

RETAIL VENTURES INC

Form DEF 14A

May 18, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Retail Ventures, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**RETAIL VENTURES, INC.  
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD  
JUNE 13, 2007  
AND  
PROXY STATEMENT  
IMPORTANT**

**Please complete, sign and date your proxy and promptly return it in the enclosed envelope. No postage is necessary if mailed in the United States.**

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RETAIL VENTURES, INC.  
3241 Westerville Road  
Columbus, Ohio 43224  
(614) 471-4722

May 18, 2007

To the Shareholders of Retail Ventures, Inc.:

Notice is hereby given that the 2007 Annual Meeting of Shareholders of Retail Ventures, Inc. will be held at The Regency Hotel, 540 Park Ave., New York, New York 10021, on Wednesday, June 13, 2007, at 10:00 a.m. Eastern Daylight Savings Time, for the following purposes, all of which are more completely set forth in the accompanying proxy statement:

1. To elect nine directors, each for a term of one year and until their successors are duly elected and qualified.
2. To approve the 2007 Retail Ventures, Inc. Cash Incentive Compensation Plan.
3. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Only shareholders of record at the close of business on May 4, 2007, are entitled to notice of and to vote at the Annual Meeting of Shareholders.

By Order of the Board of Directors,

/s/ James A. McGrady

James A. McGrady  
Executive Vice President, Chief Financial  
Officer, Treasurer and Secretary

**YOUR VOTE IS IMPORTANT**

You are urged to complete, date, sign and promptly return the enclosed form of proxy in the enclosed envelope to which no postage need be affixed if mailed in the United States. Voting your shares by the enclosed proxy does not affect your right to vote in person in the event you attend the meeting. You are cordially invited to attend the meeting. If you attend, you may revoke your proxy and vote in person if you wish, even if you have previously returned your proxy.

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RETAIL VENTURES, INC.  
3241 Westerville Road  
Columbus, Ohio 43224  
(614) 471-4722

**PROXY STATEMENT**

The enclosed proxy is being solicited on behalf of the Board of Directors of Retail Ventures, Inc. for use at the Annual Meeting of Shareholders to be held at 10:00 a.m., Eastern Daylight Savings Time, on Wednesday, June 13, 2007, and any postponement or adjournment thereof (the Annual Meeting). Unless the context indicates otherwise all references in this proxy statement to Retail Ventures, RVI, our or the Company refer to Retail Ventures, Inc. The Notice of Annual Meeting of Shareholders, this proxy statement and the accompanying proxy card, together with the Company's 2006 Annual Report to Shareholders which includes the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007 (the 2006 fiscal year), are first being mailed to shareholders on or about May 18, 2007. Only shareholders of record at the close of business on May 4, 2007 are entitled to notice of and to vote at the Annual Meeting. The total number of outstanding common shares entitled to vote at the Annual Meeting is 47,272,796. Each common share entitles the holder thereof to one vote upon each matter to be voted upon by shareholders at the Annual Meeting.

Without affecting any vote previously taken, shareholder may revoke his or her proxy by giving a written notice of revocation to the Company at Retail Ventures, Inc., 3241 Westerville Road, Columbus, Ohio 43224, Attention James A. McGrady, Secretary. A shareholder may also change his or her vote by executing and returning to the Company a later-dated proxy or by giving notice of revocation in open meeting. Attendance at the Annual Meeting will not by itself revoke a previously granted proxy.

All properly executed proxies received by the Board of Directors will be voted as directed by the shareholder. All properly executed proxies received by the Board of Directors which do not specify how shares should be voted will be voted **FOR** the election as directors of the nominees listed below under the caption Proposal No. 1: Election of Directors, **FOR** the approval of the Company's 2007 Cash Incentive Compensation Plan and in the discretion of the proxies on any other business properly brought before the Annual Meeting.

The presence, in person or by proxy, of a majority of the outstanding common shares is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum. Broker non-votes occur when brokers who hold their customers' shares in street name sign and submit proxies for such shares and vote such shares on some matters, but not others. This would occur when brokers have not received any instructions from their customers, in which case the brokers, as the holders of record, are permitted to vote on routine matters, which includes the election of directors, but not on non-routine matters such as the approval of the Company's 2007 Cash Incentive Compensation Plan.

Solicitation of proxies may be made by mail, personal interview and telephone by officers, directors and regular employees of the Company, and by the employees of the Company's transfer agent, National City Bank. In addition, the Company has retained a firm specializing in proxy solicitations, Georgeson Shareholder Communications, Inc., at a cost of approximately \$1,500, to assist the Company with its proxy solicitation process. The Company will bear the entire cost of the solicitation of proxies, including the charges and expenses of brokerage firms and others for forwarding solicitation material to beneficial owners of the Company's common shares.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****Security Ownership of Certain Beneficial Owners**

The following table sets forth information as of May 4, 2007 (except as noted below) relating to the beneficial ownership of our common shares by each person known by us to be the beneficial owner of more than 5% of our outstanding common shares. Amount of beneficial ownership for each person is based upon a review of and reliance upon such person's filings with the Securities and Exchange Commission (the "SEC"). Percent of beneficial ownership for each person is based upon the 47,272,796 common shares, net of treasury, outstanding as of May 4, 2007, plus the number of common shares such person reported that it has the right to acquire within 60 days.

<b>Title of Class</b>	<b>Name and address of beneficial owner</b>	<b>Amount and nature of beneficial ownership</b>	<b>Percent of class</b>
(All of these are common shares)	Schottenstein Stores Corporation <sup>(1)</sup> 1800 Moler Road Columbus, Ohio 43207	29,614,268 <sup>(2)</sup>	51.3%
	Cerberus Partners, L.P. 299 Park Avenue 22 <sup>nd</sup> Floor New York, New York 10171	3,407,502 <sup>(3)</sup>	6.7%

<sup>(1)</sup> Prior to the completion of the Company's initial public offering on June 18, 1991, the Company was operated as the Department Store Division (the "Division") of Schottenstein Stores Corporation ("SSC"). On that date, SSC transferred substantially all of the net assets of the Division to the Company in exchange for common shares of the Company. SSC is a closely-held



Delaware corporation. SSC's common stock is beneficially owned by certain of the Company's directors and other Schottenstein family members, as follows, as of May 4, 2007:

<b>Name of beneficial owner</b>	<b>Shares of SSC common stock</b>	<b>Percent of class</b>
Jay L. Schottenstein	299.38139(a)	78.4%
Geraldine Schottenstein	27.41707(b)	7.2%
Ari Deshe	27.41707(c)	7.2%
Jon P. Diamond	27.41707(d)	7.2%
Total	381.63260	100.0%

(a) Represents sole voting and investment power over 299.38139 shares held in irrevocable trusts for family members as to which Jay L. Schottenstein is trustee and as to which shares Mr. Schottenstein may be deemed to be the beneficial owner.

(b) Represents sole voting and investment power over 27.41707 shares held by Geraldine Schottenstein, as

trustee of an irrevocable trust for family members, as to which shares Geraldine Schottenstein may be deemed to be the beneficial owner.

(c) Represents sole voting and investment power over 27.41707 shares held by Ari Deshe, as trustee of irrevocable trusts for family members, as to which shares Mr. Deshe may be deemed to be the beneficial owner.

(d) Represents sole voting and investment power over 27.41707 shares held by Jon P. Diamond and his wife, Susan Schottenstein Diamond, as trustees of irrevocable trusts for

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family members, as to which shares Mr. Diamond may be deemed to be the beneficial owner.

(2) SSC has sole power to vote and dispose of 29,614,268 common shares. Jay L. Schottenstein is a director, Chairman of the Board, President and Chief Executive Officer of SSC and has power to vote and dispose of shares of SSC held by various trusts. Total common shares beneficially owned by SSC are comprised of:

(a) 19,206,766 common shares owned of record and beneficially by SSC; and

(b) SSC holds: (A) certain conversion warrants which provide SSC the right, from time to time, in whole or in part and subject to certain conditions, to: (i) acquire RVI common shares at \$4.50 per share; (ii) acquire, from RVI, DSW Inc., a controlled subsidiary of the Company ( DSW ), Class A Common Shares, no par value (the DSW Class A Shares ), at \$19.00 per share; or (iii) acquire a combination thereof; and (B) certain term warrants which provide SSC the right, from time to time, in whole or in part and subject to certain conditions, to: (i) acquire RVI common shares at \$4.50 per share; (ii) acquire, from RVI, DSW Class A Shares at \$19.00 per share; or (iii) acquire a combination thereof. SSC has the right to acquire up to 8,333,333 RVI common shares upon full exercise of the conversion warrants, and up to 2,074,169 RVI common shares (subject to adjustment) upon full exercise of the term warrants. Based on information in a Schedule 13D/A filed by SSC on January 18, 2006. For more information about the conversion warrants and the term warrants, see Certain Relationships and Related Transactions Debt Agreements and Warrants.

The 29,614,268 common shares do not include 67,944 common shares held by the Ann and Ari Deshe Foundation and 67,944 common shares held by the Jon and Susan Diamond Family Foundation, each a private charitable foundation. The foundations trustees and officers consist of at least one of the following persons: Geraldine Schottenstein, Jon P. Diamond and/or Ari Deshe, in conjunction with other Schottenstein family members.

(3) As of December 31, 2006, Cerberus Partners, L.P., a Delaware limited partnership ( Cerberus ), held: (A) certain conversion warrants which provide Cerberus the right, from time to time, in whole or in part and subject to certain conditions, to: (i) acquire RVI common shares at \$4.50 per share; (ii) acquire, from RVI, DSW Class A Shares, at \$19.00 per share; or (iii) acquire a combination thereof; and (B) certain term warrants which provide Cerberus the right, from time to time, in whole or in part and subject to certain conditions, to: (i) acquire RVI common shares at \$4.50 per share; (ii) acquire, from RVI, DSW Class A Shares at \$19.00 per share; or (iii) acquire a combination thereof. Subject to the limitation described below, Cerberus had the right to acquire up to 1,333,333 RVI common shares upon full exercise of the conversion warrants, and up to 2,074,169 RVI common shares (subject to adjustment) upon full exercise of the term warrants. Each of Cerberus conversion warrants and term warrants, however, provides that in no event shall such warrant be exercisable to the extent that the issuance of RVI common shares upon exercise, after taking into account the RVI common shares then owned by Cerberus and its affiliates, would result in the beneficial ownership by Cerberus and its affiliates of more than 9.99% of the RVI common shares outstanding immediately after giving effect to such exercise. Stephen Feinberg possesses sole power to vote and direct the disposition of all securities of Cerberus. Thus, as of December 31, 2006, for the purposes of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act ), Stephen Feinberg was deemed to beneficially own 3,407,502 RVI common shares, or 7.2% of the RVI common shares deemed issued and outstanding as of such date based on information contained in a Schedule 13G/A filed by Stephen Feinberg on February 14, 2007. For additional information about the conversion warrants and the term warrants, see Certain Relationships and Related Transactions Debt Agreements and Warrants.

**Table of Contents****Security Ownership of Management**

The following table sets forth, as of May 4, 2007, information with respect to the Company's common shares beneficially owned by each director individually, by each of the executive officers named in the Summary Compensation Table set forth on page 34 of this proxy statement and by all directors and executive officers as a group:

Title of Class (All of these are common shares)	Name of beneficial owner	Amount and nature of beneficial ownership <sup>(1)</sup>	Percent of class <sup>(2)</sup>
	Henry L. Aaron <sup>(7)</sup>	38,500	*
	Julia A. Davis	16,000	*
	Ari Deshe <sup>(3)(5)(7)</sup>	24,972	*
	Jon P. Diamond <sup>(3)(5)</sup>	0	*
	Elizabeth M. Eveillard	40,000	*
	James A. McGrady	251,000	*
	Steven E. Miller	21,600	*
	Jed L. Norden	40,000	*
	Lawrence J. Ring	10,000	*
	Jay L. Schottenstein <sup>(3)(4)(6)</sup>	247,800	*
	Harvey L. Sonnenberg	45,000	*
	James L. Weisman <sup>(7)</sup>	41,100	*
	Heywood Wilansky	260,000	*
	All directors and executive officers as a group (13 persons) <sup>(3)(4)(5)(6)(7)</sup>	1,035,972	2.2%

\* Represents less than 1% of the Company's outstanding common shares, net of treasury shares.

<sup>(1)</sup> Except as otherwise noted, the persons named in this table have sole power to vote and dispose of the shares listed.

Includes the following number common shares as

to which the named person has the right to acquire beneficial ownership upon the exercise of RVI stock options within 60 days of May 4, 2007: Mr. Aaron, 31,000; Ms. Davis, 16,000; Ms. Eveillard, 22,500; Mr. McGrady, 251,000; Mr. Miller, 21,600; Mr. Ring, 9,000; Mr. Sonnenberg, 27,500; Mr. Weisman, 27,500; Mr. Wilansky, 200,000; and all directors and executive officers as a group, 606,100. Includes 40,000 and 60,000 common shares for Mr. Norden and Mr. Wilansky, respectively, as to which the named person has the right to acquire beneficial ownership upon the exercise of RVI stock appreciation rights ( SARs ) within 60 days of May 4, 2007.

- (2) The percent is based upon the 47,272,796 common shares

outstanding, net of treasury shares, plus the number of common shares each person has the right to acquire within 60 days of May 4, 2007.

- (3) Does not include:  
19,206,766  
common shares owned of record and beneficially by SSC,  
8,333,333  
common shares issuable to SSC upon full exercise of the conversion warrants, and up to 2,074,169  
common shares (subject to adjustment) issuable to SSC upon full exercise by SSC of the term warrants. Jay L. Schottenstein is the Chairman and Chief Executive Officer of SSC. Jay L. Schottenstein, Ari Deshe and Susan Diamond (spouse of Jon P. Diamond) are members of the Board of Directors of SSC. See Notes 1 and 2 to the preceding table and Certain Relationships and Related Transactions Debt Agreements and Warrants for

additional  
information  
regarding the  
Company's  
relationships with  
SSC.

- (4) Includes 52,500  
common shares  
owned by Glosser  
Brothers  
Acquisition, Inc.  
( GBA ).  
Mr. Schottenstein  
is Chairman of the  
Board of  
Directors,  
President and a  
director of GBA  
and a trustee or  
co-trustee of  
family trusts that  
own 100% of the  
stock of GBA.  
Mr. Schottenstein  
disclaims  
beneficial  
ownership of the  
common shares  
owned by GBA.

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- (5) Does not include 67,944 common shares held by the Ann and Ari Deshe Foundation and 67,944 common shares held by the Jon and Susan Diamond Family Foundation, each a private charitable foundation. The foundations trustees and officers consist of at least one of the following persons: Geraldine Schottenstein, Jon P. Diamond and/or Ari Deshe; in conjunction with other Schottenstein family members.
- (6) Includes 30,000 common shares as to which Jay L. Schottenstein shares voting and investment power as trustee of a trust which owns the common shares.
- (7) Includes 7,500 common shares held jointly by Mr. Aaron and his spouse, 10,000 common



shares held for the benefit of Mr. Deshe's minor children, and 500 common shares held by Mr. Weisman's spouse.

The information with respect to beneficial ownership is based upon information furnished by each director or executive officer and information contained in filings made with the SEC.

#### **PROPOSAL NO. 1: ELECTION OF DIRECTORS**

The number of members of the Company's Board of Directors has been fixed at fourteen by action of the Board of Directors pursuant to the Company's Amended and Restated Code of Regulations (the "Regulations"). Members of the Board of Directors serve until the annual meeting following their election or until their successors are duly elected and qualified. The Nominating and Corporate Governance Committee has nominated nine persons for election as directors of the Company with their terms to expire in 2008. If each of the nominees is elected, five vacancies will exist on the Board of Directors. Proxies cannot be voted for a greater number of persons than the number of nominees named. The Board believes it is in the best interest of the Company to have vacancies on the Board to provide the Board with flexibility in the event that additional qualified director candidates are identified.

Set forth below is certain information relating to the nominees for election as directors:

<b>Name</b>	<b>Age</b>	<b>Directors and Their Positions with the Company/ Principal Occupations / Business Experience</b>	<b>Director Since</b>
Jay L. Schottenstein	52	Chairman of the Company, American Eagle Outfitters, Inc., a retail chain, and SSC since March 1992 and Chief Executive Officer of the Company from April 1991 to July 1997 and from July 1999 to December 2000. Since March 2005, Mr. Schottenstein also serves as Chairman and Chief Executive Officer of DSW. Mr. Schottenstein served as Vice Chairman of SSC from 1986 until March 1992 and as a director of SSC since 1982. He served as President of the Furniture Division of SSC from 1985 through June 1993 and in various other executive capacities since 1976. Mr. Schottenstein is also a director of American Eagle Outfitters, Inc. and DSW.	1991
Henry L. Aaron*	73	Mr. Aaron presently serves as Senior Vice President of the Atlanta National League Baseball Club, Inc., a professional sports organization, as Chairman of 755 Restaurant Corp., a quick service restaurant company, and as a director of Medallion Financial Corp., a specialty finance company, along with a number of other private business interests.	2000

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<b>Name</b>	<b>Age</b>	<b>Directors and Their Positions with the Company/ Principal Occupations / Business Experience</b>	<b>Director Since</b>
Ari Deshe	56	Chairman and Chief Executive Officer of Safe Auto Insurance Company, a property and casualty insurance company since 1996 and President and Chief Executive Officer from 1993 to 1996. Prior to that, Mr. Deshe served as President of Safe Auto Insurance Agency from 1992 to 1993 and President of Employee Benefit Systems, Inc. from 1982 to 1992.	1997
Jon P. Diamond	49	Vice Chairman since November 2004, President and Chief Operating Officer since 1996 and Executive Vice President and Chief Operating Officer from 1993 to 1996 of Safe Auto Insurance Company. Mr. Diamond served as Vice President of SSC from March 1987 to March 1993 and served SSC in various management positions since 1983. Mr. Diamond is also a director of American Eagle Outfitters, Inc.	1991
Elizabeth M. Eveillard*	60	Ms. Eveillard is an independent consultant since 2003. Ms. Eveillard served as Senior Managing Director and a Consultant, Retailing and Apparel Group, of Bear, Stearns & Co., Inc., an investment banking company, from 2000 until 2003. Prior to that time, Ms. Eveillard served as the Managing Director, Head of Retailing Industry Group, of PaineWebber Inc. from 1988 to 2000. From 1972 to 1988, Ms. Eveillard held various executive positions including Managing Director in the Merchandising Group with Lehman Brothers. Ms. Eveillard is also a director of Tween Brands, Inc. and Birks & Mayors, Inc.	2001
Lawrence J. Ring*	58	Chancellor Professor of Business Administration and (2004) EMBA Alumni Distinguished Professor of Executive Education, The Mason School of Business, The College of William and Mary ( W&M ) since 2001. In addition, Mr. Ring has also been an Adjunct Professor of Business Administration, The School of Executive Education, Babson College since 2000. From 1997 to 2002, Mr. Ring served as Faculty Coordinator of Executive Programs at W&M. From 1991 to 2000, he served as Professor of Business Administration at W&M, and from 1994 to 2002, he served as Adjunct Assistant Professor, Department of Family and Community Medicine, Eastern Virginia Medical School. Professor Ring is also a member of the Board of Directors of C. Lloyd Johnson Company, Inc., Norfolk, Virginia; Mr. Price Group, Ltd., Durban, South Africa; and the Williamsburg Landing Corporation. He is also a member of the International Advisory Board	2005

of Angus and Coote Jewelers, Sydney, Australia.

Harvey L. Sonnenberg*	65	Senior Partner and CPA in the consulting firm Weiser LLP since November 1994. Mr. Sonnenberg is active in a number of professional organizations including the American Institute of CPAs and the New York State Society of CPAs and has long been involved in rendering professional services to the retail and apparel industry. Mr. Sonnenberg is also a director of DSW.	2001
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Name	Age	Directors and Their Positions with the Company/ Principal Occupations / Business Experience	Director Since
James L. Weisman*	68	President and a member of Weisman Goldman Bowen & Gross, LLP, a Pittsburgh, Pennsylvania law firm. Mr. Weisman has extensive legal experience in working with retail clients. His primary areas of practice have been in business transactions and overseeing, directing and participating in civil litigation.	2001
Heywood Wilansky	59	President and Chief Executive Officer of the Company since November 2004. Prior to joining the Company, he served as President and Chief Executive Officer of Filene's Basement, Inc., a retailer and subsidiary of the Company ( Filene's Basement ), from February 2003 to November 2004. Mr. Wilansky was a Professor, Global Retail Management, University of Maryland Business School from August 2002 to February 2003. From August 2000 to January 2003, he was President and Chief Executive Officer of Strategic Management Resources, LLC a consulting firm. From August 1995 to July 2000, he was President and Chief Executive Officer of Bon Ton Stores. Mr. Wilansky is also a director of Bertucci's Corporation and DSW.	2005

\* Independent Directors under New York Stock Exchange ( NYSE ) listing standards.

Unless otherwise directed, the persons named as proxies in the accompanying proxy card will vote the proxies **FOR** the election of the above-named nominees as directors of the Company, each to serve for a term of one year and until his or her successor is duly elected and qualified, or until his or her earlier death, resignation or removal. While it is contemplated that all nominees will stand for election, in the event any person nominated fails to stand for election, the proxies will be voted for such other person or persons as may be designated by the directors. Management has no reason to believe that any of the above-mentioned persons will not stand for election or serve as a director if elected. Under Ohio law and the Company's Regulations, the nominees receiving the greatest number of votes **FOR** their election will be elected as directors. Shares as to which the authority to vote is withheld and broker non-votes are not counted toward the election of directors or toward the election of the individual nominees specified on the proxy.

**Your Board of Directors unanimously recommends a vote FOR each of the director nominees named above.**  
**OTHER DIRECTOR INFORMATION, COMMITTEES OF DIRECTORS AND CORPORATE GOVERNANCE INFORMATION**

**General**

A total of seven meetings of the Board of Directors of the Company was held during the 2006 fiscal year and the Board took action by unanimous written consent 5 times during fiscal 2006. Other than Mr. Aaron, all directors attended more than 75 percent of the aggregate of (i) the total number of meetings held by the Board of Directors and (ii) the total number of meetings held by all committees of the Board of Directors on which that director served during the period each served as a director or as a committee member.

There are no family relationships among our directors and executive officers except that Messrs. Deshe and Diamond are each married to a sister of Mr. Schottenstein.

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The Company's Corporate Governance Principles provide that all incumbent directors and director nominees are encouraged to attend the annual meeting of shareholders. Messrs. Schottenstein, Deshe, Diamond, Sonnenberg, Weisman and Wilansky attended the annual meeting of shareholders in 2006.

**Corporate Governance Principles**

In March 2004, the Board of Directors adopted Corporate Governance Principles that address Board structure, membership (including nominee qualifications), performance, operations and management oversight. A copy of the Corporate Governance Principles can be found at the Company's corporate and investor website at [www.retailventuresinc.com](http://www.retailventuresinc.com) and is available in print (without charge) to any shareholder upon request.

In accordance with the Company's Corporate Governance Guidelines and applicable NYSE listing standards, the Company's non-management directors meet in regularly scheduled executive sessions (without management present). The non-management directors of the Company alternate as the chair of such executive sessions in alphabetical order by last name. The Company's independent directors meet in executive session as appropriate matters for their consideration arise but, in any event, at least once a year.

**Director Independence**

Our director independence standards are set forth in our Corporate Governance Principles, a copy of which can be found at our corporate and investor website at [www.retailventuresinc.com](http://www.retailventuresinc.com). The Corporate Governance Principles provide that it is a policy of the Board of Directors that a majority of the directors should be persons who have been affirmatively determined by the Board to be independent. A director will be designated as independent if he or she (i) has no material relationship with us or our subsidiaries; (ii) satisfies the other independence criteria specified by applicable NYSE listing standards; (iii) has no business conflict with us or our subsidiaries; and (iv) otherwise meets applicable independence criteria specified by law, regulation, exchange requirement or the Board of Directors. During its review of director independence for fiscal 2006, the Board considered whether there were any transactions or relationships between the Company and any director or any member of his or her immediate family (or any entity of which a director or an immediate family member is an executive officer, general partner or significant equity holder). As a result of this review, the Board of Directors has affirmatively determined that the following persons are independent under our director independence standards:

Henry L. Aaron  
Elizabeth M. Eveillard  
Lawrence J. Ring  
Harvey L. Sonnenberg  
James L. Weisman

The Board of Directors has a Nominating and Corporate Governance Committee, a Compensation Committee, an Audit Committee (each of which is comprised solely of independent directors), a Community Affairs Committee and a Strategic Planning and Enterprise Risk Assessment Committee.

**Nominating and Corporate Governance Committee**

The members of the Nominating and Corporate Governance Committee are Messrs. Weisman (Chair), Aaron and Sonnenberg and Ms. Eveillard, each of whom is independent in accordance with the applicable SEC rules and listing standards of NYSE. In March 2004, the Nominating and Corporate Governance Committee recommended, and the Board of Directors approved, a Nominating and Corporate Governance Committee Charter, which was amended and restated by the Board in

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September 2006. A current copy of the Nominating and Corporate Governance Committee Charter can be found on the Company's corporate and investor website at [www.retailventuresinc.com](http://www.retailventuresinc.com) and is available in print (without charge) to any shareholder upon request.

The Nominating and Corporate Governance Committee met seven times during the 2006 fiscal year and took action by unanimous written consent once during fiscal 2006. Its functions include assisting the Board in determining the desired qualifications of directors, identifying potential individuals meeting those qualification criteria, recommending to the Board a slate of nominees for election by the shareholders and reviewing candidates nominated by shareholders. In addition, the Nominating and Corporate Governance Committee develops and reviews the Corporate Governance Principles, makes recommendations to the Board of Directors with respect to other corporate governance principles applicable to the Company, oversees the annual evaluation of the Board and committees of the Board, and reviews management and Board succession plans.

The Nominating and Corporate Governance Committee meets to discuss, among other things, identification and evaluation of potential candidates for nomination as a director. Although there are no specific minimum qualifications that a director candidate must possess, potential candidates are identified and evaluated according to the qualification criteria set forth in the Board's Corporate Governance Principles, which includes, among other attributes, such candidate's independence, character, diversity, age, skills and experience. In identifying potential candidates for Board membership, the Nominating and Corporate Governance Committee considers recommendations from the Board of Directors, shareholders and management. Pursuant to its written Charter, the Nominating and Corporate Governance Committee has the authority to retain consultants and search firms to assist in the process of identifying director candidates. No such consultants or search firms were retained during the 2006 fiscal year.

The Nominating and Corporate Governance Committee will consider nominees recommended by shareholders for the 2008 annual meeting of shareholders, provided that the names of such nominees are submitted in writing, not later than January 19, 2008, to the Company (Attn: James L. Weisman). Each such submission must include: (a) as to the nominee, (i) name, age, business address and residence address; (ii) principal occupation or employment; (iii) the class and number of common shares of the Company beneficially owned; and (iv) any other information relating to the nominee that is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Exchange Act; and (b) as to the shareholder recommending the nominee, (i) name and record address; and (ii) the class and number of shares of the Company beneficially owned. Such recommendation shall be accompanied by a consent signed by the nominee evidencing a willingness to serve as a director, if nominated and elected, and a commitment by the nominee to meet personally with the Nominating and Corporate Governance Committee members.

Other than the submission requirements set forth above, there are no differences in the manner in which the Nominating and Corporate Governance Committee evaluates a nominee for director based on whether the nominee is recommended by a shareholder.

Mr. Wilansky, President and Chief Executive Officer of the Company, was appointed to the Board of Directors pursuant to his employment agreement with the Company.

**Compensation Committee**

The members of the Compensation Committee are Ms. Eveillard (Chair) and Messrs. Aaron, Sonnenberg, Ring and Weisman. Each member of the Compensation Committee is (1) an independent director as defined by Section 303A.00 of the NYSE listed company manual, (2) a non-employee director as defined by Rule 16b-3 under the Exchange Act and (3) an outside director as defined by Section 162(m) of the Internal Revenue Code of 1986, as amended.

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In March 2004, the Compensation Committee recommended, and the Board of Directors approved, a Compensation Committee Charter, which was amended and restated by the Board in September 2006. A current copy of the Compensation Committee Charter can be found on the Company's corporate and investor website at [www.retailventuresinc.com](http://www.retailventuresinc.com) and is available in print (without charge) to any shareholder upon request.

The Compensation Committee met eight times during the 2006 fiscal year. The Compensation Committee's functions include: (i) reviewing and approving on an annual basis the corporate goals and objectives with respect to compensation for the Chief Executive Officer; (ii) evaluating the Chief Executive Officer's performance and, based upon these evaluations, setting the Chief Executive Officer's annual compensation; (iii) reviewing the performance and approving the evaluation process and compensation structure of the Company's other executive officers; (iv) making recommendations to the Board with respect to the Company's incentive compensation, retirement and other benefit plans; (v) making administrative and compensation decisions under such plans; and (vi) recommending to the Board of Directors the compensation for non-employee Board members.

### **Compensation Committee Interlocks and Insider Participation**

With respect to the 2006 fiscal year, there were no interlocking relationships between any executive officer of the Company and any entity whose directors or executive officers served on the Board of Directors or the Compensation Committee.

### **Audit Committee**

The Company has a standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Messrs. Sonnenberg (Chair), Ring and Weisman and Ms. Eveillard. The Board of Directors has determined that each of the members is independent and is financially literate in accordance with the applicable SEC rules and listing standards of NYSE. The Board has also determined that the Audit Committee's Chair, Harvey L. Sonnenberg, qualifies as an audit committee financial expert as such term is defined by the SEC under Item 407(d) of Regulation S-K.

In March 2004, the Audit Committee recommended, and the Board of Directors approved, an Audit Committee Charter, which was amended and restated by the Board in November 2006. A current copy of the Audit Committee Charter can be found on the Company's corporate and investor website at [www.retailventuresinc.com](http://www.retailventuresinc.com) and is available in print (without charge) to any shareholder upon request.

The Audit Committee met fifteen times during the 2006 fiscal year. Its functions include: (i) providing assistance to the Board of Directors in fulfilling its oversight responsibility relating to the Company's financial statements and the financial reporting process; (ii) assuring compliance with legal and regulatory requirements; (iii) reviewing the qualifications and independence of the Company's independent public accountants; (iv) oversight of the Company's system of internal controls; (v) oversight over the internal audit function; (vi) reviewing the Company's code of ethics; (vii) retaining and, if appropriate, replacing the independent public accountants; (viii) approving related party transactions; and (ix) approving audit and non-audit services to be performed by the independent public accountants. No member of the Audit Committee is currently serving on the audit committees of more than three public companies.



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**Community Affairs Committee**

The Board of Directors formed the Community Affairs Committee in December 2003 to advise management on community affairs and public relations matters. The members of the Community Affairs Committee are Messrs. Aaron (Chair), Sonnenberg, Ring, Diamond and Weisman. The Community Affairs Committee met once during the 2006 fiscal year.

**Strategic Planning and Enterprise Risk Assessment Committee**

The Board of Directors formed the Strategic Planning and Enterprise Risk Assessment Committee (the Strategic Committee ) in December 2006 to assist the Board of Directors in its long-range financial, strategic planning and enterprise risk assessment efforts. The members of the Strategic Committee are Messrs. Ring (Chair), Schottenstein and Wilansky. The Strategic Committee met three times during the 2006 fiscal year.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our directors and executive officers and persons who are beneficial owners of more than ten percent of the Company's common shares to file reports of ownership and changes of ownership with the SEC and NYSE. The Company assists its directors and executive officers in completing and filing those reports. Based solely on a review of copies of those reports furnished to the Company and representations of the Company's directors and officers, the Company believes that all filing requirements applicable to our directors, executive officers and greater than ten percent beneficial owners were complied with during the last completed fiscal year.

**Code of Ethics and Corporate Governance Information**

The Company has adopted a code of ethics that applies to all of its directors, officers and employees, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and an additional code of ethics that applies to its senior financial officers. These codes of ethics, designated by the Company as the Code of Conduct and the Code of Ethics for Senior Financial Officers, respectively, can be found on the Company's investor website at [www.retailventuresinc.com](http://www.retailventuresinc.com) and are available in print (without charge) to any shareholder upon request. The Company intends to disclose any amendment to, or waiver from, any applicable provision of the Code of Conduct or Code of Ethics for Senior Financial Officers (if such amendment or waiver relates to elements listed under Item 406(b) of Regulation S-K and applies to the Company's directors, principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) by posting such information on the Company's corporate and investor website at [www.retailventuresinc.com](http://www.retailventuresinc.com).

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**PROPOSAL NO. 2: APPROVAL OF RETAIL VENTURES, INC. 2007 CASH INCENTIVE COMPENSATION PLAN**

**General.** On March 28, 2007, the Board of Directors approved, subject to shareholder approval, the adoption of the Retail Ventures, Inc. 2007 Cash Incentive Compensation Plan (the 2007 Cash Plan). If approved by the shareholders, the 2007 Cash Plan will replace the Company's 2003 Cash Incentive Plan effective as of the beginning of the Company's 2008 fiscal year. The 2007 Cash Plan provides for the award of cash bonuses to participants if specified performance criteria are satisfied. Set forth below is a brief summary of the material features of the 2007 Cash Plan, which summary is qualified in its entirety by reference to the full text of the 2007 Cash Plan, a copy of which is included herewith as Appendix A and made a part hereof.

**Purpose.** The purpose of the 2007 Cash Plan is to foster and promote the financial success of the Company and to increase shareholder value by providing eligible executive officers and other employees who are not executive officers an opportunity to earn incentive compensation if specified objectives are satisfied and by enabling the Company to achieve success by attracting and retaining talented and outstanding executive officers and employees.

**Section 162(m).** The 2007 Cash Plan is designed to permit us to deliver performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), which generally limits the deduction that we may take for compensation paid in excess of \$1,000,000 to certain of our executive officers in any one calendar year. Compensation that is qualified performance-based compensation within the meaning of Code Section 162(m) will not be subject to this limitation if it is based on one or more of the performance criteria listed in the 2007 Cash Plan and otherwise satisfies the requirements of Code Section 162(m).

**Administration.** The 2007 Cash Plan will be administered by the Compensation Committee of the Board of Directors. Consistent with the objectives of the 2007 Cash Plan, the Compensation Committee has complete discretion to make all decisions necessary or advisable for the administration and interpretation of the 2007 Cash Plan. Under the terms of the 2007 Cash Plan, the Compensation Committee is authorized to: (1) designate participants, including executive officers and employees who are not executive officers, who may earn additional cash compensation under the 2007 Cash Plan; (2) identify business-related performance goals that must be met over a performance period specified by the Compensation Committee as a condition of the payment of the incentive compensation; and (3) specify the amount of the cash bonus to be paid if those performance goals are met. The Compensation Committee may establish different terms and conditions for each award granted under the 2007 Cash Plan.

**Eligibility.** The 2007 Cash Plan authorizes the Compensation Committee to grant awards subject to the satisfaction of performance criteria to both executive officers and other employees of the Company or certain related entities. However, Code Section 162(m) only applies to the Chief Executive Officer of the Company as well as the four other most highly compensated executive officers of the Company.

**Award Agreement.** At the time an award is made under the 2007 Cash Plan, the Compensation Committee will prepare and deliver an award agreement to each affected participant. The award agreement will describe the award and when and how it may be earned and, to the extent different from the terms of the 2007 Cash Plan, will describe any conditions that must be met before the award may be earned, including performance criteria, and any other applicable terms and conditions affecting the award. By accepting an award, each participant agrees to be bound by the terms of the award agreement and the 2007 Cash Plan and to comply with other conditions imposed by the Compensation Committee.

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**Performance Criteria.** The performance goals that executive officers must achieve to earn a cash bonus are derived from one or more of the performance criteria listed in the 2007 Cash Plan (or a combination thereof), which include:

Net earnings or net income (before or after taxes);

Earnings per share;

Net sales or revenue growth;

Net operating profit;

Return measures (including, but not limited to, return on assets, capital, invested capital, equity, sales or revenue);

Cash flow (including, but not limited to, operating cash flow, free cash flow, cash flow return on equity and cash flow return on investment);

Earnings before or after taxes, interest, depreciation and/or amortization;

Gross or operating margins;

Productivity ratios;

Share price (including, but not limited to, growth measures and total shareholder return);

Expense targets;

Margins;

Operating efficiency;

Market share;

Customer satisfaction;

Working capital targets; and

Economic value added (net operating profit after tax minus the sum of capital multiplied by the cost of capital).

Employees who are not executive officers also may earn a cash bonus under the 2007 Cash Plan, although their performance goals may be based on criteria not listed in the 2007 Cash Plan. Different performance criteria may be applied to individual participants or to groups of participants and, as specified by the Compensation Committee, may be based on the results achieved (1) separately by the Company or any related entity, (2) any combination of the Company and related entities or (3) any combination of segments, products or divisions of the Company and related entities.

The Compensation Committee must establish performance criteria in an award agreement as soon as administratively practicable but, in the case of executive officers, no later than the earlier of 90 days after

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the beginning of the performance period or the expiration of 25% of the performance period. The Compensation Committee will make appropriate adjustments to the performance criteria to reflect any stock dividend, stock split, recapitalization, merger, consolidation, combination, spin-off, distribution of assets, exchange of shares or similar corporate change. Additionally, the Compensation Committee may make appropriate adjustments to performance criteria to reflect a substantive change in a participant's job description or assigned duties and responsibilities.

**Distributions.** At the end of each performance period, the Compensation Committee will ascertain whether each participant has met applicable performance goals and certify those results to our Board of Directors along with a statement of the amount of any cash bonus earned. If a participant has not met applicable performance goals, he or she will not receive a cash bonus under the 2007 Cash Plan for that performance period. If a participant has met applicable performance goals, the Company will pay the stipulated cash bonus in a single lump sum payment as soon as administratively practicable after the performance period ends. The Company will withhold from the award or from other amounts owed to the participant an amount sufficient to satisfy federal, state and local withholding tax requirements.

**Termination of Employment.** Unless otherwise provided in the award agreement, a participant who terminates employment for any reason other than death or disability before the end of the performance period will forfeit any right to receive a bonus during that performance period. However, unless otherwise provided in the award agreement, a participant who terminates employment because of death or disability (as defined in the 2007 Cash Plan) will receive a prorated bonus under the 2007 Cash Plan, but only if applicable performance goals are achieved at the end of that performance period. The amount paid in these circumstances is the product of (a) the bonus the deceased or disabled participant would have received at the end of the performance period, multiplied by (b) the quotient of (i) the number of days between the beginning of the performance period and the date employment terminated, divided by (ii) the total number of days included in the performance period.

**Amendment and Termination.** The Compensation Committee or the Board of Directors may terminate, suspend or amend the 2007 Cash Plan at any time without shareholder approval except to the extent that shareholder approval is required by applicable law or listing requirements. No amendment may affect any rights of a participant under an outstanding award without the consent of the participant. However, the Compensation Committee or the Board of Directors may amend the 2007 Cash Plan without any additional consideration to the affected participants to the extent necessary to avoid penalties under Code Section 409A, even if those amendments reduce, restrict or eliminate rights granted to the participant before those amendments.

**Transferability.** Awards granted under the 2007 Cash Plan may not be transferred except by will or the laws of descent or distribution. The 2007 Cash Plan does, however, permit a participant to designate one or more beneficiaries to whom the Company will pay any amount under the 2007 Cash Plan upon the death of the participant. If a participant has not made an effective beneficiary designation, the deceased participant's beneficiary will be his or her surviving spouse or, if none, the deceased participant's estate.

**Plan Benefits.** The maximum annual bonus that any participant may earn under the 2007 Cash Plan is \$5,000,000. The exact amount of the benefits or amounts, if any, that will be allocated to or received by the eligible executive officers and employees is dependent upon future performance of the Company and, accordingly, cannot be determined at this time. The annual cash bonuses paid to the Company's executive officers under the 2003 Cash Incentive Plan with respect to the Company's 2006 fiscal year are set forth in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table on page 34 of this proxy statement.

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**Recommendation and Vote.**

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE PROPOSAL TO APPROVE THE RETAIL VENTURES, INC. 2007 CASH INCENTIVE COMPENSATION PLAN.**

The affirmative vote of the holders of a majority of the common shares entitled to vote and present, in person or by properly executed proxy, at the Annual Meeting is required to approve the adoption of the 2007 Cash Plan.

Abstentions will have the same effect as a vote **AGAINST** the proposal to approve the 2007 Cash Plan.

**AUDIT AND OTHER SERVICE FEES**

The Audit Committee has adopted a policy under which audit and non-audit services to be rendered by the Company's independent registered public accountants are pre-approved. The Audit Committee's Pre-Approval Policy (the

Pre-Approval Policy) can be found on the Company's corporate and investor website at [www.retailventuresinc.com](http://www.retailventuresinc.com). The Pre-Approval Policy is designed to assure that the provision of such services does not impair the independence of the Company's independent registered public accounting firm and is summarized below.

*Delegation* - The Audit Committee may delegate pre-approval authority to one or more of its independent members provided that the members to whom such authority is delegated report any pre-approval decisions to the Audit Committee at its next meeting. The Audit Committee has not delegated to management its responsibilities to pre-approve services performed by the independent registered public accounting firm.

*Audit Services* - Annual audit, review and attestation engagement terms, conditions and fees are subject to the specific pre-approval of the Audit Committee. Any changes in the terms, conditions or fees resulting from changes in the scope of audit and audit-related services require the Audit Committee's approval.

*Tax Services* - The Audit Committee believes that our independent registered public accounting firm can provide tax services to us such as tax compliance and certain tax advice without impairing its independence. In no event, however, will the independent registered public accounting firm be retained in connection with a transaction initially recommended by the independent registered public accounting firm, the purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code and related regulations or similar regulations of other applicable jurisdictions.

*Other Services* - Unless a type of service to be provided by the independent registered public accounting firm has received general pre-approval, it will require specific pre-approval by the Audit Committee.

*Fees* - Pre-approved fee levels for all services to be provided by the independent registered public accounting firm will be established periodically by the Audit Committee. Any proposed services exceeding these levels will require specific pre-approval of the Audit Committee. Each year the independent registered public accounting firm will provide the Audit Committee with an estimate of the fees for its anticipated services. Each quarter, the independent registered public accounting firm will provide the Audit Committee with a report of the audit, audit-related, tax and other services provided together with the actual fees incurred. Any changes to the estimate of services and fees will be discussed quarterly by the Audit Committee and, if necessary, revised.

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No services were provided by the independent public accounting firm during the 2006 fiscal year that were approved by the Audit Committee under SEC Regulation S-X Section 2-01(c)(7)(i)(C) (which addresses certain services considered de minimus which may be approved by the Audit Committee after such services have been performed). The following table sets forth the aggregate fees for professional services rendered by Deloitte & Touche LLP for each of the last two fiscal years of the Company.

	<b>2006</b>	<b>2005</b>
Audit fees <sup>(1)</sup>	\$2,053,255	\$1,566,687
Audit-related fees <sup>(2)</sup>	383,062	368,658
Tax fees		
All other fees		
<b>Total</b>	<b>\$2,436,317</b>	<b>\$1,935,345</b>

(1) Includes services rendered for the audit of the Company's annual financial statements, review of financial statements included in the Company's quarterly reports on Form 10-Q, assessment of internal controls in the Company's annual report on Form 10-K and other audit services normally provided by Deloitte & Touche LLP in connection with statutory and regulatory filings or engagements.

(2) Includes assurance and related services reasonably related to the performance of the audit or review of the Company's financial statements not

reported as audit fees. During fiscal 2006, audit-related fees include audits performed related to the issuance of Premium Income Exchangeable Securities, or PIES. During fiscal 2005, audit-related fees include benefit plan audits and audits of DSW in relation to its then-contemplated IPO.

#### **AUDIT COMMITTEE REPORT**

The members of our Audit Committee are Messrs. Sonnenberg (Chair), Ring, Weisman and Ms. Eveillard. The Board of Directors has determined that each member is independent and financially literate in accordance with the applicable SEC rules and listing standards of the NYSE. The Board of Directors has also determined that our Audit Committee's Chair, Harvey L. Sonnenberg, qualifies as an audit committee financial expert as such term is defined by the SEC under Item 407(d) of Regulation S-K. Although our Board of Directors has determined that Mr. Sonnenberg is a financial expert as defined under SEC rules, his responsibilities are the same as those of the other Audit Committee members.

The Audit Committee operates under a written charter, which is available on the Company's corporate and investor website at [www.retailventuresinc.com](http://www.retailventuresinc.com) and is available in print (without charge) to any shareholder upon request.

Under the charter, the Audit Committee's responsibilities include, among other items:

- Review of the Company's annual financial statements to be included in its Annual Report on Form 10-K and recommend to the Board of Directors whether the audited financial statements should be included in the Company's Annual Report on Form 10-K;

- Review of the Company's quarterly financial statements to be included in its Quarterly Reports on Form 10-Q;

- Oversight of the Company's relationship with its independent auditors, including:

- Appointment, compensation, retention, termination and oversight of the work of the independent auditors; and

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Pre-approval of all auditing services and permitted non-audit services by the independent auditors;  
Oversight of the Company's internal controls;

Oversight of the review and response to complaints made to the Company regarding accounting, internal accounting controls and auditing matters.

Oversight of the Company's internal audit function; and

Review and approval of related party transactions.

The Company's management is responsible for the Company's internal controls and preparing its consolidated financial statements. The Company's independent registered public accounting firm, Deloitte & Touche LLP, is responsible for performing an independent audit of the consolidated financial statements and issuing a report thereon. Its audit is performed in accordance with the standards of the Public Company Accounting Oversight Board. The Audit Committee is responsible for overseeing the conduct of these activities. In performing its oversight function, the Audit Committee relies, without independent verification, on the information provided to it and on representations made by the Company's management and its independent registered public accounting firm.

In conducting its oversight function, the Audit Committee discusses with the Company's internal auditors and independent registered public accounting firm, with and without management present, the overall scope and plans for their respective audits. The Audit Committee also reviews the Company's programs and key initiatives to design, implement and maintain effective internal controls over financial reporting and disclosure controls.

The Audit Committee has the sole discretion, in its areas of responsibility and at the Company's expense, to engage independent advisors as it deems appropriate and to approve the fees and retention terms of such advisors.

The Audit Committee meets with the internal auditors and independent registered public accounting firm, with and without management present, to discuss the results of their respective audits, the evaluations of the Company's internal controls and the overall quality of its financial reporting. The Audit Committee has reviewed and discussed with management and Deloitte & Touche LLP the audited financial statements for the fiscal year ended February 3, 2007. The Audit Committee also reviewed and discussed with Deloitte & Touche LLP its report on the Company's annual financial statements.

The Audit Committee discussed with Deloitte & Touche LLP the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees). In addition, the Audit Committee discussed with Deloitte & Touche LLP its independence from management, and the Audit Committee has received from Deloitte & Touche LLP the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees).



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Based on its review of the audited consolidated financial statements and the discussions with management and Deloitte & Touche LLP referred to above, the Audit Committee recommended to the Board of Directors the inclusion of the audited financial statements for the fiscal year ended February 3, 2007 in the Company's Annual Report on Form 10-K for filing with the SEC.

Respectfully submitted,

**Audit Committee**

Harvey L. Sonnenberg, Chair

Elizabeth M. Eveillard

Lawrence J. Ring

James L. Weisman

**COMPENSATION DISCUSSION AND ANALYSIS**

**Overview of the Compensation Committee of the Board**

The Compensation Committee of Retail Ventures (in this section the Committee) is comprised of five independent non-employee directors. The Committee sets the principles and strategies that serve to guide the design of the compensation programs of our named executive officers (NEOs). The Committee annually evaluates the performance of the CEO and the other NEOs. Taking their performance evaluations into consideration and other factors as set forth below, the Committee then approves their compensation levels, including equity-based awards. The Committee has appointed independent compensation consultants to assist it with its responsibilities. The compensation consultants report directly to the Committee. The Committee is regularly provided briefing materials proposed by management and the independent consultants. The Committee periodically meets in executive session with its independent consultants with and without members of management present, and reports to the Board of Directors on its actions. During fiscal year 2006 and in fiscal 2007 thus far, the Committee:

Approved performance targets for NEOs for fiscal year 2006 based on the achievement of specific performance goals, which were focused on the earnings of Value City Department Stores and Filene's Basement before interest and taxes (EBIT). For these purposes EBIT is calculated as net income or loss, excluding the DSW segment, before interest expense, income tax and the change in fair value of derivatives.

Ensured that a significant portion of the total compensation package for the CEO and the other NEOs are performance-based and that compensation opportunities are designed to create incentives for above-target performance and disincentives for below-target performance.

Reviewed and addressed key executive talent to address the difficult turnaround status and other critical issues faced at the Value City Department Stores, a subsidiary of RVI.

Reviewed overall corporate performance and compensation levels for NEOs against a peer group survey of appropriately-sized retail companies and against surveys of somewhat larger retail companies.

Evaluated the status of prior equity or equity-related awards to NEOs.

Approved annual awards to NEOs for performance achieved during fiscal year 2006 relative to the pre-approved targets. In determining the annual awards, the Committee considered the

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objective data of Retail Ventures' financial performance, including sales volume, operating profit and cash flow, resulting in a final EBIT performance number to be evaluated against the EBIT target for the year. The Committee also considered other significant achievements and contributions in determining whether to make discretionary awards.

Approved performance targets for NEOs for fiscal 2007 based on achievement of specific performance goals, which are based on EBIT, cash flow and net income.

Approved all RVI equity awards made to any Company employee.

Reviewed the allocation between long-term and current compensation.

Reviewed the allocation between cash and non-cash compensation and among different forms of non-cash compensation.

Reviewed long-term compensation and the basis for allocating compensation to each different form of award.

Undertook all other matters required on an annual basis under the Committee Charter.

**Philosophy and Broad Objectives of the Executive Compensation Programs**

Our compensation programs are intended to focus our NEOs on Retail Ventures' critical goals that translate into long-term shareholder value. The Committee evaluates the Company's plans and programs against current and emerging competitive practices, legal and regulatory developments and corporate governance trends. The Committee places emphasis on programs that are incentive-based and competitive in the marketplace and ensures that there is a significant weighting of Company performance when determining total compensation. Simply put, the Company's executive compensation program is based on the following principles:

Pay competitively;

Pay for performance; and

Design compensation programs that support the Company's businesses with emphasis on critical short-term objectives and retention as well as incentives for establishing long-term shareholder value.

The Committee believes that compensation plays a vital role in achieving short and long-term business objectives that ultimately drive long-term business success. Our compensation practices are intended to attract, motivate, incentivize and retain exceptional business leaders with demonstrated performance, leadership and capabilities to deliver innovative initiatives while concurrently meeting aggressive near and long-term business objectives.

**Design of the NEO Compensation Program**

**The specific objectives of the NEO Compensation Program**

The near-term objectives of the Company include expanding the Filene's Basement business and continuing the turnaround of declining sales and profits for the Value City Department Stores business, and to continue to provide appropriate quality services to all supported businesses, including our growth-oriented controlled subsidiary, DSW. The Committee recognizes that this environment requires a special set of skills and aptitude and more focus than usual on near-term tactics and actions. The annual cash incentive compensation is thus focused on the annual EBIT goals of the Value City Department Stores and Filene's Basement businesses, which are designed to

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achieve improvements in comparable store sales, total sales and reduced operating expenses. The long term objectives of equity and equity-related awards are to align the incentives awarded to the NEOs with long-term shareholder value. This business environment also requires special focus on retention of NEOs, as there are no guaranteed results in a turnaround situation.

The Chairman of the Board is an NEO and since 1991 has provided to the Company oversight, strategic planning and other business services on a regular basis. For these services, the Chairman has received the same nominal base salary each year, including in fiscal 2006. He also received a base salary and equity awards for his services performed this year as the Chief Executive Officer of DSW, as approved by the Compensation Committee and Board of Directors of DSW. Because the Chairman receives only a base salary from RVI, unless otherwise noted the discussion and analysis of NEO compensation in this section does not apply to the Chairman of the Board.

The CEO's compensation is composed of a base salary, plus a bonus with a target amount equal to base salary, plus restricted stock units (RSUs) and SARs. The RSUs are not considered equity compensation because they have no voting or dividend rights, can be exercised only for cash, and are not granted pursuant to the 2000 Stock Incentive Plan. The other NEOs' compensation includes a base salary, plus a bonus opportunity, SARs and, in two cases, RSUs. The target bonus is equal to 45% to 50% of base salary.

The Committee retained two independent executive compensation consulting firms, Hewitt & Associates and Watson Wyatt & Company, to advise it on all elements of NEO compensation including base salary, short-term incentives and long-term equity compensation. Both firms are independent from the Company. These two firms also advise the Compensation Committee and Board of Directors of DSW. The Committee regularly reviews competitive data through surveys provided by its independent consultants. The Committee carefully reviews the data as a basis for guidance as to competitiveness, fairness, and retention decisions it makes regarding compensation packages. For fiscal 2006, the Committee reviewed survey data for peer group companies from the Hewitt Total Compensation Management data base, supplemented with information from proxy analyses. In making compensation decisions for NEOs in fiscal 2006, the Committee compared each NEO's compensation against market compensation benchmarks drawn from a peer group of publicly-traded and privately-held retail industry companies (collectively, the Comparator Group). With input from Hewitt, the Committee selected the Comparator Group to consist of appropriately-sized companies and competitors against which the Committee believes RVI competes for talent and shareholder investment, as set forth below:

**Comparator Groups****Hewitt Total Compensation Management (TCM) Comparator Group**

Belk, Inc.  
Big Lots, Inc.  
BJ's Wholesale Club, Inc.  
The Bon Ton Stores, Inc.  
Brown Shoe Company, Inc.  
Charming Shoppes, Inc.  
Crosstown Traders Inc/ Arizona Mail Order  
Dick's Sporting Goods  
Dollar General Corporation  
Eddie Bauer, Inc.  
Goody's Family Clothing, Inc.  
Home Interiors and Gifts

**Hewitt Proxy Analysis for Companies Not Included in the TCM Comparator Group**

99 Cents Only Stores  
Claire's Stores, Inc.  
Cost Plus, Inc.  
Dollar Tree Stores, Inc.  
Family Dollar Stores, Inc.  
Fred's Inc.  
Genesco, Inc.  
Goody's Family Clothing, Inc.  
Stein Mart, Inc.  
Shopko Stores, Inc.  
The Men's Wear house, Inc.

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Kohl's Corporation  
 L.L. Bean Incorporated  
 Linens 'n Things, Inc.  
 Mervyn's  
 Norm Thompson Outfitters, Inc.  
 Oriental Trading Company, Inc.  
 Pacific Sunwear of California, inc.  
 Payless ShoeSource, Inc.  
 Phillips-Van Heusen Corporation  
 Pier 1 Imports, Inc.  
 Redcats USA  
 Ross Stores, Inc.  
 Sports Authority, Inc.  
 Stein Mart, Inc.  
 The TJX Companies

In making comparisons between RVI pay levels and Comparator Group pay levels, the Committee considered both the raw tabular data for the Comparator Group companies as well as adjusted data for the Comparator Group companies based on regression analysis, provided by Hewitt, that accounts for differences between RVI's revenues and median revenues of the Comparator Group companies.

The pay elements used for comparison purposes were targeted total cash compensation (consisting of base salary and annual cash incentive compensation) and long-term equity incentive compensation. Generally, the Committee targeted NEOs' compensation to fall between the 50<sup>th</sup> and 75<sup>th</sup> percentiles of Comparator Group data for both total cash compensation and long-term incentive compensation.

**The factors considered in designing and determining executive compensation**

The Committee's decisions on NEO compensation are based primarily upon its assessment of each NEO's position's requirement for leadership, operational performance and potential to enhance long-term shareholder value. The Committee relies upon survey data provided by its independent consultants as well as on market competitiveness requirements in determining the amount and mix of compensation elements. The Committee then decides whether each particular payment or award provides an appropriate incentive and reward for performance that achieves short-term objectives and sustains and enhances long-term shareholder value. For annual incentive compensation purposes, the Committee establishes common goals for the NEO group to promote teamwork and partnership. The Committee generally attempts to align base salaries within a range of the median salaries for appropriately-sized peer group companies, with exceptions made when it is determined that higher salaries are warranted in situations where the talent and experience sought or to be retained is necessary for the demands of the position and future needs of the Company. The annual incentive target, as a percent of base salary, is also guided by survey data. The annual incentive component is designed to achieve specific objectives and is applied uniformly to the NEO group. Long-term equity awards are also reviewed by position in comparison to the survey data provided to the Committee. Each NEO's complete compensation is totaled and compared by the independent consultants for consideration by the Committee in designing and determining NEO compensation. A summary sheet identifying the critical elements of an NEO's present, past and contingent compensation is prepared by Management, reviewed by the independent consultants and utilized by the Committee to clarify the past compensation received and the potential compensation available to NEOs. To the extent that any of these compensation components is fixed by an employment agreement based on determinations made by the Committee in a prior year, those employment agreement commitments are honored. To the extent that an NEO is promoted or has a significant change in responsibilities, the NEO's new position is subjected to the same compensation analysis process.

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### **The components of the Company's NEO compensation program**

Three crucial elements comprise our compensation programs for NEOs:

**Base Salaries:** Competitive base salaries are established at or above median to help balance overall total cash compensation for the absence of annual long-term equity grants and, in most cases, to also attract and retain a talented leadership team. When approving base salaries, the Committee considers many factors, including total compensation, the scope of responsibilities, years of experience, the competitive marketplace and the proven performance of the executive. The Committee approves base salaries at a level designed to attract and retain executive talent. Increases are based on contractual arrangements and merit and on a comprehensive performance management process that assesses each NEO's leadership and performance over the previous year, as well as on the NEO's potential for development and performance in the future.

**Annual Cash Incentive Program:** The Company provides an annual cash incentive program, which is authorized by the Committee under the RVI 2003 Cash Incentive Plan (the 2003 Plan) to recognize, motivate and reward individual and group performance. The 2003 Plan was approved by shareholders on September 26, 2002. The Committee administers the 2003 Plan as to NEOs and has full power to decide which NEOs participate in the 2003 Plan and the amount of the awards participants receive. The 2003 Plan does not contain change in control provisions; however, it states that the obligations of the plan are binding upon any successor of the Company. The 2003 Plan will expire at the end of fiscal 2007 and will be replaced by the RVI 2007 Cash Incentive Compensation Plan following shareholder approval of such plan.

NEOs participate in the Company's annual cash incentive program, established pursuant to the 2003 Plan, referred to as the Management Incentive Plan (the MIP). The MIP is designed to motivate and reward NEOs by aligning pay with annual performance, rewarding NEOs for the achievement of financial objectives established at the beginning of each fiscal year. For each NEO position, the percentage of base salary designated as a potential award under the MIP is established by the Committee after review of market survey data. Bonuses are generally approved by the Committee in April of the subsequent fiscal year for the prior year's performance and are based upon meeting established annual financial goals for the Company. The Committee approves target award levels for each NEO along with minimum threshold and maximum stretch award opportunities. The award opportunity ranges from 50% of the target opportunity at threshold to 200% of target opportunity at maximum stretch. The Committee also reserves the ability to consider achievement of established strategic objectives and certain qualitative factors for the NEOs as a group and individually in determining the total cash bonus to be paid to each NEO. At the beginning of fiscal year 2006, the Committee approved a 2006 discretionary award pool for the NEOs as a means of demonstrating its commitment to assure recognition for extraordinary efforts in a difficult turnaround environment and to ensure retention of key management members.

The Company does not have formal policies, nor did it require any in fiscal year 2006 because there were no applicable decisions, regarding the adjustment or recovery of awards or payments if the relevant performance measures are restated and adjusted in a manner that would reduce the size of such awards or payments.

**Long-Term Equity and Equity-Related Incentives:** To align the interests of management with long-term shareholder interests, the Committee provides long-term incentives to NEOs. The Committee administers the Company's equity incentive plans and has the authority, in its discretion, to decide who will receive awards.

The Company has an Amended and Restated 1991 Stock Option Plan (the 1991 Plan) that provided for the grant of options to purchase up to 4,000,000 common shares. Such stock option grants were generally exercisable 20% per year on a cumulative basis and remain exercisable for



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a period of ten years from the date of grant. No further awards are being granted under the 1991 Plan, but some current NEOs have outstanding options under the 1991 Plan.

The Company has an Amended and Restated 2000 Stock Incentive Plan (the "2000 Plan") that provides for the issuance of awards to purchase up to 13,000,000 common shares to management, key employees of the Company and affiliates, consultants and directors of the Company. The 2000 Plan was originally approved by shareholders on August 29, 2001. The 2000 Plan provides for the issuance of stock options, SARs, restricted stock, performance units and performance shares. Stock options granted to NEOs and others generally vest 20% per year on a cumulative basis and remain exercisable for a period of ten years from the date of grant. Directors receive automatic quarterly stock option grants which normally have a one-year vesting period. If a director terminates his service to the Company for reasons of death, disability or retirement, all unvested options immediately become vested. If a director terminates his service to the Company for other reasons, unvested options are forfeited. A director's stock option grants have a term of ten years, but expire one year after death, disability or retirement, or three months after any other termination of service (subject to the ten-year term). Unless provided otherwise in the award agreements, all outstanding options granted under the Company's equity incentive plans will become immediately exercisable in the event of a change in control, as defined in the 2000 Plan.

The Company has no requirement for NEOs to own RVI common shares. The Committee believes that the long-term equity and equity-related incentives created for the NEOs appropriately aligns their interests with those of the shareholders. The Company does have an Insider Trading Policy that prohibits insider trading and requires Company pre-clearance of trading in the common shares of the Company or the Class A Common Shares of its public subsidiary, DSW.

The Company does not have an ongoing, annual program of granting long-term equity or equity-related incentives. Instead, long-term equity incentives are included in the annual evaluation of compensation, to determine if the Committee's described compensation objectives for NEOs are being met or require additional grants to achieve those objectives. If an NEO, because of a promotion or otherwise, has a new employment agreement, grants, and in particular front-loaded grants, are considered at that time. In addition, the Committee responds to requests by management for grants for purposes of retention. The long-term equity incentives granted to NEOs are typically in the form of stock options, standard or performance-based SARs, shares of restricted stock and RSUs. The long-term equity incentives are designed to reward NEOs for increasing long-term shareholder value, provide a competitive total compensation and to retain the NEOs at the Company. With respect to stock options and SARs, the exercise price is determined by the share price on the date of the grant. The Committee has chosen to use SARs and RSUs in more recent awards due to its desire to avoid the potential dilutive effect of stock option and restricted stock grants. RSUs are granted to provide an additional mix of equity value in a compensation package, and to enhance the retention aspects of an NEO's total compensation. RSUs are not granted pursuant to the 2000 Plan, although terms in the 2000 Plan that may be applicable to the RSUs are applied to those RSUs. The Committee reviews the degree to which past awards have been earned and retired, and considers future awards based on driving additional shareholder value and providing fair compensation for future performance.

The Committee did not establish a multi-year cash incentive compensation plan because the turnaround efforts with the Company's Value City Department Stores operation make it difficult to establish multi-year targets.

The Committee provides grants of SARs to provide a leveraged opportunity for increases in value based on a rise in stock price. The SARs have no intrinsic value at the time of grant and are dependent on increases in stock price to attain realizable value. The Committee provides grants of RSUs for the purpose of providing

incentives for executives to remain with the Company

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because these grants have intrinsic value from the date of grant. The value of RSUs also increases with increases in stock price, but RSUs are typically granted in much smaller amounts than SARs because of the total value imparted in a grant of RSUs. The Committee believes a mix of SARs and RSUs provides optimal benefit for the Company at this time.

Beginning in fiscal year 2003, the Company issued SARs, subject to the applicable terms of the 2000 Plan. Some of these SARs are subject to an Option Price Protection Provision ( OPPP ) and are awarded at the greater of market value or \$4.50 per share and are subject to a vesting schedule or a performance-accelerated vesting formula, as applicable. The OPPP provides that the issuance of any options to replace the SARs is contingent and entirely at the discretion of the Company. Pursuant to an exercise of SARs, the grantee is compensated by the Company in the amount of the gain, if any, represented by the difference between the fair market value of a common share of RVI on the date of the exercise and the strike price per share. The OPPP does not apply once SARs are actually exercised.

In fiscal year 2004, the Company issued to several executives, including our CEO, special SARs considered to be a three-year, front-loaded grant. These SARs are both standard and performance-accelerated SARs. One third of the standard SARs, subject to continued employment, vest on each of the first three anniversaries of the grant date, assuming the grant price equals or exceeds the fair market value of the stock. The performance-accelerated SARs, subject to continued employment, vest on the eighth anniversary of grant, but will be subject to accelerated vesting based on the attainment of two specified performance objectives.

Beginning in fiscal year 2004, the Company issued RSUs to several NEOs. The RSUs typically vest annually in three equal installments, do not have voting or dividend rights and may be settled only in cash. On the date of vesting of any RSUs, the Company pays cash to the holder in an amount equal to the fair market value, as defined in the Company's 2000 Plan, of a share of Company common stock.

DSW has a 2005 Equity Incentive Plan that provides for the issuance of options to purchase up to 4,600,000 DSW Class A common shares or the issuance of stock units to management, key employees of DSW and affiliates, consultants, and directors of DSW. Stock options generally vest 20% per year on a cumulative basis and remain exercisable for a period of ten years from the date of grant. The DSW Compensation Committee and Board of Directors have granted DSW stock options to some of our NEOs based on efforts in connection to the DSW IPO and past and ongoing services performed for DSW.

**Other forms of compensation:****Benefits**

The Company offers health and welfare plans to the NEOs consistent with those accorded to the general employee population including medical, life, dental and disability coverage as well as a qualified 401(k) retirement savings opportunity, all at the election and contribution of the NEO. The Company permits 401(k) contributions up to \$15,000 and for NEOs that qualify, an additional \$5,000 for a total of \$20,000, which is the limit established by the IRS for 2006. The Company provides a 100% match of contributions up to 3% of pay and a 50% match of contributions from 3% to 5% of pay. The match is applied only to contributions up to \$15,000. The Company does not provide supplemental retirement plans, deferred compensation plans or special life insurance policies for the NEOs.

**Table of Contents****Perquisites**

The Company provides the NEOs with a monthly perquisite or car allowance and a Company-paid fuel card as part of an overall competitive compensation and benefits package. The CEO receives a monthly perquisite allowance and Company fuel card, while the other NEOs receive a car allowance and company fuel card. The Committee believes that the allowances and tax gross-ups incorporated into the allowances are in line with general industry practice for similar allowances provided to NEOs by competing retail organizations. The CFO received the use of a corporate country club membership during fiscal 2006. The corporate country club membership was cancelled in February 2007.

**Other Compensation**

The Company, in general, offers relocation and signing bonuses to ensure that the overall compensation package is competitive and attractive to the prospective executive. Protective measures are established to allow the Company to recover certain payments in the event the NEO terminates within the first year of employment. The Committee believes that these practices are in line with other competing retail organizations. The CEO, through his employment agreement, may request to relocate his principal residence from Boston to New York City. In the event this occurs, the Company agreed to purchase the CEO's current residence at the CEO's full investment as evidenced by receipts and supporting documentation, including all construction and finishing expenses. This option has not been exercised.

**Tax Considerations**

Section 162(m) of the Code limits deductibility of certain compensation paid to the chief executive officer and four other executive officers who are the highest paid and employed at fiscal year-end to \$1 million per year. The Committee annually considers the impact of Section 162(m) of the Code in structuring RVI's executive compensation program. For fiscal 2006, the compensation paid to the NEOs pursuant to the 2003 Plan and, generally, the 2000 Plan was structured so as to qualify as performance-based and thus deductible for purposes of Section 162(m), to the extent the performance-based conditions are met. One exception to this general statement is that, in the form RVI generally grants its SARs and RSUs (service-based vesting), such grants do not qualify as performance-based under Section 162(m). In addition, in light of the competitive nature of the market for our executive talent, and our philosophy to pay and reward individual contributions to overall Company performance, the Committee reserves the discretion to reward significant contributions by the NEOs to building shareholder value, regardless of the tax deductibility limits of Section 162(m).

Section 409A of the Code, which took effect on January 1, 2005, imposes certain restrictions on amounts deferred under nonqualified deferred compensation plans and a 20% excise tax on amounts that are subject to, but do not comply with, Section 409A. Section 409A includes a broad definition of nonqualified deferred compensation plans, which may extend to various plans and arrangements maintained by the Company. On April 10, 2007, the Treasury Department and the IRS issued final regulations relating to the treatment of nonqualified deferred compensation plans under Section 409A. The Board of Directors and the Compensation Committee intend to administer the Company's plans and arrangements to avoid or minimize the effect of Section 409A and, if necessary, amend the plans and arrangements to comply with the final regulations issued under Section 409A on or before December 31, 2007 (or a later date specified by the Internal Revenue Service ( IRS )).

**Table of Contents****Post-employment protections**

As discussed below under **Agreements with Key Executives**, the employment agreement with each NEO includes provisions for severance and access to benefits for specified periods in the case of involuntary termination without cause, as defined in the applicable employment agreement. The Committee has determined that providing such severance benefits upon a termination without cause is a competitive compensation practice and is valuable and sometimes necessary in recruiting NEOs to the Company who desire this form of post-employment protection. The Committee has also determined that providing such severance benefits assists in the retention of NEOs. The promise of severance benefits upon a termination without cause also supplies the appropriate additional incentive and consideration for important obligations and conditions imposed on the NEOs in the agreements that provide stability and other benefits to the Company, such as non-compete, non-solicit, non-interference and cooperation obligations, and the obligation to submit any dispute to arbitration. An NEO terminated without cause may exercise stock options and SARs during a period following involuntary termination without cause if so granted by the Committee, and, generally, unless otherwise contractually provided, any equity or non-equity long-term grants which would have vested in the following 12 months are deemed immediately vested. No severance or termination benefits are payable to an executive terminated for cause (as defined in the applicable employment agreement).

**Agreements with Key Executives**

On November 18, 2004, the Company and Mr. Wilansky entered into an employment agreement with an effective date of November 1, 2004. The initial term of the agreement expires at the end of the Company's 2007 fiscal year and will automatically extend for successive one-fiscal-year periods thereafter, unless the Company gives timely written notice to Mr. Wilansky that it does not wish for the next automatic extension to continue the agreement.

Mr. Wilansky's employment agreement provides for an annual base salary of \$1,000,000 with minimum annual increases of 2.5% (with the first such increase to occur at the beginning of the 2006 fiscal year). In addition, Mr. Wilansky is eligible to receive incentive compensation under the terms of the Company's annual incentive compensation plan for key executives, with a target annual bonus per fiscal year of 100 percent of base salary and a maximum annual bonus per fiscal year of 200 percent of base salary. The Company agreed to provide Mr. Wilansky with the following minimum bonus guarantees, each subject to his continued employment through the end of the applicable fiscal year: (i) \$800,000 for the 2004 fiscal year; (ii) \$1,000,000 for the 2005 fiscal year; and (iii) \$250,000 for the 2006 fiscal year. In addition, Mr. Wilansky will be entitled to an annual perquisite allowance from the Company of \$50,000 (which amount includes any associated tax gross-up), payable in equal installments in accordance with the Company's payroll practices for executive employees.

Pursuant to the terms of Mr. Wilansky's employment agreement, if the Company terminates Mr. Wilansky's employment without cause or Mr. Wilansky terminates his employment for good reason (as such terms are defined therein), Mr. Wilansky will be entitled to: (i) his base salary for the shorter of the remainder of his employment term, as then in effect, plus 18 months, or the three-year period commencing on the date of termination; (ii) reimbursement for health care coverage for a period of no more than 18 months following the effective date of termination, subject to certain provisos; and (iii) the pro rata share of any incentive compensation that he would have otherwise received under the Company's annual incentive compensation plans for key executives for the year of termination, subject to certain provisos. In addition, any SARs and RSUs granted to Mr. Wilansky that would have vested during the three months following such termination will vest, on the date they would have so vested, while any SARs and RSUs that remain unvested at the conclusion of such three months shall be forfeited.

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If the Company terminates Mr. Wilansky for cause (as such term is defined in the agreement) or Mr. Wilansky voluntarily terminates his employment with the Company, the Company shall pay to Mr. Wilansky: (i) any base salary earned to the date of termination; and (ii) any unpaid incentive compensation earned under the terms of the Company's annual incentive compensation plan for key executives for the preceding fiscal year. Additionally, all equity compensation awards will be governed by the terms of the 2000 Plan and the applicable award agreement thereunder, and any unvested RSUs will be forfeited.

If the Company terminates Mr. Wilansky's employment without cause or Mr. Wilansky terminates his employment for good reason (as such terms are defined in the agreement) within the 180-day period concluding on the date a change in control (as such term is defined in the agreement) occurs or within the two-year period beginning on the day following the date of a change in control: (i) the Company will pay to Mr. Wilansky, within 30 days, a lump sum amount equal to three-times the sum of his base salary and target bonus plus \$50,000; (ii) the Company will reimburse Mr. Wilansky for his cost of maintaining continuing health care coverage for the period concluding on the 18-month anniversary of the then-scheduled conclusion of his employment term, subject to certain provisos; and (iii) all unvested SARs and RSUs granted to Mr. Wilansky will vest in full upon such termination.

As stated in his employment agreement, Mr. Wilansky's employment will terminate on the last day of the employment term then in effect if the Company fails to renew the agreement. In the event of termination by such non-renewal, (i) the Company will pay Mr. Wilansky's base salary continuation for a period of 18 months following the date of termination; (ii) the Company will reimburse Mr. Wilansky for his cost of maintaining continuing health care coverage for a period of no more than 18 months following the effective date of termination, subject to certain provisos; (iii) any SARs and RSUs granted to Mr. Wilansky that would have vested during the three months following such termination shall vest on the date they would have so vested; and (iv) any SARs and RSUs that remain unvested at the conclusion of such three months shall be forfeited.

Mr. McGrady entered into an employment agreement with the Company effective June 21, 2000, with an initial term ending June 21, 2003. Mr. McGrady's employment agreement extends automatically for successive 12-month periods unless either party notifies the other of an intent to terminate, in writing, at least 60 calendar days prior to the date of automatic extension. The agreement provides for an annual salary of \$300,000 (which the Company's President, with the approval of the Chairman of the Company, may increase at his discretion) and a bonus of at least 40% of Mr. McGrady's base salary if Board-approved, predetermined, performance measures set annually are met. Mr. McGrady participates in the 401(k) plan and welfare benefit plans of the Company at a level commensurate with his title and position. The agreement also provides for a vehicle allowance and fuel card.

The Company may terminate the employment agreement during its term, for any reason, upon 30 days' written notice to Mr. McGrady, and may, in its sole discretion, require Mr. McGrady to cease active employment immediately. In the event of such a termination (other than termination for cause), Mr. McGrady shall be entitled to: (i) severance pay in the form of base salary for 12 months, subject to certain provisos; (ii) payment of any incentive bonus declared, but unpaid, if he has been employed the full fiscal year prior to the date of termination; and (iii) continuation of his health coverage for 12 months under the same terms as provided to other Company executives, subject to certain provisos.

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If the Company terminates Mr. McGrady's employment for cause, the Company's obligations under the employment agreement cease on Mr. McGrady's last day of active employment, except that the Company shall pay to Mr. McGrady: (i) any unpaid portion of his salary earned to the date of termination; (ii) any unpaid, declared bonus; and (iii) any unpaid business expenses properly incurred by Mr. McGrady under the employment agreement prior to termination.

Either the Company or Mr. McGrady may terminate the agreement at the end of its term or any extension thereof, or Mr. McGrady may voluntarily terminate his employment with the Company, by giving 60 calendar days' written notice. In the event of any such termination, the Company shall have no further obligations to Mr. McGrady under the agreement, except that the Company shall pay to Mr. McGrady (i) any unpaid portion of his salary earned to the date of termination, and (ii) any unpaid, declared bonus, together with any unpaid business expenses properly incurred by Mr. McGrady under the agreement prior to termination.

Mr. Norden entered into an employment agreement, with certain three-year severance protections, with the Company effective as of January 29, 2006, which terminates upon his death, disability (as defined in the agreement), voluntary termination by Mr. Norden or involuntary termination by the Company. The agreement provides for an annual salary of \$500,000 with annual increases of a minimum of 2.5% of annual base salary as of the first day of each fiscal year of the Company (provided that the first such increase shall occur at the beginning of the 2007 fiscal year and may be further increased at the discretion of the Company). The agreement also provides for a cash incentive bonus of 50% of Mr. Norden's base salary if Board-approved, predetermined, performance measures set annually are met with a maximum annual bonus potential per fiscal year of 100 percent of base salary. The agreement further provides for Mr. Norden's participation in the 401(k) plan or welfare benefit plans of the Company at a level commensurate with his title and position and also includes a vehicle allowance and fuel card.

If the Company terminates Mr. Norden's employment for cause, or if Mr. Norden voluntarily terminates his employment with the Company, the Company shall pay to Mr. Norden: (i) the unpaid base salary Mr. Norden earned to the date of termination; (ii) any unpaid cash incentive bonus earned for the fiscal year that ends before the fiscal year during which such termination occurs; (iii) equity incentives to which Mr. Norden is entitled under the 2000 Plan and the applicable stock option and RSU agreements; and (iv) any rights accruing to Mr. Norden under any applicable employee benefit plan, fund or program.

If the Company terminates Mr. Norden's employment without cause, before January 29, 2008, the Company will continue to pay Mr. Norden's base salary at the rate in effect on the date of termination without cause through the period ending January 29, 2009. If the Company terminates Mr. Norden's employment without cause, after January 29, 2008, for the twelve months beginning on the date of termination without cause, the Company will continue to pay Mr. Norden's base salary at the rate in effect on the date of termination without cause. Mr. Norden will also be entitled to: (i) reimbursement for the cost of maintaining continuing health coverage for a period of no more than 12 months following the date of termination, subject to certain provisos; (ii) the pro rata share of any cash incentive bonus that he would have otherwise received for the year of termination had he not been terminated; (iii) exercise any outstanding stock options that are vested on the date of termination and those that would have vested during the one year following the effective date of termination, in each case subject to the terms of the 2000 Plan and any applicable agreement thereunder; (iv) specific SAR and RSU equity grants under the agreement shall automatically and fully vest upon termination without cause. Mr. Norden may exercise any and all outstanding stock options, SARs and RSUs on the date of or within 60 days of termination without cause; and (v) any rights accruing to him under any applicable employee benefit plan, fund or program.

Ms. Davis entered into an employment agreement with the Company effective as of April 29, 2004, which terminates upon her death, disability (as such term is defined in Ms. Davis' employment agreement), voluntary termination by Ms. Davis or involuntary termination by the Company. The

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agreement provides for an annual salary of \$260,000 and a cash bonus of 50% of her base salary if Board-approved, predetermined, performance measures set annually are met. In addition, for each year Ms. Davis' annual salary is less than \$300,000, she will receive a minimum guaranteed bonus to raise her salary to \$300,000. The agreement also provides for Ms. Davis' participation in the 401(k) plan or welfare benefit plans of the Company at a level commensurate with her title and position. The agreement also provides for a vehicle allowance and fuel card.

If the Company terminates Ms. Davis' employment for cause, or if Ms. Davis voluntarily terminates her employment with the Company, the Company shall pay to Ms. Davis: (i) the unpaid base salary Ms. Davis earned to the date of termination; (ii) any unpaid cash incentive bonus earned for the fiscal year that ends before the fiscal year during which such termination occurs; (iii) equity incentives to which Ms. Davis is entitled under the 2000 Plan and the applicable stock option and RSU agreements; and (iv) any rights accruing to Ms. Davis under any applicable employee benefit plan, fund or program.

If the Company terminates Ms. Davis' employment without cause, Ms. Davis will be entitled to: (i) her base salary for 12 months beginning on the date of termination; (ii) reimbursement for the cost of maintaining continuing health coverage for a period of no more than 12 months following the date of termination, subject to certain provisos; (iii) the pro rata share of any cash incentive bonus that she would have otherwise received for the year of termination had she not been terminated; (iv) exercise any outstanding stock options that are vested on the date of termination and those that would have vested during the one year following the effective date of termination, in each case subject to the terms of the 2000 Plan and any applicable agreement thereunder; and (v) any rights accruing to her under any applicable employee benefit plan, fund or program.

Mr. Miller entered into an employment agreement with the Company effective October 10, 2003, which terminates upon his death, disability (as such term is defined in the employment agreement), voluntary termination by Mr. Miller or involuntary termination by the Company. The agreement provides for an annual base salary of \$220,000 and a bonus of 45% of Mr. Miller's base salary if Board-approved, predetermined, performance measures set annually are met. The agreement also provides for Mr. Miller's participation in the 401(k) plan or welfare benefit plans of the Company at a level commensurate with his title and position. The agreement also provides for a vehicle allowance and fuel card.

If the Company terminates Mr. Miller's employment for cause, or if Mr. Miller voluntarily terminates his employment with the Company, the Company shall pay to Mr. Miller: (i) the unpaid base salary Mr. Miller earned to the date of termination; (ii) any unpaid cash incentive bonus earned for the fiscal year that ends before the fiscal year during which such termination occurs; (iii) equity incentives to which Mr. Miller is entitled under the 2000 Plan and the applicable stock option and RSU agreements; and (iv) any rights accruing to Mr. Miller under any applicable employee benefit plan, fund or program.

If the Company terminates Mr. Miller's employment without cause, Mr. Miller will be entitled to: (i) his base salary for 12 months beginning on the date of termination; (ii) reimbursement for the cost of maintaining continuing health coverage for a period of no more than 12 months following the date of termination, subject to certain provisos; (iii) the pro rata share of any cash incentive bonus that he would have otherwise received for the year of termination had he not been terminated; (iv) exercise any outstanding stock options that are vested on the date of termination and those that would have vested during the one year following the effective date of termination, in each case subject to the terms of the 2000 Plan and any applicable agreement thereunder; and (v) any rights accruing to him under any applicable employee benefit plan, fund or program.

**Fiscal Year 2006 and Fiscal Year 2007 to date NEO Compensation Decisions and Rationale**

The Committee believes that the Company has recruited leadership talent with the experience to address a significant turnaround challenge at Value City Department Stores and has also recruited talent to develop and expand the business at Filene's Basement. The turnaround challenge faced in fiscal 2006 related to Value City Department Stores. Filene's Basement now needs to build a base

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for future growth and profitability. In anticipation of these challenges in 2006, the Committee was presented with a requirement for the particular experience and flexibility needed to successfully lead and oversee these multiple and different business division models. In 2007, NEOs will address additional challenges presented by an announced strategic analysis of Value City Department Stores, including a possible sale of that business.

As discussed above, the Committee's review of NEO compensation included the benchmarking of NEO positions against other comparable retail companies. For each NEO, the Committee examined the competitive market data from the independent consultants, peer group studies, and management's business analysis. The Committee carefully reviewed the market data and made decisions as to the appropriate market position for each NEO in recognition of the Company's efforts to turn around and grow the businesses, and the NEOs' experience, special skill sets, performance and achievements. This process applied to each element of the compensation mix: base salary, annual incentive and long term equity incentive. Unless otherwise indicated, the process described in this section was used for both fiscal year 2006 and fiscal year 2007 NEO compensation decision-making.

The Chairman of the Board provided the Committee with an overview of his assessment of the CEO's performance and provided comments on the performance of certain other members of the Company's management. The Chairman of the Board did not make a recommendation for the CEO's base pay as this was previously established in the CEO's employment agreement.

The CEO reviewed the materials and analysis supplied by the independent consultants, and received guidance from human resources management and the chief administrative officer regarding these materials and analysis. Based on this and on his view of the personal performance and the attainment of specific goals by the other NEOs, the CEO made recommendations and provided performance evaluations to the Committee relating to increases in the base salaries and payment of bonuses to the other NEOs and certain other executives. He also proposed the specific elements of the 2006 incentive compensation program and made a recommendation that the Committee consider granting SARs and RSUs to certain NEOs and other officers.

The Committee discussed and analyzed the various recommendations with its independent consultants and in subsequent meetings voted to authorize pay increases and bonuses for certain of the NEOs and it authorized grants of SARs to certain NEOs and other officers of the Company. The Committee also approved the incentive compensation program for the 2007 fiscal year.

The Committee had previously assembled pay packages for its CEO and other NEOs deemed, at the time, sufficient to attract and retain the individuals with the necessary talent and capabilities. In 2004, in the CEO's three-year employment agreement, the Committee established the base pay for the CEO at a rate above the median for a company of our size. In 2006, the base pay for the CFO was increased based on his contributions to and responsibilities with the Company, and the Committee determined that it was appropriate for the CFO's pay to be above the median base pay for companies our size. The base pay for the other NEOs is slightly above the median. Initially, a front-end loaded employment agreement which included performance-accelerated equity grants, RSUs, a minimum base salary increase of 2.5% at the start of the fiscal year, and declining bonus guarantees was put in place for the CEO. The total compensation available to the CEO pursuant to his employment agreement was determined to be at the higher end of total compensation for CEOs of appropriately-sized companies, but competitive for a CEO of his experience. The Committee, relying upon the support of its independent consultant, determined that the CEO's total compensation package was appropriate given the need to provide for a swift and smooth transition of leadership in late 2004, at a time when much work remained to complete the initial public offering of the DSW subsidiary in July, 2005 and when new strategic initiatives to accomplish a turnaround at Value City Department Stores were needed. Other NEOs have entered into employment agreements which include grants of RSUs and SARs. Pursuant to the 2006 process of review and analysis

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described above, these agreements and compensation arrangements were reviewed and modified to reflect, as applicable, increased responsibilities, increases in base pay or incentive compensation, and/or grants of additional forms of long term equity.

**Fiscal Year 2006 Compensation Decisions**

As noted in this discussion and analysis, each element of compensation for the NEOs is established to provide incentives for the attraction and retention of the NEOs and their completion of specific corporate objectives, which for this year's annual incentive compensation culminates in EBIT. Base salaries are set to enable the Company to attract and retain individuals whose qualifications, experience and abilities are above and beyond the scope of a retail company of our size. Annual incentives provide direction for completion of objectives essential to the near-term survival and long-term growth of the Company. Long-term incentives, which include stock options, SARs, restricted stock and RSUs, are used to promote retention and alignment with shareholder value objectives.

In January 2006, the Committee approved the promotion of Jed L. Norden to the position of Chief Administrative Officer. In this role, Mr. Norden supervises and provides leadership to Human Resources, Logistics, Store Planning & Construction, Real Estate and Community Relations for the Filene's Basement and Value City Department Stores divisions and is the liaison with certain shared services. In recognition of Mr. Norden's increased responsibilities and after consultation with its independent consultants, the Committee approved a new package of base pay and long-term equity grants. The new package included a minimum three-year term of employment, a minimum base salary increase of 2.5% at the start of the fiscal year, and RSUs and SARs with three-year vesting provisions.

Based on competitive market data and recommendations by its independent consultants covering base salary, short-term and long-term compensation, coupled with individual performance evaluation results, the Committee approved a number of actions designed to reflect overall market competitiveness covering all three elements of total compensation. Base pay was increased for the General Counsel and for the Controller, and SARs were also granted to these two individuals. The Committee believes that these key decisions were based on sound compensation analyses and methodologies as well as competitive compensation practices in the retail sector and overall marketplace.

The target measure in the Committee's annual cash incentive program for NEOs for fiscal year 2006 was based on the achievement of specific performance goals, which were focused on the earnings before interest and taxes (EBIT). For these purposes, EBIT is calculated as net income or loss, excluding the DSW segment, before interest expense, income tax and the change in fair value of derivatives. The Committee chose an EBIT goal for RVI's operating businesses, Value City Department Stores and Filene's Basement, as the fiscal 2006 target to focus the NEOs on improving the results of these RVI businesses. The EBIT target, which required an improvement in excess of approximately \$52 million, was believed to be aggressive, based upon projections and expected actions in 2006.

In March 2006, the Committee also approved a discretionary bonus pool for 2006 in the amount of 25% of the NEOs total base pay, to provide an incentive in the event that, despite demonstrated commitment and performance by the NEOs, the turnaround and restructuring of Value City Department Stores did not produce expected results within the immediate, fiscal timeframe. The CEO's employment agreement specified a minimum bonus payment of \$250,000 for fiscal year 2006.

Pursuant to the 2006 MIP, the CEO earned an incentive payment of \$546,674, which was in excess of the minimum guaranteed amount.



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Mr. McGrady, in his capacity as Chief Financial Officer, Executive Vice President, Secretary and Treasurer, earned an incentive payment of \$136,002 and was granted a discretionary award of \$63,998 based on his role in the strategic financing which resulted in the issuance of PIES and his maintenance of positive relationships with all elements of the Company's financial constituencies. He managed the Company's cash flow to enable a five store expansion of Filene's Basement, led the discussion with the SEC and independent auditors surrounding the valuation of derivatives and initiated the strategic analysis of the Value City Department Stores operations.

Mr. Norden, in his capacity as Chief Administrative Officer, earned an incentive payment of \$133,335 and was granted a discretionary award of \$46,665 based on his leadership in organizing a Leadership Group and cross-functional teams, the operation of shared-services functions, recruitment of executive talent and restructuring of store operations. Under his direction, the Leadership Group initiated actions which resulted in cost savings.

Mr. Norden also served as liaison to the Compensation Committee of the Board of Directors.

Ms. Davis, in her capacity as General Counsel and Chief Compliance Officer, earned an incentive payment of \$86,668 and was granted a discretionary award of \$63,332 based on her supervision of matters relating to the resolution of data theft litigation and matters, contribution to the PIES strategic financing initiative and participation in the strategic alternatives analysis for Value City Department Stores. Ms. Davis also instituted additional corporate governance and compliance processes.

Mr. Miller, in his capacity as Controller, earned an incentive payment of \$66,001 and was granted a discretionary award of \$83,999 based on his supervision of the PIES offering during the year, participation in the strategic alternatives analysis for Value City Department Stores and services performed as Controller for DSW.

All of the NEOs have realized gains in the equity grants made to them, and all NEOs currently have forms of equity grants that are unvested. As described above, the equity and equity-like component of each NEO's compensation is reviewed on an annual basis.

**Fiscal Year 2007 Compensation Decisions**

**Establishing the Fiscal Year 2007 Cash Incentive Program**

The Committee approved new performance goals for the NEOs for fiscal year 2007. The 2007 goals are weighted as follows: the Filene's Basement EBIT goal is 37.5%; the Value City Department Stores four wall stores cumulative cash flow plan goal is 37.5%; and the DSW net income goal is 25%.

The Filene's Basement EBIT goal incorporates the anticipated effects of pre-opening costs of new stores and the anticipated 18-month cessation of operations of the Filene's Basement Boston Downtown Crossing store.

The Value City Department Stores cumulative cash flow plan goal was set to measure performance as the Company continues to explore strategic alternatives for this business. For Value City Department Stores operated at the end of fiscal 2007, cash flow will be measured against the established plan goals. If 25 or more existing Value City Department Stores are no longer operated under that RVI subsidiary by fiscal year-end, however, the Value City Department Stores four wall stores cumulative cash flow goal will not be used and the weight of the Filene's Basement EBIT goal will be increased from 37.5% to 75%, with certain adjustments to prevent skewing the Filene's Basement results based on increased overhead costs.

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The DSW net income goal was established by the DSW Compensation Committee and Board of Directors for fiscal year 2007, and is included as part of RVI's 2007 performance goals to recognize the efforts of the RVI NEOs in providing shared services and partnership with DSW.

**Other Fiscal Year 2007 Compensation Decisions**

As a result of the Committee's discussion and analysis with the Company's independent compensation consulting firms, discretionary base salary increases were approved for Messrs. McGrady and Miller and Ms. Davis. For Messrs. Wilansky and Norden, base salaries were increased pursuant to the terms of their employment agreements. In recognition of the contributions of NEOs and to reflect a more competitive balance between long-term compensation and total cash compensation opportunity, RSUs were awarded to two NEOs for 2007. Mr. Miller was awarded 10,000 RSUs which include special vesting provisions of 5,000 in 2009 and 5,000 in 2010. Ms. Davis was awarded 12,000 RSUs which include special vesting provisions of 6,000 in 2009 and 6,000 in 2010.

**Appropriateness of NEO Compensation Design and Outcomes**

When the CEO was appointed in November, 2004, he was provided a three-year employment agreement with basic compensation design elements including a base salary, performance-based and standard SARs and RSUs. Equity grants were awarded at the then RVI stock price of \$6.18. As of the end of fiscal year 2006, the RVI stock price was \$20.19. The Committee believes this stock price appreciation has been primarily driven by the successful DSW initial public offering in June 2005 and subsequent DSW stock price appreciation.

As noted above, the CEO's base salary reflects his experience and performance in his previous position as the President of Filene's Basement and in other prior similar positions as President and CEO of The Bon-Ton Stores, President and CEO of Filene's and Foley's Department Stores, which were both divisions of The May Department Stores Company. The CEO's base salary was also established based on the needs of the Company at the time Mr. Wilansky was hired as the CEO. A bonus target and the threshold for minimum bonus payment for the CEO was set by the Committee based on EBIT results for Value City Department Stores and Filene's Basement deemed to be essential in 2006. Bonus payments to the CEO under the Company's MIP for 2006 were determined according to the performance-based formula established by the Committee. In addition, as a result of Retail Ventures' stock price exceeding a stretch target, Mr. Wilansky was vested in and exercised performance-based SARs granted to him under his November 2004 employment agreement. In its components and in total, the Committee concludes that the CEO's compensation is fair, reasonable and appropriate. Through the process of its annual approval of incentive compensation and review of his performance, the Committee maintains control over the CEO's compensation plan and ensures that it is consistent with the interests of shareholders.

Similar to the CEO, each of the other NEOs have base salaries which reflect the Company's needs and the NEOs capabilities and performance. The bonus opportunity for each NEO is determined by the scope and magnitude of that person's responsibilities. The NEOs share the same profitability target and threshold for payment as the CEO, and for fiscal 2006, earned an incentive payment which was in excess of the minimum threshold in the Incentive Plan. Also, the NEOs made additional significant contributions to the Company in fiscal 2006 that could not be measured using the cash incentive program metrics, and thus discretionary awards were deemed appropriate recognition of these contributions.

In its components and in total, the Committee concludes that each NEO's compensation is fair, reasonable and appropriate. Through the process of its annual approval of incentive compensation and periodic equity grants, the Committee maintains control over each NEO's compensation plan and ensures that it is consistent with the interests of shareholders.

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**THE COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on the Compensation Committee's review and discussion with management, the Compensation Committee has recommended to the Board of Directors, and the Board of Directors has approved, that the Compensation Discussion and Analysis be included in this proxy statement.

Respectfully submitted,  
**Compensation Committee**  
Elizabeth M. Eveillard, Chair  
Henry L. Aaron  
Lawrence J. Ring  
Harvey L. Sonnenberg  
James L. Weisman

**Table of Contents****COMPENSATION OF MANAGEMENT**

The following table summarizes compensation awarded or paid to, or earned by, each of the named executive officers ( NEOs ) during the Company's fiscal year 2006. We follow a 52/53-week fiscal year that ends on the Saturday nearest to January 31 in each year. Fiscal year 2006 consisted of 53 weeks.

**SUMMARY COMPENSATION TABLE FOR FISCAL YEAR 2006**

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Award(s) (\$) <sup>(1)</sup>	Option Award(s) (\$) <sup>(1)</sup>	Non-Equity Incentive		Total (\$)
						Plan Compensation (\$)	All Other Compensation (\$)	
Jay L. Schottenstein Chairman	2006	\$ 710,482 <sup>(2)</sup>	None	None	\$ 40,626 <sup>(3)</sup>	None	\$ 2,998 <sup>(7)</sup>	\$ 754,106
Heywood Wilansky President and Chief Executive Officer	2006	\$ 1,044,711	None	\$ 1,304,995 <sup>(5)</sup>	\$ 4,627,142 <sup>(6)</sup>	\$ 546,674 <sup>(4)</sup>	\$ 53,339 <sup>(7)</sup>	\$ 7,576,861
James A. McGrady EVP, Chief Financial Officer, Treasurer and Secretary	2006	\$ 513,750	\$ 63,998 <sup>(8)</sup>	None	\$ 247,662 <sup>(9)</sup>	\$ 136,002 <sup>(8)</sup>	\$ 39,749 <sup>(7)</sup>	\$ 1,001,161
Jed L. Norden Executive Vice President and Chief Administrative Officer	2006	\$ 509,615	\$ 46,665 <sup>(10)</sup>	\$ 194,050 <sup>(11)</sup>	\$ 801,606 <sup>(12)</sup>	\$ 133,335 <sup>(10)</sup>	\$ 35,544 <sup>(7)</sup>	\$ 1,720,815
Julia A. Davis Executive Vice President and General Counsel	2006	\$ 326,923	\$ 63,332 <sup>(13)</sup>	None	\$ 93,986 <sup>(14)</sup>	\$ 86,668 <sup>(13)</sup>	\$ 30,246 <sup>(7)</sup>	\$ 601,155
Steven E. Miller Senior Vice President and Controller	2006	\$ 275,961	\$ 83,999 <sup>(15)</sup>	None	\$ 92,071 <sup>(16)</sup>	\$ 66,001 <sup>(15)</sup>	\$ 30,364 <sup>(7)</sup>	\$ 548,396

(1) Represents the dollar amount recognized for financial statement

reporting purposes with respect to fiscal year 2006 for the fair value of stock awards and option awards granted to each of the NEOs, in 2006 as well as prior fiscal years, in accordance with SFAS 123 (revised 2004) *Share-Based Payment* ( SFAS No. 123R ). For additional information on the valuation assumptions with respect to the 2006 grants, refer to Note 3, Stock Based Compensation, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended February 3, 2007 as filed with the SEC on April 5, 2007.

- (2) Includes the amount of \$455,666, which represents the salary paid to Mr. Schottenstein directly by DSW in fiscal 2006 for service as DSW's Chief Executive Officer and Chairman.

- (3) On September 7, 2006, Mr. Schottenstein was granted stock options covering 41,700 DSW Class A Common Shares by the DSW Board of Directors, which vest 20% on each of the

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first five anniversaries of the grant date and have a fair market value of \$40,626 for fiscal year 2006.

- (4) Under the Company's annual incentive plan, Mr. Wilansky earned a cash incentive award of \$546,674 for fiscal year 2006 performance.
- (5) On November 5, 2004, Mr. Wilansky was granted 250,000 RSUs. The RSUs vest in three equal installments on November 5th in each of 2005, 2006 and 2007, do not have voting or dividend rights and may be settled only in cash. \$1,304,995 represents the fiscal year 2006 cash payment.
- (6) On February 4, 2003, Mr. Wilansky was granted 250,000 stock options which vest 20% on each of the first five anniversaries of the grant date and have a fair market value of \$63,344 for fiscal year 2006.

On February 4, 2004, Mr. Wilansky was granted 100,000 SARs which vest 20% on each of the first five anniversaries of the grant date and have a fair market value of \$754,457 for fiscal year 2006.

On November 5, 2004, Mr. Wilansky was granted 360,000 SARs which vest 33.33% on each of the first three anniversaries of the grant date and have a fair market value of \$1,579,750 for fiscal year 2006.

On November 5, 2004, Mr. Wilansky was granted 570,000 performance-based SARs considered to be a three-year, front-loaded grant. The performance-based SARs were scheduled to vest on the eighth anniversary of the grant date, subject to an accelerated vesting provision based on the attainment of two specified performance objectives. On May 6, 2005 and April 20, 2006, the performance



objectives were met  
and the  
performance-based  
SARs vested fully.  
\$2,229,591  
represents the fair  
market value of the  
performance-based  
SARs for fiscal  
year 2006.

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- (7) The amounts shown in this column are comprised of the items set forth in the following table:

<b>Name</b>	<b>Cash Perquisite Allowance</b>	<b>Car Allowance /Fuel Card</b>	<b>Country Club</b>	<b>Tax Gross- up</b>	<b>Life Insurance Premiums/ Executive Physicals</b>	<b>401(k) Matching Contributions</b>	<b>Total</b>
Jay L. Schottenstein						\$ 2,998	\$ 2,998
Heywood Wilansky	\$50,962	\$ 1,597			\$ 780		\$53,339
James A. McGrady		\$21,212	\$6,285	\$2,687	\$ 769	\$ 8,796	\$39,749
Jed L. Norden		\$23,144			\$ 3,019	\$ 9,381	\$35,544
Julia A. Davis		\$21,004			\$ 496	\$ 8,746	\$30,246
Steven E. Miller		\$20,692			\$ 965	\$ 8,707	\$30,364

- (8) Under the Company's annual incentive plan, Mr. McGrady earned a cash incentive award of \$136,002 for fiscal year 2006 performance. In addition, Mr. McGrady was granted a discretionary cash bonus of \$63,998 for fiscal 2006.
- (9) On February 3, 2002, Mr. McGrady was granted 540,000 stock options which vest 20% on each of the first five anniversaries of the grant date

and have a fair market value of \$127,264 for fiscal year 2006.

On June 28, 2005, Mr. McGrady was granted stock options covering 20,000 DSW Class A Common Shares by the DSW Board of Directors, which vest 20% on each of the first five anniversaries of the grant date and have a fair market value of \$55,287 for fiscal year 2006.

On March 29, 2006, Mr. McGrady was granted 40,000 SARs which vest 50% on the second anniversary of the grant date and 50% on the third anniversary of the grant date and have a fair market value of \$65,111 for fiscal year 2006.

- (10) Under the Company's annual incentive plan, Mr. Norden earned a cash incentive award

of \$133,335 for fiscal year 2006 performance. In addition, Mr. Norden was granted a discretionary cash bonus of \$46,665 for fiscal 2006.

- (11) On January 30, 2006, Mr. Norden was granted 30,000 RSUs. The RSUs vest in three equal installments on January 30<sup>th</sup> in each of 2007, 2008 and 2009, do not have voting or dividend rights and may be settled only in cash. \$194,050 represents the fiscal year 2006 cash payment.
- (12) On September 10, 2003, Mr. Norden was granted 150,000 SARs which vest 20% on each of the first five anniversaries of the grant date and have a fair market value of \$727,006 for fiscal year 2006.

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On January 30, 2006, Mr. Norden was granted 30,000 SARs which vest 33.33% on each of the first three anniversaries of the grant date and have a fair market value of \$74,600 for fiscal year 2006.

(13) Under the Company's annual incentive plan, Ms. Davis earned a cash incentive award of \$86,668 for fiscal year 2006 performance. In addition, Ms. Davis was granted a discretionary cash bonus of \$63,332 for fiscal 2006.

(14) On March 14, 2003, Ms. Davis was granted 40,000 stock options which vest 20% on each of the first five anniversaries of the grant date and have a fair market value of \$3,687 for fiscal year 2006.

On June 28, 2005, Ms. Davis

was granted stock options covering 15,000 DSW Class A Common Shares by the DSW Board of Directors which vest 20% on each of the first five anniversaries of the grant date and have a fair market value of \$41,466 for fiscal year 2006.

On March 29, 2006, Ms. Davis was granted 30,000 SARs which vest 50% on the second anniversary of the grant date and 50% on the third anniversary of the grant date and have a fair market value of \$48,833 for fiscal year 2006.

- (15) Under the Company's annual incentive plan, Mr. Miller earned a cash incentive award of \$66,001 for fiscal year 2006 performance. In addition, Mr. Miller was granted a discretionary cash bonus of \$83,999 for fiscal 2006.

(16) On July 23, 2002, Mr. Miller was granted 20,000 stock options which vest 20% on each of the first five anniversaries of the grant date and have a fair market value of \$1,772 for fiscal year 2006.

On June 28, 2005, Mr. Miller was granted stock options covering 15,000 DSW Class A Common Shares by the DSW Board of Directors, which vest 20% on each of the first five anniversaries of the grant date and have a fair market value of \$41,466 for fiscal year 2006.

On March 29, 2006 Mr. Miller was granted 30,000 SARs which vest 50% on the second anniversary of the grant date and 50% on the third anniversary of the grant date and have a fair market value of

\$48,833 for  
fiscal year 2006.



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Name	Grant Date	Award Date (if different from Grant Date)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares or Units	All Other Option Awards: Number of Options	Exercise or Base Price of Option	Closing Market Price of Common Shares on Grant Date	Grant Date Fair Value of Stock and Option Awards <sup>(1)</sup>
			Threshold (\$)	Target (\$)	Maximum (\$)	(#)	(#)	(\$/Sh)	(\$/Sh)	(\$)
Jay L. Schottenstein Chairman	9/7/2006						41,700 <sup>(2)</sup>	\$27.80	\$27.80	\$487,506
Heywood Wilansky President and Chief Executive Officer			\$512,500	\$1,025,000	\$2,050,000					
James A. McGrady Executive Vice President, Chief Financial Officer, Treasurer and Secretary	3/29/2006		\$127,500	\$255,000	\$510,000		40,000	\$14.33 <sup>(3)</sup>	\$14.58	\$209,728
Jed L. Norden Executive Vice President and Chief Administrative Officer	1/30/2006 <sup>(4)</sup>	1/20/2006	\$125,000	\$250,000	\$500,000		30,000	\$12.75 <sup>(3)</sup>	\$12.90	\$309,798
Julia A. Davis Executive Vice	1/30/2006 <sup>(4)</sup>	1/20/2006				30,000 <sup>(5)</sup>				\$382,500
Julia A. Davis Executive Vice	3/29/2006		\$81,250	\$162,500	\$325,000		30,000	\$14.33 <sup>(3)</sup>	\$14.58	\$157,296

President and  
General  
Counsel

Steven E. Miller	3/29/2006				30,000	\$ 14.33 <sup>(3)</sup>	\$ 14.58	\$ 157,296
Senior Vice President and Controller		\$ 61,875	\$ 123,750	\$ 247,500				

- (1) Represents the dollar amount for the fair value of stock awards and option awards granted to each of the NEOs in fiscal 2006 in accordance with SFAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information on the valuation assumptions with respect to the 2006 grants, refer to Note 3, Stock Based Compensation, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended February 3, 2007 as filed with the SEC on April 5, 2007.

- (2) Represents stock options covering DSW Class A Common Shares issued to Mr. Schottenstein by the DSW Board of Directors under the DSW Inc. 2005 Equity Incentive Plan.
- (3) The exercise price is equal to the average of the high and the low sales price of the Company's common shares on the date of grant.
- (4) The Compensation Committee approved the grant of Mr. Norden's RSUs and SARs at its meeting held on January 20, 2006. The grant date of such awards was set by the Compensation Committee as January 30, 2006, which was the first business day after the effective date of Mr. Norden's promotion to Executive Vice President and Chief Administrative Officer of Retail Ventures.

- (5) Represents RSUs granted to Mr. Norden during fiscal 2006. The RSUs do not have voting or dividend rights and may be settled only in cash.

**Table of Contents****OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2006**

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards			Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number	Market
					of Shares	Value of
					or Units of Stock That Have	Shares or Units of Stock That
				Not Vested (#) <sup>(6)</sup>	Have Not Vested (\$) <sup>(7)</sup>	
Jay L. Schottenstein Chairman		41,700 <sup>(1)</sup>	\$27.80	09/07/16		
Heywood Wilansky President and Chief Executive Officer	150,000 <sup>(2)</sup> 60,000 <sup>(3)</sup>	100,000 <sup>(2)</sup> 40,000 <sup>(3)</sup> 120,000 <sup>(4)</sup>	\$ 1.99 \$ 6.00 \$ 6.18	02/04/13 02/02/14 11/05/14	83,334	\$1,682,513
James A. McGrady Executive Vice President, Chief Financial Officer, Treasurer and Secretary	30,000 <sup>(2)</sup> 5,000 <sup>(2)</sup> 216,000 <sup>(2)</sup> 4,000 <sup>(1)</sup>	16,000 <sup>(1)</sup> 40,000 <sup>(5)</sup>	\$ 9.94 \$ 4.48 \$ 4.50 \$19.00 \$14.33	08/09/10 08/29/11 02/03/12 06/28/15 03/29/16		
Jed L. Norden Executive Vice President and Chief Administrative Officer	30,000 <sup>(3)</sup> 10,000 <sup>(4)</sup>	60,000 <sup>(3)</sup> 20,000 <sup>(4)</sup>	\$ 4.50 \$12.75	09/10/13 01/29/16	20,000	\$ 403,800
Julia A. Davis Executive Vice President and General Counsel	16,000 <sup>(2)</sup> 3,000 <sup>(1)</sup>	8,000 <sup>(2)</sup> 12,000 <sup>(1)</sup> 30,000 <sup>(5)</sup>	\$ 1.63 \$19.00 \$14.33	03/14/13 06/28/15 03/29/16		
Steven E. Miller Senior Vice President and Controller	8,000 <sup>(2)</sup> 1,600 <sup>(2)</sup> 12,000 <sup>(2)</sup> 3,000 <sup>(1)</sup>	4,000 <sup>(2)</sup> 12,000 <sup>(1)</sup> 30,000 <sup>(5)</sup>	\$ 8.75 \$ 4.48 \$ 2.35 \$19.00 \$14.33	09/11/10 08/29/11 07/23/12 06/28/15 03/29/16		

(1) DSW Class A  
Common Shares  
issued by the  
DSW Board of

Directors to the NEO that vest over five years on each of the first five anniversaries of the grant date and have a term of ten years.

(2) Stock options issued to the NEO that vest over five years on each of the first five anniversaries of the grant date and have a term of ten years.

(3) SARs issued to the NEO that vest over five years on each of the first five anniversaries of the grant date and have a term of ten years.

(4) SARs issued to the NEO that vest over three years on each of the first three anniversaries of the grant date and have a term of ten years.

(5) SARs issued to the NEO that vest over three years, 50% at the end of year two and 50% at the end of year three, and have a term of ten years.



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- (6) RSUs issued to the NEO vest over a three year period as to one-third at the end of each year commencing with the date of grant. Mr. Wilansky's RSUs were granted on November 5, 2004 and Mr. Norden's RSUs were granted on January 29, 2006.
- (7) Market value of RSUs is calculated by multiplying the closing market price of RVI's common shares at the end of fiscal year 2006 by the total number of RSUs that had not vested as of such date.

**FISCAL YEAR 2006 OPTION EXERCISES AND STOCK VESTED**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized On Exercise (\$)	Number of Shares or Units Acquired on Vesting (#) <sup>(1)</sup>	Value Realized on Vesting (\$) <sup>(1)</sup>
Jay L. Schottenstein Chairman	50,000	\$ 97,000		
Heywood Wilansky President and Chief Executive Officer	405,000 <sup>(2)</sup>	\$3,950,550	83,333	\$ 1,304,995



James A. McGrady  
Executive Vice President,  
Chief Financial Officer,  
Treasurer and Secretary

Jed L. Norden  
Executive Vice President and  
Chief Administrative Officer

10,000            \$ 194,050

Julia A. Davis  
Executive Vice President and  
General Counsel

Steven E. Miller  
Senior Vice President and  
Controller

(1) No common shares were issued or acquired upon the vesting and exercise of the RSUs. The RSUs are settled for cash only and have no voting or dividend rights. The value realized upon vesting of RSUs is calculated by multiplying the number of RSUs vested by the average of the high and low sales price of the Company's common shares on the vesting date.

(2) No common shares were issued or acquired upon exercises of SARs.

Mr. Wilansky received cash equal to the amount of the gain represented by the difference between the average of the high and low sales price of RVI's common shares on NYSE on the date of exercise and the strike price of the SARs.

**Potential Termination and Change of Control Payments**

As described above under Compensation Discussion and Analysis Agreements with Key Executives, the NEOs (other than Mr. Schottenstein) have employment agreements with the Company that entitle them to receive benefits and payments if their employment terminates under certain circumstances. The NEOs are also entitled to receive certain benefits or payments upon a change in control of the Company, including acceleration of the vesting of outstanding option awards under the 2000 Plan, which benefit is available to all plan participants.

The estimated value of the potential payments and benefits that would be received by each NEO in the event of termination of employment or a change in control of the Company are presented in the table below and are calculated as if the respective termination event occurred on February 3, 2007 and our common share price was \$20.19, the closing price of our common shares on February 2, 2007, the last trading day of fiscal 2006. The actual amounts to be paid out will only be determinable at the time of such executive's termination.

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	<b>Involuntary Termination Without Cause or Voluntary Termination for Good Reason <sup>(1)</sup></b>	<b>Change in Control</b>
<b>Named Executive Officer</b>		
<b>Heywood Wilansky</b>		
Salary Continuation <sup>(2)</sup>	\$2,562,500	\$6,300,000
Benefits Continuation <sup>(3)</sup>	\$ 13,248	\$ 13,248
Accelerated Vesting of Equity <sup>(4)</sup>	\$2,592,493	\$5,751,293
<b>James A. McGrady</b>		
Salary Continuation <sup>(2)</sup>	\$ 510,000	\$ 0
Benefits Continuation <sup>(3)</sup>		