RETAIL VENTURES INC
Form 10-Q
June 16, 2009

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

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

For the quarterly period ended May 2, 2009

OR

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

For the transition period from __________ to __________

Commission file number 1-10767

RETAIL VENTURES, INC.

(Exact name of registrant as specified in its charter)

Ohio	20-0090238
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4150 E. Fifth Avenue, Columbus, Ohio	43219
(Address of principal executive offices)	(Zip Code)

(614) 238-4148

Registrant s telephone number, including area code

Not applicable

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

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

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

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of outstanding Common Shares, without par value, as of May 31, 2009 was 48,933,729.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	May 2, 2009	January 31, 2009
ASSETS		
Cash and equivalents	$ 103,339	$ 94,308
Restricted cash	10,262	261
Short-term investments, net	81,402	101,404
Accounts receivable, net	7,600	7,142
Accounts receivable from related parties	52	332
Inventories	278,229	244,008
Prepaid expenses and other current assets	24,008	27,249
Deferred income taxes	26,543	22,243
Current assets held for sale		66,678
Total current assets	531,435	563,625
Property and equipment, net	233,084	236,355
Goodwill	25,899	25,899
Tradenames and other intangibles, net	3,455	3,668
Conversion feature of long-term debt	76,417	77,761
Deferred income taxes		805
Other assets	5,593	6,856
Non-current assets held for sale		38,793
Total assets	$ 875,883	$ 953,762

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

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

	May 2, 2009	January 31, 2009
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	$ 116,876	$ 93,088
Accounts payable to related parties	3,151	3,125
Accrued expenses:		
Compensation	9,994	12,632
Taxes	16,158	14,857
Gift cards and merchandise credits	13,897	15,491
Guarantees from discontinued operations	37,487	2,909
Other	31,931	31,175
Warrant liability	6,345	6,292
Current maturities of long-term debt	250	250
Current liabilities held for sale		76,030
Total current liabilities	236,089	255,849
Long-term obligations	128,104	127,576
Long-term guarantees of discontinued operations	19,486	9,980
Other noncurrent liabilities	100,376	99,310
Deferred income taxes	28,726	29,806
Noncurrent liabilities held for sale		36,055
Commitments and contingencies		
Shareholders equity:		
Common shares, without par value; 160,000,000 authorized; issued and outstanding, including 7,551 treasury shares, 48,941,280 and 48,691,280, respectively	308,233	306,868
Accumulated deficit	(119,902)	(76,930)
Treasury shares, at cost, 7,551 shares	(59)	(59)
Warrants		124
Accumulated other comprehensive loss	(789)	(655)
Accumulated other comprehensive loss held for sale		(6,734)
Total Retail Ventures shareholders equity	187,483	222,614
Noncontrolling interests	175,619	172,572
Total shareholders equity	363,102	395,186
Total liabilities and shareholders equity	$ 875,883	$ 953,762

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

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

	Three months ended May 2, 2009	Three months ended May 3, 2008
Net sales	$ 385,846	$ 366,264
Cost of sales	(217,600)	(211,098)
Gross profit	168,246	155,166
Selling, general and administrative expenses	(214,934)	(139,160)
Change in fair value of derivative instruments	(1,388)	37,168
Operating (loss) profit	(48,076)	53,174
Interest expense	(3,215)	(3,541)
Interest income	471	2,898
Interest expense, net	(2,744)	(643)
Other-than-temporary impairment charge on investments	(395)	
(Loss) income from continuing operations before income taxes	(51,215)	52,531
Income tax expense	(666)	(6,622)
(Loss) income from continuing operations	(51,881)	45,909
Loss from discontinued operations, net of tax Value City	(43)	(3,621)
Income (loss) from discontinued operations, net of tax Filene s Basement	10,701	(9,331)
Total income (loss) from discontinued operations, net of tax	10,658	(12,952)
Net (loss) income	(41,223)	32,957
Less: net income attributable to the noncontrolling interests	(2,649)	(3,806)
Net (loss) income attributable to Retail Ventures, Inc.	$ (43,872)	$ 29,151
Basic and diluted earnings (loss) per share:		
Basic (loss) earnings per share from continuing operations attributable to Retail Ventures, Inc. common shareholders	$ (1.12)	$ 0.87
Diluted (loss) earnings per share from continuing operations attributable to Retail Ventures, Inc. common shareholders	$ (1.12)	$ 0.82
Basic earnings (loss) per share from discontinued operations attributable to Retail Ventures, Inc. common shareholders	$ 0.22	$ (0.27)
Diluted earnings (loss) per share from discontinued operations attributable to Retail Ventures, Inc. common shareholders	$ 0.22	$ (0.25)
	$ (0.90)	$ 0.60

Basic (loss) earnings per share attributable to Retail Ventures, Inc. common shareholders		
Diluted (loss) earnings per share attributable to Retail Ventures, Inc. common shareholders	$ (0.90)	$ 0.56
Shares used in per share calculations:		
Basic	48,692	48,639
Diluted	48,692	51,622
Amounts attributable to Retail Ventures, Inc. common shareholders:		
(Loss) income from continuing operations, net of tax	$ (54,530)	$ 42,103
Discontinued operations, net of tax	10,658	(12,952)
Net (loss) income	$ (43,872)	$ 29,151

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

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

	Number of Shares		Retail Ventures, Inc. Shareholders						
	Common Shares	Common Shares in Treasury	Common Shares	Retained Earnings (Accumulated Deficit)	Treasury Shares	Warrants	Total Accumulated Other Comprehensive Loss	Non-controlling Interests	Total
Balance, February 2, 2008	48,623	8	$ 305,254	$ (130,577)	$ (59)	$ 124	$ (1,819)	$ 160,349	$ 333,272
Net income from continuing operations				42,103				3,806	45,909
Net loss from discontinued operations				(12,952)					(12,952)
Unrealized loss on available-for-sale securities, net of tax benefit of $82							(127)		(127)
Total comprehensive income									*$ 32,830*
Capital transactions of subsidiary				741				384	1,125
Stock based compensation expense, before related tax effects			307						307
Exercise of stock options	47		133						133
Balance, May 3, 2008	48,670	8	$ 305,694	$ (100,685)	$ (59)	$ 124	$ (1,946)	$ 164,539	$ 367,667
Balance, January 31, 2009	48,691	8	$ 306,868	$ (76,930)	$ (59)	$ 124	$ (7,389)	$ 172,572	$ 395,186
Net (loss) income from continuing operations				(54,530)				2,649	(51,881)

Net income from discontinued operations				10,658					10,658
Unrealized loss on available-for-sale securities							(249)		(249)
Total comprehensive loss									$ *(41,472)*
Capital transactions of subsidiary				900				398	1,298
Stock based compensation expense, before related tax effects			868						868
Exercise of stock options	250		497						497
Other comprehensive loss of discontinued operations							6,734		6,734
Cumulative effect of adoption of new accounting pronouncement						(115)	115		
Reclassification of warrants to liability						(9)			(9)
Balance, May 2, 2009	48,941	8	$ 308,233	$ (119,902)	$ (59)	$	$ (789)	$ 175,619	$ 363,102

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

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

	Three months ended	
	May 2, 2009	**May 3, 2008**
Cash from operating activities:		
Net (loss) income	$ (41,223)	$ 32,957
Less: (income) loss from discontinued operations, net of tax	(10,658)	12,952
(Loss) income before discontinued operations	$ (51,881)	$ 45,909
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of debt issuance costs and discount on debt	865	863
Stock based compensation expense	868	280
Stock based compensation expense of subsidiary	900	741
Depreciation and amortization	11,274	8,156
Change in fair value of derivative instruments	1,388	(37,168)
Deferred income taxes and other noncurrent liabilities	(7,949)	(1,704)
Impairment charges on long-lived assets	435	730
Impairment charges on receivables from Filene s Basement	57,864	
Other-than-temporary impairment charges on investments	395	
Other	575	393
Change in working capital, assets and liabilities:		
Accounts receivable	563	(186)
Inventories	(34,221)	(5,761)
Prepaid expenses and other assets	2,901	1,309
Accounts payable	22,608	(10,399)
Proceeds from lease incentives	3,072	4,253
Accrued expenses	(3,678)	(92)
Net cash provided by operating activities from continuing operations	5,979	7,324
Net cash provided by (used in) operating activities from discontinued operations	20,563	(6,434)
Cash flows from investing activities:		
Cash paid for property and equipment	(8,069)	(22,507)
Purchases of available-for-sale investments	(9,000)	
Maturities and sales from available-for-sale investments	29,624	68,805
Transfer of cash to restricted cash	(10,000)	
Net cash provided by investing activities from continuing operations	2,555	46,298
Net cash used in investing activities from discontinued operations	(158)	(407)
Cash flows from financing activities:		
Proceeds from exercise of stock options	497	160
Net cash provided by financing activities from continuing operations	497	160
Net cash (used in) provided by financing activities from discontinued operations	(25,181)	9,500

Net increase in cash and equivalents from continuing operations	$ 9,031	$ 53,782
Cash and equivalents from continuing operations, beginning of period	94,308	107,260
Cash and equivalents from continuing operations, end of period	$ 103,339	$ 161,042
Net (decrease) increase in cash and equivalents from discontinued operations	$ (4,776)	$ 2,659
Cash and equivalents from discontinued operations, beginning of period	4,776	5,691
Cash and equivalents from discontinued operations, end of period	$	$ 8,350

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

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

1. BUSINESS OPERATIONS

Retail Ventures, Inc. (Retail Ventures or RVI) and its wholly-owned subsidiaries and majority-owned subsidiary are herein referred to collectively as the Company . Retail Ventures common shares are listed on the New York Stock Exchange trading under the ticker symbol RVI . The Company operates two segments in the United States of America (United States). DSW Inc. (DSW) is a specialty branded footwear retailer. As of May 2, 2009, DSW operated a total of 303 stores located throughout the United States and dsw.com. DSW also supplies shoes, under supply arrangements, for 365 locations for four retailers in the United States. The Corporate segment consists of all revenue and expenses that are not allocated to the other segments.

As of May 2, 2009, Retail Ventures owned Class B Common Shares of DSW representing approximately 62.9% of DSW s outstanding common shares and approximately 93.1% of the combined voting power of such shares. DSW is a controlled subsidiary of Retail Ventures and its Class A Common Shares are listed on the New York Stock Exchange trading under the ticker symbol DSW .

On January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City Department Stores (Value City) business to VCHI Acquisition Co., a newly formed entity owned by VCDS Acquisition Holdings, LLC, Emerald Capital Management LLC and Crystal Value, LLC. Retail Ventures received no net cash proceeds from the sale, paid a fee of $500,000 to the purchaser, and recognized an after-tax loss of $76.8 million on the transaction as of May 2, 2009. As part of the transaction, Retail Ventures, Inc. issued warrants to VCHI Acquisition Co. to purchase 150,000 RVI common shares, at an exercise price of $10.00 per share, and exercisable within 18 months of January 23, 2008. To facilitate the change in ownership and operation of Value City Department Stores, Retail Ventures agreed to provide or arrange for the provision of certain transition services principally related to information technology, finance and human resources to Value City Department Stores for a period of one year unless otherwise extended by both parties. On October 26, 2008, Value City filed for bankruptcy protection and announced that it would close its remaining stores. The Company negotiated an agreement with Value City to continue to provide services post bankruptcy filing, including risk management, financial services, benefits administration, payroll and information technology services, in exchange for a weekly payment.

On April 21, 2009, Retail Ventures entered into and consummated the transactions contemplated by a definitive agreement dated April 21, 2009 (the Purchase Agreement) to dispose of Filene s Basement, Inc. and certain related entities to FB II Acquisition Corp., a newly formed entity owned by Buxbaum Holdings, Inc. (Buxbaum). Retail Ventures did not realize any cash proceeds from this transaction and will pay a fee of $1.3 million to Buxbaum and has reimbursed $0.4 million of Buxbaum s costs associated with the transaction. Retail Ventures has also agreed to indemnify Buxbaum, FB II Acquisition Corp. and their owners against certain liabilities. Retail Ventures has recognized an after-tax gain of $42.2 million on the transaction as of May 2, 2009. As a result of the disposition, Filene s Basement is no longer a related party of Retail Ventures. On May 4, 2009, Filene s Basement filed for bankruptcy protection.

DSW. DSW is a leading U.S. specialty branded footwear retailer operating stores in 38 states as of May 2, 2009. Its stores offer a remarkable selection of better-branded dress, casual and athletic footwear for women and men. As of May 2, 2009, DSW, pursuant to supply agreements, operated 274 leased shoe departments for Stein Mart, Inc., 65 for Gordmans, Inc., 25 for Filene s Basement and one for Frugal Fannie s Fashion Warehouse. Supply agreements results are included within the DSW segment. During the three months ended May 2, 2009, DSW opened five new DSW stores, ceased operations in 13 leased departments and added one new leased department.

Corporate. The Corporate segment represents the corporate assets, liabilities and expenses not allocated to other segments through corporate allocation or shared service arrangements. The remaining results of operation are comprised of debt related expenses, income on investments and interest on intercompany notes, the latter of which is eliminated in consolidation.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

In the opinion of management, the unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of only normal recurring adjustments, which are necessary to present fairly the condensed consolidated financial position, results of operations and cash flows for the periods presented.

Allowance for Doubtful Accounts The Company monitors its exposure for credit losses and records related allowances for doubtful accounts. Allowances are estimated based upon specific accounts receivable balances, where a risk of default has been identified. As of May 2, 2009 and January 31, 2009, the Company s allowance for doubtful accounts was $6.5 million and $1.2 million, respectively. The increase in the allowance is primarily related to allowances recorded related to receivables from Filene s Basement. In addition, at May 2, 2009, there was an allowance recorded for $52.6 million to fully reserve for the notes receivable from Filene s Basement.

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

Inherent in the calculation of inventories are certain significant management judgments and estimates, including setting the original merchandise retail value or mark-on, markups of initial prices established, markdowns, and estimates of losses between physical inventory counts, or shrinkage, which combined with the averaging process within the retail method, can significantly impact the ending inventory valuation at cost and the resulting gross profit. At May 2, 2009, the reserve to value inventory at lower of cost or market was $4.7 million. At January 31, 2009, the reserve was immaterial.

Tradenames and Other Intangible Assets, net Tradenames and other intangible assets are comprised of values assigned to names the Company acquired and leases acquired. The accumulated amortization for these assets is $9.5 million and $9.2 million at May 2, 2009 and January 31, 2009, respectively.

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

	May 2, 2009	January 31, 2009
	(in thousands)	
Not subject to amortization		
Domain names	$ 21	$ 21
Subject to amortization		
Tradenames:		
Gross asset	$ 12,750	$ 12,750
Accumulated amortization	(9,350)	(9,138)
Subtotal	$ 3,400	$ 3,612

Favorable leases:		
Gross asset	$ 140	$ 140
Accumulated amortization	(106)	(105)
Subtotal	$ 34	$ 35
Tradenames and other intangible assets, net	$ 3,455	$ 3,668

Amortization expense for the first quarter of fiscal year 2009 was $0.2 million. Amortization associated with the net carrying amount of intangible assets at May 2, 2009 is estimated to be $0.7 million for the remainder of fiscal year 2009, $0.9 million in each of fiscal years 2010 through 2012 and $0.2 million in fiscal year 2013.

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

Customer Loyalty Program The Company maintains a customer loyalty program for the DSW stores and dsw.com in which program members earn reward certificates that result in discounts on future purchases. Upon reaching the target-earned threshold, the members receive reward certificates for these discounts which must be redeemed within six months. The Company accrues the anticipated redemptions of the discount earned at the time of the initial purchase. To estimate these costs, DSW is required to make assumptions related to customer purchase levels and redemption rates based on historical experience. The accrued liability as of May 2, 2009 and January 31, 2009 was $7.7 million and $7.3 million, respectively.

Noncontrolling Interests During the three months ended May 2, 2009 and May 3, 2008, there was an immaterial impact to the net (loss) income attributed to Retail Ventures, Inc. as a result of the additional DSW common shares outstanding from DSW director stock unit grants of 1,503 and 2,347 made during each of the respective quarters.

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

Revenue from gift cards is deferred and recognized upon redemption of the gift card. The Company s policy is to recognize income from breakage of gift cards when the likelihood of redemption of the gift card is remote. The Company recognized $0.2 million and $0.1 million as miscellaneous income from gift card breakage during the three months ended May 2, 2009 and May 3, 2008, respectively.

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

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

3. ADOPTION OF ACCOUNTING STANDARDS

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

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

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

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

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

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

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

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

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

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

RETAIL VENTURES, INC.
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In April 2009, the Financial Accounting Standards Board issued FASB Staff Position FAS 157-4, *Determining Fair Value when the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly* (FSP 157-4), which the Company will adopt for the quarter ended August 1, 2009. FSP 157-4 affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The FSP provides guidance for estimating fair value when the volume and level of market activity for an asset or liability have significantly decreased and determining whether a transaction was orderly. This FSP applies to all fair value measurements when appropriate. The Company does not expect that the adoption of this statement will have a significant impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP 115-2), which the Company will adopt for the quarter ended August 1, 2009. FSP 115-2 amends existing guidance for determining whether an other-than-temporary impairment of debt securities has occurred. FSP 115-2 replaces the existing requirement that an entity s management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert (a) it does not have the intent to sell the security, and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. The Company does not expect that the adoption of this statement will have a significant impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1), which the Company will adopt for the quarter ended August 1, 2009. FSP 107-1 requires an entity to provide the annual disclosures required by FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, in its interim consolidated financial statements. The Company does not expect that the adoption of this statement will have a significant impact on its consolidated financial statements.

4. DISCONTINUED OPERATIONS

Value City

As mentioned above, on January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City operations. As part of the transaction, Retail Ventures issued warrants to VCHI Acquisition Co. to purchase 150,000 RVI Common Shares, at an exercise price of $10.00 per share, and exercisable within 18 months of January 23, 2008. Retail Ventures received no net cash proceeds from the sale and paid a fee of $500,000 to the purchaser. Retail Ventures recognized an aggregate after-tax loss related to the Value City disposition of $76.8 million as of May 2, 2009, including an increase in the loss of less than $0.1 million recognized in the three months ended May 2, 2009. The increase in the loss consisted primarily of revaluations of the liabilities due to the passage of time for the guarantees recorded by Retail Ventures. As of May 2, 2009, Retail Ventures is still providing Value City with limited transition services.

Filene s Basement

As previously discussed, on April 21, 2009, RVI disposed of its Filene s Basement operations. RVI did not realize any cash proceeds from this transaction and paid a fee of $1.3 million to Buxbaum and reimbursed $0.4 million of Buxbaum s costs associated with the transaction. RVI also agreed to indemnify Buxbaum, FB II Acquisition Corp. and their owners against certain liabilities. As of May 2, 2009, RVI had recorded a liability of $44.3 million for the guarantees of Filene s Basement commitments, including but not limited to $17.0 million of outstanding borrowings against the Filene s Basement Revolving Loan, including letters of credit; $6.3 million of amounts due to factors for inventory purchases made prior to the disposition date; $11.5 million under lease obligations; and $9.5 million under certain laws, related to certain employee benefit plans. RVI has recognized an after-tax gain of $42.2 million on the transaction as of May 2, 2009. The $42.2 million gain on the disposition of Filene s Basement is comprised of the write-off of the investment in Filene s Basement partially offset by the recording of guarantees of $44.3 million, other transaction related expenses of $2.1 million and income tax expenses of $1.4 million.

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

See note 15 for subsequent events discussions related to Filene s Basement.

The following table presents the significant components of Filene s Basement operating results included in discontinued operations:

	Three months ended	
	May 2, 2009	May 3, 2008
	(in thousands)	
Net sales	$ 63,351	$ 100,020
Loss before income taxes	$ (31,195)	$ (9,476)
Income tax (provision) benefit	(345)	145
Gain on sale	42,241	
Gain (loss) from discontinued operations, net of tax Filene s Basement	$ 10,701	$ (9,331)

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

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

Revolving credit facility	39,583
Total current liabilities	76,030
Other non current liabilities	36,055
Total non current liabilities	36,055
Total liabilities	$ 112,085

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

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5. STOCK BASED COMPENSATION

Retail Ventures Stock Compensation Plans

The Company has an Amended and Restated 2000 Stock Incentive Plan (the 2000 Plan) that provides for the issuance of equity awards covering up to 13,000,000 common shares, including stock options, stock appreciation rights and restricted stock, to management, key employees of Retail Ventures and affiliates, consultants (as defined in the plan), and non-employee directors of Retail Ventures. Options granted under the plan generally vest 20% per year on a cumulative basis and remain exercisable for a period of ten years from the date of grant.

The Company has an Amended and Restated 1991 Stock Option Plan that provided for the grant of equity awards covering up to 4,000,000 common shares. Options granted under the plan are generally exercisable 20% per year on a cumulative basis and remain exercisable for a period of ten years from the date of grant.

During the three months ended May 2, 2009 and May 3, 2008, included in income from continuing operations is stock based compensation expense of approximately $2.2 million and $1.4 million, respectively, which includes approximately $1.3 million and $1.1 million, respectively, of expenses recorded by DSW, before accounting for the noncontrolling interests.

The following tables summarize the activity of the Company s stock options, stock appreciation rights (SARs) and restricted stock units (RSUs) for the three months ended May 2, 2009 (in thousands):

Three months ended May 2, 2009	Stock Options	SARs	RSUs
Outstanding beginning of period	1,247	395	12
Granted	13		
Exercised	(250)		(6)
Forfeited	(160)	(126)	
Outstanding end of period	850	269	6
Exercisable end of period	800	241	

Stock Options

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

	Three months ended May 2, 2009	May 3, 2008
Assumptions:		
Risk-free interest rate	1.8%	2.8%
Expected volatility of Retail Ventures common shares	80.6%	55.7%
Expected option term	5.0 years	5.0 years
Expected dividend yield	0.0%	0.0%

The weighted-average grant date fair value of options granted in the three months ended May 2, 2009 and May 3, 2008 was $1.58 per share and $3.43 per share, respectively.

Stock Appreciation Rights

Expense of $0.7 million and $0.2 million was recorded in continuing operations during the three months ended May 2, 2009 and May 3, 2008, respectively, relating to SARs.

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Restricted Stock Units

The Company s continuing operations recorded a reduction of compensation expense of less than $0.1 million and compensation expense of less than $0.1 million related to the restricted stock units in the three months ended May 2, 2009 and May 3, 2008, respectively. The amount of restricted stock units accrued at both May 2, 2009 and January 31, 2009 was less than $0.1 million.

Restricted Shares

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

DSW Stock Compensation Plan

DSW has a 2005 Equity Incentive Plan that provides for the issuance of equity awards to purchase up to 4,600,000 common shares, including stock options and restricted stock units to management, key employees of DSW and affiliates, consultants (as defined in the plan), and directors of DSW. DSW stock options, RSUs and director stock units are not included in the number of shares used in the basic or dilutive calculation of earnings per share of Retail Ventures. During the three months ended May 2, 2009 and May 3, 2008, DSW recorded stock based compensation expense of approximately $1.3 million and $1.1 million, respectively.

The following tables summarize the activity of DSW s stock options and RSUs for the three months ended May 2, 2009 (in thousands):

	Stock Options	RSUs
Outstanding beginning of period	2,125	226
Granted	927	176
Exercised		
Forfeited	(67)	(7)
Outstanding end of period	2,985	395
Exercisable end of period	754	

Stock Options

The weighted-average grant date fair value of each option granted in the three months ended May 2, 2009 and May 3, 2008 was $5.06 and $5.86 per share, respectively. The following table illustrates the weighted-average assumptions used in the Black-Scholes option-pricing model for options granted in each of the periods presented:

	Three months ended	
	May 2, 2009	May 3, 2008

Assumptions:		
Risk-free interest rate	1.9%	2.7%
Expected volatility of DSW common shares	57.6%	48.1%
Expected option term	4.9 years	4.9 years
Expected dividend yield	0.0%	0.0%

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Restricted Stock Units

The total aggregate intrinsic value of nonvested restricted stock units at May 2, 2009 was $4.4 million. As of May 2, 2009, the total compensation cost related to nonvested restricted stock units not yet recognized was approximately $3.1 million with a weighted average expense recognition period remaining of 2.3 years. The weighted average exercise price for all restricted stock units is zero.

Director Stock Units

DSW issues stock units to directors who are not employees of DSW or RVI. During the three months ended May 2, 2009 and May 3, 2008, DSW granted 1,503 and 2,347 director stock units, respectively, and expensed less than $0.1 million in each respective three month period for these grants. As of May 2, 2009, 84,704 director stock units had been issued and no director stock units had been settled.

6. INVESTMENTS

The Company determines the appropriate balance sheet classification of its investments at the time of purchase and evaluates the classification at each balance sheet date. If the Company has the intent and ability to hold the investments to maturity, investments are classified as held-to-maturity. Held-to-maturity securities are stated at amortized cost plus accrued interest. Otherwise, investments are classified as available-for-sale and stated at current market value.

Short-term investments, net at May 2, 2009 and January 31, 2009 include tax exempt, tax advantaged and taxable bonds, variable rate demand notes, tax exempt commercial paper, certificates of deposit, an auction rate security and preferred shares. DSW also participates in the Certificate of Deposit Account Registry Service® (CDARS). CDARS provides FDIC insurance on deposits of up to $50.0 million. Certificates of deposit mature every 28 to 91 days. The other types of short-term investments generally have interest reset dates of every 7 days. Despite the long-term nature of the stated contractual maturities of certain short-term investments, the Company has the ability to quickly liquidate these securities. As a result, the Company has classified these securities as available for sale.

One auction rate security will undergo auction in November 2009. In the first quarter of fiscal year 2009, the Company recorded an additional temporary impairment of $0.2 million related to this security. The impairment recorded in the first quarter of fiscal 2009 is in addition to temporary impairments of $0.7 million recorded in fiscal 2008 related to this security. The Company believes the impairment is temporary as the security is a perpetual preferred security that possesses certain debt-like characteristics and the Company believes it has the ability to hold the security until it can recover in value. The temporary impairments are included in accumulated other comprehensive loss on the condensed consolidated balance sheets.

In March 2009, DSW received preferred shares as distributions-in-kind on two of its auction rate securities. For the first quarter of fiscal year 2009, DSW recorded other-than-temporary impairments of $0.4 million related to these preferred shares. The impairment recorded in the first quarter of fiscal year 2009 is in addition to other-than-temporary impairments of $1.1 million recorded in fiscal year 2008 related to these securities.

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The following table discloses the major categories of the Company s investments as of May 2, 2009 and January 31, 2009:

	Short-term investments, net		Long-term investments, net	
	May 2, 2009	Jan. 31, 2009	May 2, 2009	Jan. 31, 2009
	(In thousands)			
Available for sale:				
Tax exempt, tax advantaged and taxable bonds	$ 53,655	$ 65,829		
Variable rate demand notes	13,280	16,580		
Tax exempt commercial paper		2,000		
Certificates of deposit	12,000	14,000		
Auction rate securities	2,500	3,650		$ 2,400
Preferred shares	2,400			
Other-than-temporary impairment	(1,529)			(1,134)
Unrealized losses included in accumulated other comprehensive loss	(904)	(655)		
Total available for sale	$ 81,402	$ 101,404		$ 1,266

7. LONG-TERM OBLIGATIONS AND WARRANT LIABILITIES

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

	May 2, 2009	January 31, 2009
Credit facilities:		
Senior Loan Agreement related parties	$ 250	$ 250
Premium Income Exchangeable Securities (PIES)	133,750	133,750
Discount on PIES	(5,646)	(6,174)
	128,354	127,826
Less: current maturities	(250)	(250)
Total long term obligations of continuing operations	$ 128,104	$ 127,576

Letters of credit outstanding under DSW revolving credit facility	$ 10,095	$ 17,709
Availability under DSW revolving credit facility	$ 139,905	$ 132,291

Deferred Rent

Many of the Company s operating leases contain predetermined fixed increases of the minimum rental rate during the initial lease terms. For these leases, the Company recognizes the related rental expense on a straight-line basis and records the difference between the amount charged to expense and the rent paid as deferred rent and begins amortizing such deferred rent upon the delivery of the lease location by the lessor. The amounts of deferred rent included in the other non-current liabilities caption, excluding discontinued operations, were $34.2 million and $33.5 million at May 2, 2009 and January 31, 2009, respectively.

Tenant and Construction Allowances

The Company receives cash allowances from landlords, which are deferred and amortized on a straight-line basis over the original terms of the lease as a reduction of rent expense. The unamortized allowances included in the other non-current liabilities caption, excluding discontinued operations, were $64.2 million and $63.7 million at May 2, 2009 and January 31, 2009, respectively.

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Derivative Instruments

The Company has derivative instruments, warrants and the conversion feature of convertible debt, that it has issued in conjunction with past financing activities. As of May 2, 2009 and January 31, 2009, Retail Ventures did not have any derivatives designated as hedges nor has Retail Ventures entered into derivative instruments for trading purposes. FAS 133 requires recognition of all qualifying derivative instruments as either assets or liabilities on the balance sheet at fair value. Retail Ventures utilizes the Black-Scholes pricing model to compute the fair value of its derivative instruments. The Company s derivative instruments outstanding as of May 2, 2009, are described in detail below.

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

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

The embedded exchange feature of the PIES is accounted for as a derivative, which is recorded at fair value based upon the income approach using the Black-Scholes pricing model in accordance with FAS 157 using level 2 inputs such as current market rates and changes in fair value are reflected in the statement of operations. Accordingly, the accounting for the embedded derivative addresses the variations in the fair value of the obligation to settle the PIES when the market value exceeds or is less than the threshold appreciation price. The fair value of the conversion feature at the date of issuance of $11.7 million was equal to the amount of the discount of the PIES and is being amortized into interest expense over the term of the PIES. As of May 2, 2009, the discount on the PIES has a remaining amortization period of 2.4 years. The amount of interest expense recognized and the effective interest rate for the PIES were as follows:

	Three Months Ended	
	May 2, 2009	May 3, 2008
	(in thousands)	
Contractual interest expense	$ 2,354	$ 2,434
Amortization of debt discount	528	525
Total interest expense	$ 2,882	$ 2,959
Effective interest rate	8.6%	8.6%

During the three months ended May 2, 2009 and May 3, 2008, the Company recorded a charge of $1.3 million and a reduction of expense of $18.8 million, respectively, related to the change in fair value of the conversion feature of the PIES. As of May 2, 2009 and January 31, 2009, the fair value asset recorded for the conversion feature was

$76.4 million and $77.8 million, respectively.

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The fair value of the conversion feature of the PIES at May 2, 2009 and January 31, 2009 was estimated using the Black-Scholes Pricing Model with the following assumptions:

	May 2, 2009	January 31, 2009
Assumptions:		
Risk-free interest rate	2.5%	3.0%
Expected volatility of common shares	70.0%	58.0%
Expected option term	2.4 years	2.6 years
Expected dividend yield	0.0%	0.0%

Warrants

VCHI Acquisition Co. Warrants

On January 23, 2008, Retail Ventures disposed of an 81% ownership interest in its Value City Department Stores business to VCHI Acquisition Co., a newly formed entity owned by VCDS Acquisition Holdings, LLC, Emerald Capital Management LLC and Crystal Value, LLC. As part of the transaction, Retail Ventures issued warrants (the VCHI Warrants) to VCHI Acquisition Co. to purchase 150,000 RVI Common Shares, at an exercise price of $10.00 per share, and exercisable within 18 months of January 23, 2008.

The Company adopted EITF No. 07-5 during the quarter ended May 2, 2009. The adoption of EITF No. 07-5 resulted in the redesignation and reclassification of the VCHI Warrants from Equity to Liabilities within the balance sheets. In addition, the VCHI Warrants were marked to market as of the date of the adoption and will continue to be marked to market thereafter. A charge of $0.1 million was recorded in other comprehensive income as of February 1, 2009, the date of adoption, which represented the change in fair value of the VCHI Warrants from the date of issuance to the date of adoption of EITF No. 07-5. During the three months ended May 2, 2009, the Company recorded an immaterial charge related to the change in fair value of the VCHI warrants. The value ascribed to the VCHI Warrants was estimated to be immaterial as of May 2, 2009 using the Black-Scholes Pricing Model with the following assumptions: risk-free interest rate of 0.1%; expected life of 0.3 years; expected volatility of 124.3% and an expected dividend yield of 0.0%.

Term Loan Warrants and Conversion Warrants

As of May 2, 2009 and January 31, 2009, the Company had outstanding 3,683,959 Term Loan Warrants and 8,333,333 Conversion Warrants (together, the Warrants). For the three months ended May 2, 2009 and May 3, 2008, the Company recorded a charge of less than $0.1 million and a reduction of expenses of $18.4 million, respectively, for the change in fair value of the Term Loan Warrants and Conversion Warrants. For the three months ended May 2, 2009 and May 3, 2008, the portion of the change in the fair value of the Warrants that related to Warrants held by related parties was reductions of expenses of $0.5 million and $15.2 million, respectively. No tax benefit has been recognized in connection with these charges. These derivative instruments do not qualify for hedge accounting under FAS 133 therefore; changes in the fair values are recognized in earnings in the period of change. As the Warrants may be exercised for either common shares of RVI or common shares of DSW owned by RVI, the settlement of the Warrants will not result in a cash outlay by the Company. The Term Loan Warrants expire on June 11, 2012 while the Conversion Warrants expired on June 10, 2009.

In accordance with FAS 133 and FAS 157, Retail Ventures estimates the fair values of derivatives based on the income approach using the Black-Scholes pricing model using level 2 inputs such as current market rates and records all derivatives on the balance sheet at fair value. The fair value of the Warrants was $6.3 million at both May 2, 2009 and January 31, 2009. The fair value of the portion of the Warrants held by related parties at May 2, 2009 and January 31, 2009 was $3.4 million and $3.9 million, respectively.

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The values ascribed to the Warrants were estimated as of May 2, 2009 and January 31, 2009 using the Black-Scholes Pricing Model with the following assumptions:

	Term Loan Warrants		Conversion Warrants	
	May 2, 2009	January 31, 2009	May 2, 2009	January 31, 2009
Assumptions:				
Risk-free interest rate	1.4%	1.3%	0.1%	0.3%
Expected volatility of common shares	103.6%	95.9%	124.3%	114.3%
Expected option term	3.1 years	3.4 years	0.1 years	0.4 years
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

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

	Balance Sheet Location	May 2, 2009	January 31, 2009
Warrants	Warrant liability	$ (6,345)	$ (6,292)
Conversion feature of long-term debt	Conversion feature of long-term debt	76,417	77,761
Total		$ 70,072	$ 71,469

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

	Three months ended	
	May 2, 2009	May 3, 2008
Warrants	$ (44)	$ 18,376
Conversion feature of long-term debt	(1,344)	18,792
(Expense) income related to the change in fair value of derivative instruments	$ (1,388)	$ 37,168

8. FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS AND LIABILITIES

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (FAS 157), which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The intent of this standard is to ensure consistency and comparability in fair value measurements and enhanced disclosures regarding the measurements. This statement is effective for financial assets and liabilities for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. For non-financial assets and liabilities measured at fair value on a non-recurring basis, FAS 157 is effective for fiscal years beginning after November 15, 2008.

Although the adoption of this standard as of February 3, 2008 for financial assets and liabilities and as of February 1, 2009 for non-financial assets and liabilities measured on a nonrecurring basis had no impact on RVI s financial position or results of operations, it does result in additional disclosures regarding fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Therefore, fair value is a market-based measurement based on assumptions of the market participants. As a basis for these assumptions, FAS 157 establishes the following three level fair value hierarchy:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that are publicly accessible. Active markets have frequent transactions with enough volume to provide ongoing pricing information.

Level 2 inputs are other than level 1 inputs that are directly or indirectly observable. These can include unadjusted quoted prices for similar assets or liabilities in active markets, unadjusted quoted prices for identical assets or liabilities in inactive markets, or other observable inputs.

Level 3 inputs are unobservable inputs.

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Financial assets and liabilities measured at fair value on a recurring basis as of May 2, 2009 consisted of the following:

	Balance at May 2, 2009	Level 1	Level 2	Level 3
	(in thousands)			
Assets:				
Cash and equivalents	$ 103,339	$ 103,339		
Restricted cash	10,262	10,262		
Short-term investments	81,402	871	$ 78,935	$ 1,596
Conversion feature of long-term debt	76,417		76,417	
	$ 271,420	$ 114,472	$ 155,352	$ 1,596
Liabilities:				
Warrant liabilities	$ 6,345		$ 6,345	