43 leased locations. During the six month period comparative store sales increased 6.6%. DSW increases in the six month period for womens, mens and athletic were 6.4%, 1.2% and 8.1%, respectively.

Filene's Basement segment sales were $165.6 million, a 19.7% increase in the six-month period. Merchandise categories of mens, ladies and childrens had comparative increases of 11.5%, 7.0% and 33.3%, respectively, while other categories of shoes and home had increases of 14.1% and 12.5%, respectively. During the six month period comparative store sales increased 10.1%.

Gross profit increased by $65.9 million to $519.0 million, from $453.1 million, and increased as a percentage of sales from 38.0% to 40.6%. The Value City segment improved average unit retail, initial retail markup and reduced markdowns to obtain the gross margin improvement. The positive sales, higher initial markups and markdown management in DSW and Filene's Basement segments positively impacted the gross margin for these segments in the six month period comparison. Total gross profit increased 14.5%. Gross profit, as a percent of sales by segment in the six-month period, was:

	Six months ended	
	July 31, 2004	August 2, 2003
Value City	39.9%	37.9%
DSW	43.4	39.9
Filene's Basement	35.7	33.3
Total	40.6%	38.0%

Selling, general and administrative expenses ("SG&A") increased $38.6 million, from $464.9 million to $503.5 million, and increased as a percentage of sales from 39.0% to 39.4%. This increase includes $19.4 million attributable to new stores and leased shoe departments in operation at DSW and $ 5.0 million attributable to new stores in the Filene's Basement division. The increase in SG&A as a percentage of sales is due in part to additional marketing efforts to promote sales and create brand awareness. SG&A as a percent of sales by segment in the six-month period was:

	Six months ended	
	July 31, 2004	August 2, 2003
Value City	41.2%	41.5%
DSW	37.3	36.2
Filene's Basement	38.2	34.1
Total	39.4%	39.0%

License fees and other operating income increased $0.3 million, from $2.8 million to $3.1 million, and increased as a percentage of sales to 0.3%. License fees and other income are comprised of fees from licensees, layaway fees and vending income. These sources of income can vary based on customer traffic and contractual arrangements.

Operating profit (loss) increased to a profit of $18.7 million from a loss of $9.0 million and improved as a percentage of sales from a loss of 0.8% to a profit of 1.5%. The operating profit increase is attributable to the increased margin partially offset by increased expenses.

Net interest expense for the six-month period decreased $0.3 million to $19.3 million. The decrease is due primarily to a decrease in our weighted average borrowing rate offset by an increase of $21.5 million in average borrowings from last year to this year.

The effective tax rate for the six months ended July 31, 2004 is 40.6% versus 41.4% for the six months ended August 2, 2003.

LIQUIDITY AND CAPITAL RESOURCES

Our primary ongoing cash requirements are for seasonal and new store inventory purchases, capital expenditures in connection with expansion, remodeling and infrastructure growth, primarily information technology development. The primary sources of funds for these liquidity needs are cash flow from operations and credit facilities. Our working capital and inventory levels typically build throughout the year and reach the highest level in the fall, peaking during the holiday selling season.

Net working capital was $293.2 million and $270.5 million at July 31, 2004 and August 2, 2003, respectively. Current ratios at those dates were 1.9 and 1.8, respectively. Net cash used in operations was $43.0 million in year-to-date fiscal 2004 as compared to $54.9 million in year-to-date fiscal 2003.

Net cash used for capital expenditures was $30.8 million and $23.5 million for the six months ended July 31, 2004 and August 2, 2003, respectively. During the six months ended July 31, 2004, capital expenditures included $16.7 million for new stores, $9.7 million for improvements in existing stores and $4.4 million for information technology equipment upgrades and new systems. In addition to the capital expenditures during the six month period, we acquired a tradename for $4.0 million. A source of cash from investing activities is the proceeds from lease incentives which are amortized as a reduction of rent expense over the life of the lease.

On June 11, 2002, Value City Department Stores, Inc., together with certain other principal subsidiaries of Retail Ventures, Inc., entered into a $525.0 million refinancing that consists of three separate credit facilities (collectively, the "Credit Facilities"): (i) a three-year $350.0 million revolving credit facility (the "Revolving Credit Facility"), (ii) two $50.0 million term loan facilities provided equally by Cerberus Partners, L.P. and Schottenstein Stores Corporation (the "Term Loans"), and (iii) an amended and restated $75.0 million senior subordinated convertible loan, initially entered into by us on March 15, 2000, which is held equally by Cerberus Partners, L.P. and SSC (the "Convertible Loan"). These Credit Facilities are guaranteed by

Retail Ventures, Inc. and substantially all of its subsidiaries.

We are not subject to any financial covenants under these credit facilities, however, there are numerous restrictive covenants relating to our 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 modification to debt instruments. These Credit Facilities are also subject to an Intercreditor Agreement, which provides for an established order of payment of obligations from the proceeds of collateral upon default (the "Intercreditor Agreement").

$350 Million Revolving Credit Facility

Under the Revolving Credit Facility, the borrowing base formula is structured in a manner that allows us and our subsidiaries availability based on the value of inventories and receivables. Primary security for the Revolving Credit Facility is provided by a first priority lien on all of our inventory and accounts receivable, as well as certain intercompany notes and payment intangibles. Subject to the Intercreditor Agreement, the Revolving Credit Facility also has a second priority perfected interest in all of the collateral securing the Term Loans. Interest on borrowings is calculated at the bank's base rate or Eurodollar rate plus 2.00% to 2.75%, depending upon the level of average excess availability we maintain. The maturity date was amended in the current quarter to expire on June 11, 2006. At July 31, 2004 and January 31, 2004, $96.5 million and $137.7 million were available under the Revolving Credit Facility, respectively. Direct borrowings aggregated $186.0 million and $125.0 million at July 31, 2004 and at January 31, 2004, respectively, while $32.5 million and $23.4 million letters of credit were issued and outstanding, respectively.

$100 Million Term Loans - Related Parties

The Term Loans are comprised of a $50.0 million Term Loan B and a $50.0 million Term Loan C. All obligations under the Term Loans are senior debt and, subject to the Intercreditor Agreement, have the same rights and privileges as the Revolving Credit Facility and the Convertible Loan. We and our principal subsidiaries are obligated on the facility. The maturity date as amended is June 11, 2006.

The Term Loans' stated rate of interest per annum during the initial two years is 14% if paid in cash and 15% if we elect a paid-in-kind ("PIK") option. During the first two years of the Term Loans, we may pay all interest in PIK. During the final year of the Term Loans, the stated rate of interest is 15.0% if paid in cash or 15.5% if PIK and the PIK option is limited to 50% of the interest due. At the six months ended July 31, 2004 and for the year ended January 31, 2004, we elected to pay interest in cash.

We issued 2,954,792 warrants ("Warrants") to purchase shares of common stock, at an initial exercise price of $4.50 per share, to the Term Loan C Lenders. The Warrants are exercisable at any time prior to June 11, 2012. We have granted the Term Loan C Lenders registration rights with respect to the shares issuable upon exercise of the Warrants. The $6.1 million value ascribed to the Warrants was estimated as of the date of issuance using the Black-Scholes Pricing Model with the following assumptions: risk-free interest rate of 5.6%; expected life of 10 years; expected volatility of 47%; illiquidity discount of 10%; and an expected dividend yield of 0%. The related debt discount is amortized into interest expense over the life of the debt.

The number of shares issuable varies upon the occurrence of the following: (i) the issuance of additional shares of common stock without consideration or for a consideration per share less than the Warrant exercise price; (ii) the declaration of any dividend; (iii) the combination or consolidation of the outstanding shares of common stock into a lesser number of shares; (iv) the issuance or sale of additional shares at a price per share less than the current market price but greater than the Warrant exercise price; (v) the issuance of convertible securities which are convertible into shares of common stock; and/or (vi) the exchange of shares in a merger or other business combination.

$75 Million Senior Subordinated Convertible Loan - Related Parties

We have amended and restated our $75.0 million Convertible Loan dated March 15, 2000. As amended, borrowings under the Convertible Loan bears interest at 10% per annum. At our option, interest may be PIK during the first two years, and thereafter, at our option, up to 50% of the interest due may be PIK until maturity. PIK interest accrued with respect to the convertible loan is added to the outstanding principal balance, on a quarterly basis, and is payable in cash upon the maturity of the debt. The Convertible Loan is guaranteed by all principal subsidiaries and is secured by a lien on assets junior to liens granted in favor of the Revolving Credit Facility and Term Loans. The Convertible Loan is not prepayable until June 11, 2007, and has a maturity date of June 10, 2009. The agent has the right to designate two observers to our Board of Directors for so long as the agent is the beneficial owner of at least 50% of the advances initially made by it and has the right to designate two individuals to our Board of Directors for so long as the agent is the beneficial owner of at least 50% of the conversion shares issued or issuable upon conversion of the advances initially made by it.

The Convertible Loan is convertible at the option of the holders into shares of our common stock at an initial conversion price of $4.50. The conversion price is subject to adjustment upon the occurrence of specified events.

Achievement of expected cash flows from operations and compliance with the restrictive covenants of our credit agreements (as discussed in the Notes to Consolidated Financial Statements that are included in our 2003 Annual Report Form 10-K filed with the Securities and Exchange Commission) are dependent upon a number of factors, including the attainment of sales, gross profit, expense levels, vendor relations, and flow of merchandise that are consistent with our financial projections. Future limitations of credit availability by factor organizations and/or vendors will restrict our ability to obtain merchandise and services and may impair operating results. We believe that cash generated by operations, along with the available proceeds from our credit agreements and other sources of financing will be sufficient to meet our obligations for working capital, capital expenditures, and debt service. However, there is no assurance that we will be able to meet our projections. Further, there is no assurance that extended financing will be available in the future if we fail to meet our projections or on terms acceptable to us.

Contractual Obligations and Off-Balance Sheet Arrangements

During the current year, we have 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. Our obligations under these commitments aggregated approximately $13.9 million at July 31, 2004. In addition, we signed lease agreements for new store locations with annual rent of approximately $18.7 million and average terms of ten years. Associated with the new lease agreements, we will receive approximately $8.1 million of tenant improvement allowances which will offset future capital expenditures.

There are no "off-balance sheet" arrangements as of July 31, 2004 as that term is described by the Securities and Exchange Commission.

ADOPTION OF ACCOUNTING STANDARDS

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), which requires the consolidation of certain entities considered to be variable interest entities (VIEs). An entity is considered to be a VIE when it has equity investors who lack the characteristics of having a controlling financial interest, or its capital is insufficient to permit it to finance its activities without additional subordinated financial support. Consolidation of a VIE by an investor is required when it is determined that the investor will absorb a majority of the VIE's expected losses or residual returns if they occur. FIN 46 provides certain exceptions to these rules, relating to qualifying special purpose entities (QSPE's) subject to the requirements of SFAS No. 140. Upon its original issuance, FIN 46 required that VIEs created after January 31, 2003 would be consolidated immediately, while VIEs created prior to February 1, 2003 were to be consolidated as of July 1, 2003.

In October 2003, the FASB deferred the effective date for consolidation of VIEs created prior to February 1, 2003 to December 31, 2003 for calendar year-end companies, with earlier application encouraged.

In December 2003, the FASB published a revision to FIN 46 (FIN 46R) to clarify some of the provisions of the original interpretation and to exempt certain entities from its requirements. FIN 46R provides special effective date provisions to enterprises that fully or partially applied to FIN 46 prior to the issuance of the revised interpretation. In particular, entities that have already adopted FIN 46 are not required to adopt FIN 46R until the quarterly reporting period ended July 31, 2004. Adoption of the required sections of FIN 46, as modified and interpreted, including the provisions of FIN 46R, did not have any effect on the Company's consolidated financial statements or disclosures.

INFLATION

The results of operations and financial condition are presented based upon historical cost. While it is difficult to accurately measure the impact of inflation because of the nature of the estimates required, management believes that the effect of inflation, if any, on the results of operations and financial condition has been minor; however, there can be no assurance that the business will not be affected by inflation in the future.

RETAIL VENTURES, INC.
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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 our Revolving Credit Facility. At July 31, 2004, direct borrowings aggregated $186 million and an additional $33 million of letters of credit were outstanding against the facility. The Revolving Credit Facility permits debt commitments up to $350.0 million, matures on June 11, 2006 and generally bears interest at a floating rate of LIBOR plus 2.0% to 2.75% based on the average excess availability during the previous quarter.

A hypothetical 100 basis point increase in interest rates on our variable rate debt outstanding for the six months ended July 31, 2004, net of income taxes, would have an approximate $0.4 million impact to our financial position, liquidity and results of operation.

ITEM 4. CONTROLS AND PROCEDURES

The Company, under the supervision, and with the participation, of its management, including its Chief Executive Officer and Chief Financial Officer, performed an evaluation of the Company's disclosure controls and procedures, as contemplated by Securities Exchange Act Rule 13a-15. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded, as of the end of the period covered by this report, that such disclosures and procedures were effective.

No change was made in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonable likely to affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS. Not applicable

Item 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES. Not applicable

Item 3. DEFAULTS UPON SENIOR SECURITIES. Not applicable

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

(a) The Company held its 2004 Annual Meeting of Shareholders on June 9,

2004. Holders of 31,677,660 Common Shares of the Company were present representing 93.7 % of the Company's 33,817,313 Common Shares issued and outstanding and entitled to vote were at the meeting.

(b) The following persons were elected as members of the Company's Board of Directors to serve until the annual meeting following their election or until their successors are duly elected and qualified. Each person received the number of votes for or the number of votes with authority withheld indicated below.

Name	Votes For	Votes Withheld
Henry L. Aaron	31,546,151	131,509
Ari Deshe	31,333,502	344,158
Jon P. Diamond	31,338,651	339,009
Elizabeth M. Eveillard	31,265,502	412,158
Jay L. Schottenstein	31,339,059	338,601
Harvey L. Sonnenberg	31,266,101	411,559
James L. Weisman	31,270,852	406,808

Item 5. OTHER INFORMATION. Not applicable

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

Part A Index to Exhibits on page 31.

Part B Reports on Form 8-K.

A current report on Form 8-K, dated May 6, 2004, was filed with the Securities and Exchange Commission on May 6, 2004 (Items 7 and 12).

A current report on Form 8-K, dated June 7, 2004, was filed with the Securities and Exchange Commission on June 7, 2004 (Items 7 and 12).

A current report on Form 8-K, dated July 29, 2004, was filed with the Securities and Exchange Commission on July 29, 2004 (Items 7 and 12).

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A current report on Form 8-K, dated September 8, 2004, was filed with the Securities and Exchange Commission on September 8, 2004 (Items 2.02 and 9.01).

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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 8, 2004

By: /s/ James A. McGrady

James A. McGrady,
Executive Vice President,
Chief Financial Officer,
Treasurer and Secretary of Retail
Ventures, Inc.

INDEX TO EXHIBITS

Exhibit Number	Description
10.1	Second Amendment to Loan and Security Agreement dated July 29, 2004
10.2	Second Amendment to Financing Agreement dated July 29, 2004
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