

RETAIL VENTURES INC

Form 10-Q/A

August 02, 2006

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A
(Amendment No. 1)**

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

For the quarterly period ended April 29, 2006

OR

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

For the transition period from _____ to _____

**Commission file number 1-10767
RETAIL VENTURES, INC.**

(Exact name of registrant as specified in its charter)

Ohio

20-0090238

(State or other jurisdiction of incorporation or organization)

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

3241 Westerville Road, Columbus, Ohio

43224

(Address of principal executive offices)

(Zip Code)

(614) 471-4722

Registrant's telephone number, including area code

Not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The number of outstanding Common Shares, without par value, as of May 31, 2006 was 44,906,826.

Table of Contents

RETAIL VENTURES, INC. FORM 10-Q/A

Amendment No. 1

INTRODUCTORY NOTE

On July 31, 2006, the Audit Committee of the Board of Directors approved management's recommendation that the Company's financial statements and related disclosures for the three months ended April 29, 2006 be restated in response to comments from the Staff of the Securities and Exchange Commission primarily related to the fair value of the warrants. This Amendment No. 1 on Form 10-Q/A (this Amendment) amends the Quarterly Report on Form 10-Q for the quarter ended April 29, 2006, which was originally filed with Securities and Exchange Commission on June 8, 2006 (Original Report), and amends and restates Part 1 Items 1 and 2 and Part 2 Item 6. This Amendment is made to restate the Company's condensed consolidated financial statements and related disclosures. This filing corrects errors, by eliminating the application of a block sale discount, identified in the calculation of the warrant liability and the related change in fair value of warrants recognized in the condensed consolidated financial statements. This filing also amends various disclosures including disclosures in critical accounting policies, management's discussion and analysis and selected financial data.

The correction of the above-noted errors increased the Warrant liability by \$61.1 million, increased (Accumulated deficit) retained earnings by \$75.3 million, increased Common shares by \$14.2 million and increased by \$5.4 million all of the following (i) Change in fair value of warrants (ii) Operating loss (iii) Loss before income taxes and minority interest (iv) Loss before minority interest and (v) Net loss for the quarter ended April 29, 2006. The basic and diluted loss per share also increased to \$1.58. This adjustment had no effect on the previously reported results of operations for the quarter ended April 30, 2005. This adjustment had no effect on net cash or the income tax returns filed by the Company. This correction is further detailed in Note 2 to the condensed consolidated financial statements.

Except for as described above, no other information in the Form 10-Q has been amended and the Company has not updated disclosures in this Amendment to reflect any event subsequent to the Company's filing of the Original Report.

Table of Contents

**RETAIL VENTURES, INC.
TABLE OF CONTENTS**

| | Page No. |
|---|-----------------|
| <u>Part I. Financial Information</u> | |
| <u>Item 1. Financial Statements</u> | |
| <u>Condensed Consolidated Balance Sheets at April 29, 2006 and January 28, 2006</u> | 3 |
| <u>Condensed Consolidated Statements of Operations for the three months ended April 29, 2006 and April 30, 2005</u> | 5 |
| <u>Condensed Consolidated Statements of Shareholders' Equity for the three months ended April 29, 2006 and April 30, 2005</u> | 6 |
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended April 29, 2006 and April 30, 2005</u> | 7 |
| <u>Notes to the Condensed Consolidated Financial Statements</u> | 8 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 27 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 41 |
| <u>Item 4. Controls and Procedures</u> | 42 |
| <u>Part II. Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | 42 |
| <u>Item 1A. Risk Factors</u> | 43 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 44 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 45 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 45 |
| <u>Item 5. Other Information</u> | 45 |
| <u>Item 6. Exhibits</u> | 45 |
| <u>Signature</u> | 46 |
| <u>Index to Exhibits</u> | 47 |
| EX-31.1 | |
| EX-31.2 | |
| EX-32.1 | |

EX-32.2

-2-

Table of Contents**Part I. Financial Information**

Item 1. Financial Statements

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

| | April 29, 2006 | January 28, 2006 |
|---------------------------------------|-------------------|---------------------|
| | * Restated | * Restated |
| ASSETS | | |
| Cash and equivalents | \$ 204,558 | \$ 138,731 |
| Accounts receivable, net | 15,622 | 19,259 |
| Receivables from related parties | 497 | 437 |
| Inventories | 541,709 | 491,867 |
| Prepaid expenses and other assets | 24,289 | 26,814 |
| Deferred income taxes | 72,497 | 66,581 |
| Total current assets | 859,172 | 743,689 |
| Property and equipment, net | 261,442 | 269,126 |
| Goodwill | 25,899 | 25,899 |
| Tradenames and other intangibles, net | 38,156 | 39,217 |
| Other assets | 8,699 | 8,643 |
| Total assets | \$ 1,193,368 | \$ 1,086,574 |

* See Note 2

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

Table of Contents

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

| | April 29, 2006 | January 28, 2006 |
|---|-------------------|---------------------|
| | | * |
| | * Restated | Restated |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Accounts payable | \$ 270,075 | \$ 221,444 |
| Accounts payable to related parties | 4,730 | 4,901 |
| Accrued expenses: | | |
| Compensation | 23,355 | 35,085 |
| Taxes | 53,653 | 37,869 |
| Other | 95,918 | 88,403 |
| Warrant liability | 2,648 | 1,723 |
| Warrant liability related party | 179,436 | 168,680 |
| Current maturities of long-term obligations | 638 | 623 |
| Total current liabilities | 630,453 | 558,728 |
| Long-term obligations, net of current maturities | | |
| Non-related parties | 131,330 | 115,995 |
| Related parties | 50,000 | 50,000 |
| Other noncurrent liabilities | 88,893 | 87,080 |
| Deferred income taxes | 44,863 | 45,829 |
| Minority interest | 119,245 | 112,396 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common shares, without par value; 160,000,000 authorized; issued, including 7,551 treasury shares, 44,900,027 and 39,864,577 shares, respectively | 235,675 | 159,617 |
| Accumulated deficit | (100,472) | (36,082) |
| Deferred compensation expense, net | | (1) |
| Treasury shares, at cost, 7,551 shares | (59) | (59) |
| Accumulated other comprehensive loss | (6,560) | (6,929) |
| Total shareholders' equity | 128,584 | 116,546 |
| Total liabilities and shareholders' equity | \$ 1,193,368 | \$ 1,086,574 |

* See Note 2

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

Table of Contents

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

| | Three months ended | |
|--|--------------------|-------------------|
| | April 29, 2006 | April 30, 2005 |
| | * Restated | |
| Net sales | \$ 721,513 | \$ 680,045 |
| Cost of sales | (430,888) | (411,653) |
| Gross profit | 290,625 | 268,392 |
| Selling, general and administrative expenses | (277,524) | (279,342) |
| License fees and other income | 1,562 | 1,518 |
| Change in fair value of warrants | (64,809) | |
| Operating loss | (50,146) | (9,432) |
| Non-related parties interest expense | (2,866) | (3,124) |
| Related parties interest expense | (1,264) | (6,558) |
| Total interest expense | (4,130) | (9,682) |
| Interest income | 1,638 | 47 |
| Interest expense, net | (2,492) | (9,635) |
| Loss before income taxes and minority interest | (52,638) | (19,067) |
| (Provision) benefit for income taxes | (5,846) | 7,608 |
| Loss before minority interest | (58,484) | (11,459) |
| Minority interest | (6,464) | |
| Net loss | \$ (64,948) | \$ (11,459) |
| Basic and diluted loss per share: | | |
| Basic | \$ (1.58) | \$ (0.32) |
| Diluted | \$ (1.58) | \$ (0.32) |
| Shares used in per share calculations: | | |
| Basic | 41,061 | 36,164 |
| Diluted | 41,061 | 36,164 |

* See Note 2

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

Table of Contents

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

| | Number of Shares Common | | Common Shares | Warrants | Retained Earnings (Accumulated Deficit) | Deferred Compensation Expenses | Accumulated Other Comprehensive Loss | Total | |
|--|-------------------------------|--------------------|------------------|----------|--|--------------------------------------|---|------------|-----------------|
| | Shares | Treasury Shares | Shares | | | | Shares | | |
| Balance, January 29, 2005 | 34,111 | 8 | \$ 143,477 | \$ 6,074 | \$ 42,756 | \$ (3) | \$ (59) | \$ (7,068) | \$ 185,177 |
| Net loss | | | | | (11,459) | | | | (11,459) |
| Exercise of stock options | 4,613 | | 20,399 | | | | | | 20,399 |
| Balance, April 30, 2005 | 38,724 | 8 | \$ 163,876 | \$ 6,074 | \$ 31,297 | \$ (3) | \$ (59) | \$ (7,068) | \$ 194,117 |
| Balance, January 28, 2006 (as restated)* | 39,865 | 8 | \$ 159,617 | \$ | \$ (36,082) | \$ (1) | \$ (59) | \$ (6,929) | \$ 116,546 |
| Net loss (as restated)* | | | | | (64,948) | | | | (64,948) |
| Minimum pension liability, net of income tax benefit of \$237 | | | | | | | | 369 | 369 |
| <i>Total comprehensive loss (as restated)*</i> | | | | | | | | | <i>(64,579)</i> |
| Capital transactions of subsidiary | | | | | 558 | | | | 558 |
| Reclassification of unamortized deferred compensation | | | | (1) | | 1 | | | |
| Exercise of stock options | 35 | | 248 | | | | | | 248 |
| Exercise of warrants (as restated)* | 5,000 | | 75,627 | | | | | | 75,627 |
| Tax benefit related to stock options exercised | | | 79 | | | | | | 79 |
| Stock based compensation expense, before related tax effects | | | 105 | | | | | | 105 |
| Balance, April 29, 2006 (as restated)* | 44,900 | 8 | \$ 235,675 | \$ | \$ (100,472) | \$ | \$ (59) | \$ (6,560) | \$ 128,584 |

* See Note 2

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

Table of Contents

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

| | Three months ended | |
|---|--------------------|-------------------|
| | April 29, 2006 | April 30, 2005 |
| | * Restated | |
| Cash flows from operating activities: | | |
| Net loss | \$ (64,948) | \$ (11,459) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Amortization of debt issuance costs and discount on debt | 301 | 1,141 |
| Depreciation and amortization | 13,841 | 14,413 |
| Stock based compensation expense | 105 | |
| Stock based compensation expense of subsidiary | 741 | |
| Change in fair value of warrants (\$63,883 - related party) | 64,809 | |
| Deferred income taxes and other noncurrent liabilities | (6,325) | 1,046 |
| Loss (gain) on disposal of assets | 396 | (42) |
| Minority interest in consolidated subsidiary | 6,464 | |
| Other | 202 | |
| Change in working capital, assets and liabilities: | | |
| Receivables | 3,577 | (8,436) |
| Inventories | (49,842) | (68,559) |
| Prepaid expenses and other assets | 2,336 | (2,312) |
| Accounts payable | 49,895 | 46,493 |
| Proceeds from lease incentives | 1,624 | 1,828 |
| Accrued expenses | 11,543 | 800 |
| Net cash provided by (used in) operating activities | 34,719 | (25,087) |
| Cash flows from investing activities: | | |
| Capital expenditures | (6,905) | (10,166) |
| Proceeds from sale of assets | 4 | 64 |
| Net cash used in investing activities | (6,901) | (10,102) |
| Cash flows from financing activities: | | |
| Principal payments of capital lease obligations and other debt | (150) | (164) |
| Net increase in revolving credit facility | 15,500 | |
| Debt issuance costs | (168) | (250) |
| Proceeds from exercise of warrants | 22,500 | |
| Proceeds from exercise of stock options | 248 | 20,399 |
| Tax benefit related to stock options exercised | 79 | |

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| | | |
|---|------------|-----------|
| Net cash provided by financing activities | 38,009 | 19,985 |
| Net increase (decrease) in cash and equivalents | 65,827 | (15,204) |
| Cash and equivalents, beginning of period | 138,731 | 29,258 |
| Cash and equivalents, end of period | \$ 204,558 | \$ 14,054 |

* See Note 2

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

-7-

Table of Contents

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

1. BUSINESS OPERATIONS

Retail Ventures, Inc. (Retail Ventures or RVI) and its wholly-owned subsidiaries, including but not limited to, Value City Department Stores LLC (Value City) and Filene s Basement, Inc. (Filene s Basement), and DSW Inc. (DSW), a controlled subsidiary, and DSW s wholly-owned subsidiary, DSW Shoe Warehouse, Inc. (DSWSW), are herein referred to collectively as the Company .

The Company operates three segments in the United States of America (United States). Value City and Filene s Basement segments operate full-line, off-price department stores. The DSW segment sells better-branded shoes and accessories. As of April 29, 2006, there were a total of 113 Value City stores located principally in the Midwest, mid-Atlantic and southeastern United States, 204 DSW stores located in major metropolitan areas throughout the United States and 26 Filene s Basement stores located primarily in major metropolitan areas in the Northeast and Midwest. DSW also supplies shoes, under supply arrangements, to 216 locations for other non-related retailers in the United States.

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

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

On July 5, 2005, DSW completed an initial public offering (IPO) of 16,171,875 Class A Common Shares sold at a price to the public of \$19.00 per share and raising net proceeds of \$285.8 million, net of the underwriters commission and before expenses of approximately \$7.8 million. As of April 29, 2006, Retail Ventures owned Class B Common Shares of DSW representing approximately 63.1% of DSW s outstanding common shares and approximately 93.2% of the combined voting power of such shares. RVI accounted for the sale of DSW as a capital transaction. Associated with this transaction, a deferred tax liability of \$68.7 million was recorded. DSW is a controlled subsidiary of Retail Ventures and its Class A Common Shares are traded on the New York Stock Exchange under the symbol DSW . In conjunction with the separation of their businesses following the IPO, Retail Ventures and DSW entered into several agreements, including, among others, a master separation agreement, a shared services agreement and a tax separation agreement. Retail Ventures current intent is to continue to hold its DSW Class B Common Shares, except to the extent necessary to satisfy obligations under warrants it has granted to Schottenstein Store Corporation (SSC), Cerberus Partners, L.P. (Cerberus)

Table of Contents

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

and Millennium Partners, L.P. (Millennium) and other contemplated debt financings, although it continues to evaluate financing options in light of market conditions and other factors. Retail Ventures is subject to (a) contractual obligations with lenders under its senior loan facility to retain ownership of at least 55% by value of the common shares of DSW for so long as the senior loan facility remains outstanding and (b) contractual obligations with its warrant holders to retain enough DSW Common Shares to be able to satisfy its obligations to deliver such shares to its warrant holders if the warrant holders elect to exercise their warrants in full for DSW Class A Common Shares.

Value City. Located in the Midwest, Mid-Atlantic and Southeastern United States and operating principally under the name Value City for over 80 years this segment's strategy has been to provide exceptional value by offering a broad selection of brand name merchandise at prices substantially below conventional retail prices.

DSW. Located in major metropolitan areas throughout the United States, the DSW stores offer a wide selection of brand name and designer dress, casual and athletic footwear for men and women. Additionally, pursuant to a license agreement with Filene's Basement, DSW operates leased shoe departments in most Filene's Basement stores. In July 2002 and June 2004, respectively, DSW entered into supply agreements with Stein Mart, Inc. (Stein Mart) and Gordmans, Inc. (Gordmans) to supply merchandise to some of the Stein Mart's and all of the Gordmans' shoe departments. As of April 29, 2006, DSW operated 158 leased departments for Stein Mart, 57 for Gordmans and one Frugal Fannie's Fashion Warehouse. Results of the supply agreements are included with the DSW segment. During the three months ended April 29, 2006, DSW opened five new DSW stores.

Filene's Basement. Filene's Basement stores are located primarily in major metropolitan areas of the United States such as Boston, New York, Atlanta, Chicago and Washington, D.C. Filene's Basement focuses on providing top tier brand name merchandise at everyday low prices for men's and women's apparel, jewelry, shoes, accessories and home goods.

2. RESTATEMENT

Subsequent to the issuance of the Company's condensed consolidated financial statements for the quarter ended April 29, 2006, the Company's management determined that the block sale discount included in the determination of the fair value of the warrant liability should be eliminated. As a result, the warrant liability recorded at the initial issuance of the warrants and the subsequent changes in the fair value of the warrant liability at each reporting date has been restated from the amount previously recorded to exclude the block sale discount.

The following is a summary of the effects of these changes on the Company's condensed consolidated balance sheets as of April 29, 2006 and January 28, 2006 as well as the effect of these changes on the Company's condensed consolidated statements of operations and statements of cash flows for the three months ended April 29, 2006.

| | Period Ended April 29, 2006 | | |
|------------------------------|------------------------------|------------------------------|----------------|
| | As Originally Reported | Adjustment (in thousands) | As Restated |
| Consolidated Balance Sheets: | | | |
| Warrant liability | \$ 1,841 | \$ 807 | \$ 2,648 |

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| | | | |
|-----------------------------------|----------|----------|-----------|
| Warrant liability related parties | 119,096 | 60,340 | 179,436 |
| Total current liabilities | 569,306 | 61,147 | 630,453 |
| Common shares | 221,494 | 14,181 | 235,675 |
| Accumulated deficit | (25,144) | (75,328) | (100,472) |
| Total shareholders equity | 189,731 | (61,147) | 128,584 |

Consolidated Statements of Operations:

| | | | |
|--|-------------|------------|-------------|
| Change in fair value of warrants (related party; \$ 58,606, \$ 5,277, \$ 63,883) | \$ (59,413) | \$ (5,396) | \$ (64,809) |
| Operating loss | (44,750) | (5,396) | (50,146) |
| Loss before income taxes and minority interest | (47,242) | (5,396) | (52,638) |
| Loss before minority interest | (53,088) | (5,396) | (58,484) |
| Net loss | (59,552) | (5,396) | (64,948) |
| Basic and diluted loss per share | \$ (1.45) | \$ (0.13) | \$ (1.58) |

Consolidated Statements of Cash Flows:

| | | | |
|--|-------------|------------|-------------|
| Net Loss | \$ (59,552) | \$ (5,396) | \$ (64,948) |
| Change in fair value of warrants (related party; \$ 58,606, \$ 5,277, \$ 63,883) | 59,413 | 5,396 | 64,809 |

Year Ended January 28, 2006

| | As Originally Reported | Adjustments (in thousands) | As Restated |
|--|------------------------------|-------------------------------|----------------|
| Consolidated Balance Sheets: | | | |
| Warrant liability (related party; \$90,644, \$78,036, \$168,680) | \$ 91,679 | \$ 78,724 | \$ 170,403 |
| Total current liabilities | 480,004 | 78,724 | 558,728 |
| Common shares | 168,409 | (8,792) | 159,617 |
| (Accumulated deficit) Retained earnings | 33,850 | (69,932) | (36,082) |
| Total shareholders equity | 195,270 | (78,724) | 116,546 |