

RETAIL VENTURES INC
Form 10-Q
June 07, 2010

Table of Contents

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended May 1, 2010
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 1-10767
RETAIL VENTURES, INC.
(Exact name of registrant as specified in its charter)

Ohio

20-0090238

(State or other jurisdiction of incorporation or organization)

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

4150 E. Fifth Avenue, Columbus, Ohio

43219

(Address of principal executive offices)

(Zip Code)

(614) 238-4148

Registrant's telephone number, including area code

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of outstanding Common Shares, without par value, as of May 31, 2010 was 49,039,530.

RETAIL VENTURES, INC.
TABLE OF CONTENTS

	Page No.
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets at May 1, 2010 and January 30, 2010</u>	2
<u>Condensed Consolidated Statements of Operations for the three months ended May 1, 2010 and May 2, 2009</u>	4
<u>Condensed Consolidated Statements of Shareholders' Equity for the three months ended May 1, 2010 and May 2, 2009</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the three months ended May 1, 2010 and May 2, 2009</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	35
<u>Item 4. Controls and Procedures</u>	35
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	36
<u>Item 1A. Risk Factors</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
<u>Item 3. Defaults Upon Senior Securities</u>	37
<u>Item 4. (Removed and Reserved)</u>	37
<u>Item 5. Other Information</u>	37
<u>Item 6. Exhibits</u>	37
<u>Signature</u>	38
<u>Index to Exhibits</u>	39
<u>Exhibit 31.1</u>	

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	May 1, 2010	January 30, 2010
ASSETS		
Cash and equivalents	\$ 158,698	\$ 141,773
Short-term investments, net	152,358	164,265
Accounts receivable, net	6,952	6,509
Accounts receivable from related parties, net	212	154
Inventories	286,657	262,284
Prepaid expenses and other current assets	23,007	22,478
Deferred income taxes	30,903	29,560
Total current assets	658,787	627,023
Property and equipment, net	206,317	208,813
Goodwill	25,899	25,899
Conversion feature of long-term debt	4,311	28,029
Deferred income taxes	8,839	5,657
Other assets	16,210	8,044
Total assets	\$ 920,363	\$ 903,465

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

Table of Contents

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

	May 1, 2010	January 30, 2010
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	\$ 131,596	\$ 120,038
Accounts payable to related parties	982	1,239
Accrued expenses:		
Compensation	12,175	27,056
Taxes	33,630	29,682
Gift cards and merchandise credits	16,128	17,774
Guarantees from discontinued operations	2,800	2,800
Other	46,253	36,162
Warrant liability	30,685	23,068
Total current liabilities	274,249	257,819
Long-term obligations	130,332	129,757
Other non current liabilities	105,538	112,599
Commitments and contingencies		
Shareholders' equity:		
Common shares, without par value; 160,000,000 authorized; issued and outstanding, including 7,551 treasury shares, 49,039,530 and 48,964,530, respectively	313,289	313,147
Accumulated deficit	(105,664)	(100,277)
Treasury shares, at cost, 7,551 shares	(59)	(59)
Warrants		
Accumulated other comprehensive loss	(6,942)	(6,942)
Total Retail Ventures shareholders' equity	200,624	205,869
Noncontrolling interests	209,620	197,421
Total shareholders' equity	410,244	403,290
Total liabilities and shareholders' equity	\$ 920,363	\$ 903,465

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

Table of Contents

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

	Three months ended	
	May 1, 2010	May 2, 2009
Net sales	\$ 449,537	\$ 385,846
Cost of sales (exclusive of depreciation included below in selling, general and administrative expenses)	(241,542)	(217,600)
Selling, general and administrative expenses	(159,575)	(214,988)
Change in fair value of derivative instruments	(31,335)	(1,388)
Operating profit (loss)	17,085	(48,130)
Interest expense	(3,377)	(3,215)
Interest income	1,038	471
Interest expense, net	(2,339)	(2,744)
Non-operating expense, net		(395)
Income (loss) from continuing operations before income taxes	14,746	(51,269)
Income tax expense	(12,176)	(665)
Income (loss) from continuing operations	2,570	(51,934)
Loss from discontinued operations, net of tax - Value City		(43)
Income from discontinued operations, net of tax - Filene's Basement	2,843	21,670
Total income from discontinued operations, net of tax	2,843	21,627
Net income (loss)	5,413	(30,307)
Less: net income attributable to the noncontrolling interests	(11,363)	(2,649)
Net loss attributable to Retail Ventures, Inc.	\$ (5,950)	\$ (32,956)
Basic and diluted (loss) earnings per share:		
Basic loss per share from continuing operations attributable to Retail Ventures, Inc. common shareholders	\$ (0.18)	\$ (1.12)
Diluted loss per share from continuing operations attributable to Retail Ventures, Inc. common shareholders	\$ (0.18)	\$ (1.12)
Basic earnings per share from discontinued operations attributable to Retail Ventures, Inc. common shareholders	\$ 0.06	\$ 0.44
Diluted earnings per share from discontinued operations attributable to Retail Ventures, Inc. common shareholders	\$ 0.06	\$ 0.44
Basic loss per share attributable to Retail Ventures, Inc. common shareholders	\$ (0.12)	\$ (0.68)
Diluted loss per share attributable to Retail Ventures, Inc. common shareholders	\$ (0.12)	\$ (0.68)

Shares used in per share calculations:

Basic	49,015	48,692
Diluted	49,015	48,692

Amounts attributable to Retail Ventures, Inc. common shareholders:

Loss from continuing operations, net of tax	\$ (8,793)	\$ (54,583)
Discontinued operations, net of tax	2,843	21,627

Net loss	\$ (5,950)	\$ (32,956)
----------	------------	-------------

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

Table of Contents

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

	Number of Shares		Retail Ventures, Inc. Shareholders						
	Common Shares	in Common	Retained Earnings (Accumulated Deficit)	Treasury Shares	Warrants	Total Accumulated Other Comprehensive Loss	Non- controlling Interests	Total	
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				(54,583)				2,649	(51,934)
Net income from discontinued operations				21,627					21,627
Unrealized loss on available-for-sale securities							(249)		(249)
<i>Total comprehensive loss</i>									<i>\$ (30,556)</i>
Capital transactions of subsidiary				900				398	1,298
Stock based compensation expense, before related tax effects			868						868
Exercise of stock options	250		497						497
Cumulative effect of adoption of new accounting pronouncement						(115)	115		
Reclassification of warrants to liability						(9)			(9)
Balance, May 2, 2009	48,941	8	\$ 308,233	\$ (108,986)	\$ (59)	\$	\$ (7,523)	\$ 175,619	\$ 367,284
Balance, January 30, 2010	48,964	8	\$ 313,147	\$ (100,277)	\$ (59)	\$	\$ (6,942)	\$ 197,421	\$ 403,290
Net (loss) income from continuing operations				(8,793)				11,363	2,570
				2,843					2,843

Net income from
discontinued operations

*Total comprehensive
income*

\$ 5,413

Capital transactions of
subsidiary

563

836

1,399

Stock based
compensation expense,
before related tax
effects

44

44

Net issuance of
restricted shares

70

103

103

Exercise of stock
options

5

15

15

Tax expense related to
stock option forfeitures

(20)

(20)

Balance, May 1, 2010 49,039 8 \$ 313,289 \$ (105,664) \$ (59) \$ (6,942) \$ 209,620 \$ 410,244

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

Table of Contents

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

	Three months ended	
	May 1, 2010	May 2, 2009
Cash from operating activities:		
Net income (loss)	\$ 5,413	\$ (30,307)
Less: income from discontinued operations, net of tax	(2,843)	(21,627)
Income (loss) before discontinued operations	2,570	(51,934)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of debt issuance costs and discount on debt	883	865
Stock based compensation expense	44	868
Restricted shares granted	103	
Capital transactions of subsidiary	563	900
Depreciation and amortization	11,865	11,274
Change in fair value of derivative instruments	31,335	1,388
Deferred income taxes and other non current liabilities	(12,436)	(7,896)
Loss on disposal of long-lived assets	40	
Impairment charges on long-lived assets		435
Impairment charges on receivables from Filene's Basement		57,864
Non-operating expense, net		395
Other	697	575
Change in working capital, assets and liabilities:		
Accounts receivable	(501)	563
Inventories	(24,373)	(34,221)
Prepaid expenses and other assets	(464)	2,901
Accounts payable	9,940	22,608
Proceeds from lease incentives	900	3,072
Accrued expenses	(2,793)	(3,678)
Net cash provided by operating activities from continuing operations	18,373	5,979
Cash flows from investing activities:		
Cash paid for property and equipment	(7,530)	(8,069)
Purchases of available-for-sale investments	(14,242)	(9,000)
Purchases of held-to-maturity investments	(21,864)	
Maturities and sales of available-for-sale investments	35,412	29,624
Maturities and sales of held-to-maturity investments	3,650	
Return of capital from equity investment related party	199	
Transfer of cash to restricted cash		(10,000)
Net cash (used in) provided by investing activities from continuing operations	(4,375)	2,555

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

Table of Contents

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

	Three months ended	
	May 1, 2010	May 2, 2009
Cash flows from financing activities:		
Proceeds from exercise of stock options	15	497
Net cash provided by financing activities from continuing operations	15	497
Cash and equivalents from discontinued operations:		
Operating activities	2,912	20,563
Investing activities		(158)
Financing activities		(25,181)
Total cash and equivalents received (paid) from discontinued operations	2,912	(4,776)
Net increase in cash and equivalents	\$ 14,013	\$ 9,031
Cash and equivalents, beginning of period	141,773	99,084
Cash and equivalents, end of period	\$ 158,698	\$ 103,339

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

Table of Contents

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 (NYSE) under the ticker symbol RVI. The Company operates two segments in the United States of America (United States) as of May 1, 2010. DSW Inc. (DSW) is a specialty branded footwear retailer. The Corporate segment consists of all corporate assets, liabilities and expenses that are not attributable to the DSW segment. As of May 1, 2010, there were 311 DSW stores located throughout the United States. DSW also supplies shoes, under supply arrangements, for 354 locations for other non-related retailers in the United States.

DSW. On July 5, 2005, DSW completed an initial public offering (IPO) of 16,171,875 Class A Common Shares sold at a price of \$19.00 per share and raised net proceeds of \$285.8 million, net of the underwriters' commission and before expenses of approximately \$7.8 million. As of May 1, 2010, Retail Ventures owned Class B Common Shares of DSW representing approximately 62.3% of DSW's outstanding Common Shares and approximately 93.0% of the combined voting power of such shares. RVI accounted for the sale of DSW as a capital transaction. Associated with this transaction, a deferred tax liability of \$65.5 million was recorded. DSW is a controlled subsidiary of Retail Ventures and its Class A Common Shares are listed on the NYSE under the ticker symbol DSW.

DSW is a leading U.S. branded footwear specialty retailer operating 311 shoe stores in 39 states as of May 1, 2010. DSW offers a wide assortment of better-branded dress, casual and athletic footwear for women and men, as well as accessories through DSW stores and dsw.com. As of May 1, 2010, DSW, pursuant to supply agreements, operated 265 leased shoe departments for Stein Mart, Inc., 67 for Gordmans, Inc., 21 for Filene's Basement and one for Frugal Fannie's Fashion Warehouse. Supply agreements results are included within the DSW segment. During the three months ended May 1, 2010, DSW opened five new DSW stores and two new leased departments, ceased operations in three leased departments and recategorized one combination DSW/Filene's Basement store as a DSW store.

Corporate. The Corporate segment represents the corporate assets, liabilities and expenses not allocated to the DSW 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 30, 2010, as filed with the Securities and Exchange Commission (the SEC) on April 14, 2010 (the 2009 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 credit 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 May 1, 2010 and January 30, 2010, the Company's allowance for doubtful accounts was \$2.4 million and \$5.3 million, respectively. The decrease in the allowance was primarily related to the reversal of allowances recorded for receivables from liquidating Filene's Basement due to an initial distribution from the debtor's estates.

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. Effective November 3, 2009, RVI's claims against liquidating Filene's Basement in respect of these notes receivables were released in connection with a Settlement Agreement approved by the bankruptcy court.

Table of Contents

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 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.

A reduction to inventories is charged to cost of sales for shrinkage. Shrinkage is calculated as a percentage of sales from the last physical inventory date. Estimates are based on both historical experience as well as recent physical inventory results. Physical inventory counts are taken on an annual basis and have supported