

RETAIL VENTURES INC

Form 10-Q/A

August 02, 2006

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A
(Amendment No. 3)**

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

For the quarterly period ended July 30, 2005

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.)

3241 Westerville Road, Columbus, Ohio

43224

(Address of principal executive offices)

(Zip Code)

(614) 471-4722

Registrant's telephone number, including area code

Not applicable

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES þ NOo

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

The number of outstanding Common Shares, without par value, as of August 31, 2005 was 39,475,227.

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**RETAIL VENTURES, INC. FORM 10-Q/A
Amendment No. 3**

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 and six months ended July 30, 2005 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 filing is made to restate the Company's July 30, 2005 and the thirteen week period then ended 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 management's discussion and analysis and selected financial data.

As of July 30, 2005, the correction of the above-noted error increased the Warrant liability by \$50.5 million, reduced (Accumulated deficit) retained earnings by \$41.7 million, reduced Common shares by \$8.8 million and for the three and six months ended July 30, 2005, increased by \$41.7 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. The basic and diluted loss per share increased to \$4.03 for the three months ended July 30, 2005 and \$4.49 for the six months ended July 30, 2005.

This adjustment had no effect on the previously reported balance sheet as of January 29, 2005 or the condensed consolidated financial statements for any period prior to the quarter ended July 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 15 to the condensed consolidated financial statements.

This amendment does not reflect events after the filing of the original report on Form 10-Q filed September 13, 2005 with the SEC, and is not intended to update other information presented except as required to reflect the effects of this restatement. Except for Items 1, 2 and 4 of Part I and Item 6 of Part II, no other information included in the Form 10-Q/A (Amendment No. 2) filed on April 11, 2006 is amended by this Form 10-Q/A (Amendment No. 3).

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

	July 30, 2005	January 29, 2005
	*Restated	*Restated
ASSETS		
Cash and equivalents	\$ 61,550	\$ 29,258
Accounts receivable, net	16,278	7,455
Receivables from related parties	848	501
Inventories	559,110	473,051
Prepaid expenses and other assets	31,982	21,112
Deferred income taxes	60,003	62,355
Total current assets	729,771	593,732
Property and equipment, net	277,091	280,454
Goodwill	25,899	25,899
Tradenames and other intangibles, net	41,338	43,460
Deferred income taxes and other assets	9,414	32,881
Total assets	\$ 1,083,513	\$ 976,426
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 266,994	\$ 202,578
Accounts payable to related parties	4,480	5,428
Accrued expenses	145,036	151,547
Warrant liability (\$162,177 - related party)	163,777	
Current maturities of long-term obligations	619	611
Total current liabilities	580,906	360,164
Long-term obligations, net of current maturities		
Non-related parties	77,317	169,134
Related parties	50,000	174,241
Deferred income taxes and other noncurrent liabilities	136,165	87,710
Minority interest	104,716	
Commitments and contingencies		
Shareholders' equity:		
	156,589	143,477

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Common shares, without par value; 160,000,000 authorized; issued, 39,358,847 and 34,110,707, respectively

Warrants		6,074
(Accumulated deficit) retained earnings	(15,051)	42,756
Deferred compensation expense, net	(2)	(3)
Treasury shares, at cost, 7,551 shares	(59)	(59)
Accumulated other comprehensive loss	(7,068)	(7,068)
Total shareholders' equity	134,409	185,177
Total liabilities and shareholders' equity	\$ 1,083,513	\$ 976,426

*See Note 15

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		Six months ended	
	July 30, 2005	July 31, 2004	July 30, 2005	July 31, 2004
	Restated*	Restated*	Restated*	Restated*
Net sales	\$ 666,734	\$ 631,654	\$ 1,346,779	\$ 1,277,954
Cost of sales	(407,362)	(372,088)	(819,015)	(758,955)
Gross profit	259,372	259,566	527,764	518,999
Selling, general and administrative expenses	(265,547)	(249,664)	(544,889)	(504,270)
Change in fair value of warrants (\$137,555 - related party)	(137,583)		(137,583)	
License fees and other income	3,993	1,566	5,511	3,123
Operating (loss) profit	(139,765)	11,468	(149,197)	17,852
Interest expense, net				
Non-related parties	(5,372)	(3,078)	(8,449)	(5,858)
Related parties	(5,062)	(6,836)	(11,620)	(13,451)
(Loss) income before income taxes	(150,199)	1,554	(169,266)	(1,457)
(Provision) benefit for income taxes	(7,775)	(797)	(167)	265
(Loss) income before minority interest	(157,974)	757	(169,433)	(1,192)
Minority interest	723		723	
Net (loss) income	\$ (157,251)	\$ 757	\$ (168,710)	\$ (1,192)
Basic and diluted (loss) income per share:				
Basic	\$ (4.03)	\$ 0.02	\$ (4.49)	\$ (0.04)
Diluted	\$ (4.03)	\$ 0.02	\$ (4.49)	\$ (0.04)
Shares used in per share calculations:				
Basic	39,037	33,903	37,600	33,882
Diluted	39,037	37,094	37,600	33,882

* See Note 15

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

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

	Number of Shares		Common		(Accumulated Deficit)		Deferred	Accumulated Other		
	Common	Treasury	Shares	Warrants	Retained	Compensation	Treasury	Comprehensive		
	Shares	Shares	Shares	Warrants	Earnings	Expense	Shares	Loss		Total
Balance, January 31, 2004 (as restated)*	33,991	8	\$ 143,077	\$ 6,074	\$ 62,204	\$ (635)	\$ (59)	\$ (6,011)		\$ 204,650
Net loss (as restated)*					(1,192)					(1,192)
Exercise of stock options	109		422							422
Forfeiture of restricted shares	(16)		(104)			104				
Amortization of deferred compensation expense						159				159
Balance, July 31, 2004 (as restated)*	34,084	8	\$ 143,395	\$ 6,074	\$ 61,012	\$ (372)	\$ (59)	\$ (6,011)		\$ 204,039
Balance, January 29, 2005 (as restated)*	34,111	8	\$ 143,477	\$ 6,074	\$ 42,756	\$ (3)	\$ (59)	\$ (7,068)		\$ 185,177
Net loss (as restated)*					(168,710)					(168,710)
Initial public offering of subsidiary					110,681					110,681
Capital transactions of subsidiary					222					222
	5,248		23,760							23,760

Exercise of stock options			
Tax benefit related to stock options exercised	9,472		9,472
Amortization of deferred compensation		1	1
Warrant reclass to liability	(6,074)		(6,074)
Warrant adjustment to fair value (as restated)*	(20,120)		(20,120)

**Balance,
July 30, 2005**

(as restated)*	39,359	8	\$ 156,589	\$	0	\$	(15,051)	\$	(2)	\$	(59)	\$	(7,068)	\$	134,409
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*See Note 15

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)

	Six months ended	
	July 30, 2005	July 31, 2004
	Restated*	Restated*
Cash flows from operating activities:		
Net loss	\$ (168,710)	\$ (1,192)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt issuance costs and discount on debt	3,819	3,158
Depreciation and amortization	28,928	25,955
Change in fair value of warrants (\$137,555 - related party)	137,583	
Deferred income taxes and other noncurrent liabilities	8,029	(5,340)
Tax benefit related to stock options exercised	9,472	
Loss on disposal of assets	371	14
Minority interest in consolidated subsidiary	(723)	
Impairment charges		712
Other	451	159
Change in working capital, assets and liabilities:		
Receivables	(9,170)	(4,951)
Inventories	(86,059)	(97,209)
Prepaid expenses and other assets	(11,284)	(13,771)
Accounts payable	63,468	48,676
Proceeds from lease incentives	4,600	5,884
Accrued expenses	(6,429)	614
Net cash used in operating activities	(25,654)	(37,291)
Cash flows from investing activities:		
Capital expenditures	(23,987)	(30,800)
Proceeds from sale of assets	91	62
Tradename acquisition		(4,037)
Net cash used in investing activities	(23,896)	(34,775)
Cash flows from financing activities:		
Payments of capital lease obligations	(309)	(416)
Payments on long-term debt	(125,000)	
Net (decrease) increase in revolving credit facility	(91,500)	61,000
Debt issuance costs	(3,527)	(438)
Proceeds from exercise of stock options	23,760	422
Proceeds from sale of stock of subsidiary	278,418	

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Net cash provided by financing activities	81,842	60,568
Net increase (decrease) in cash and equivalents	32,292	(11,498)
Cash and equivalents, beginning of period	29,258	14,226
Cash and equivalents, end of period	\$ 61,550	\$ 2,728

* See Note 15

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") and its wholly-owned subsidiaries, 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". Retail Ventures operates three segments in the United States of America ("United States"), Value City Department Stores LLC ("Value City"), Filene's Basement, Inc. ("Filene's Basement") and DSW. 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 Value City Department Stores Inc.'s shareholders. Since October 2003, Retail Ventures 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.

Value City. Located in the Midwestern, Eastern and Southern 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

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RETAIL VENTURES, INC.
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(unaudited)

substantially below conventional retail prices. At July 30, 2005 there were 114 Value City stores in operation.

DSW. Located 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. As of July 30, 2005, there were 184 DSW stores in operation. Additionally, pursuant to a license agreement with Filene's Basement, DSW operates leased shoe departments in most Filene's Basement stores. Results of operations of the leased shoe departments are included with the DSW segment. 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 July 30, 2005, DSW operated 155 leased departments for Stein Mart, 51 for Gordmans, 25 for Filene's Basement and one for Frugal Fannie's Fashion Warehouse. Results of operations under the supply agreements are included with the DSW segment. During the three months and six months ended July 30, 2005, DSW opened 7 and 14 new DSW stores, respectively, and re-categorized two DSW/Filene's Basement combination store locations as leased shoe departments which are included in the DSW segment.

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. As of July 30, 2005, there were 27 Filene's Basement stores in operation.

2. BASIS OF PRESENTATION

The accompanying unaudited interim financial statements should be read in conjunction with Retail Ventures' 2004 Annual Report for the fiscal year ended January 29, 2005 on Form 10-K, as amended and filed with the Securities and Exchange Commission (the SEC) on April 11, 2006 (the 2004 Annual Report).

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

The consolidated financial statements are reported on the full consolidation method and include 100% of the assets and liabilities of all controlled subsidiaries. The ownership interests of minority participants are recorded as Minority Interest. All material intercompany transactions and balances are eliminated.

3. Initial Public Offering of Subsidiary

On July 5, 2005, DSW completed an initial public offering (IPO) of 16,171,875 Class A common shares sold at a price of \$19.00 per share raising net proceeds of \$285.8 million, net of the underwriters' commission and before estimated expenses of approximately \$7.4 million. Following the IPO, Retail Ventures owns approximately 63.0% of DSW's outstanding common shares and approximately 93.2% of the combined voting power of such shares. 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 common shares, except to the extent necessary to satisfy obligations under warrants it has granted to certain of its lenders. Retail Ventures is subject to (a) contractual obligations with its lenders to retain ownership of at least 55% by value of the common shares of DSW for so long as Retail Ventures' 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. In addition, Retail Ventures has agreed not to sell or otherwise dispose of any of the DSW common shares for a period of 180 days following the IPO without the prior written consent of Lehman Brothers Inc. on behalf of the underwriters of the IPO. Retail Ventures accounted for the sale of DSW as a capital transaction. A deferred tax liability of \$68.7 million was recorded associated with this transaction.

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RETAIL VENTURES, INC.
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(unaudited)

4. STOCK BASED COMPENSATION

Retail Ventures has various stock-based employee compensation plans. The Company accounts for those plans in accordance with Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Accordingly, no stock-based employee compensation cost has been recognized for the fixed stock option plans or the stock purchase plan, which was discontinued at the end of May 2005. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation.

	Three months ended		Six months ended	
	July 30, 2005	July 31, 2004	July 30, 2005	July 31, 2004
	Restated*			
	(in thousands, except per share amounts)			
Net (loss) income, as reported	\$ (157,251)	\$ 757	\$ (168,710)	\$ (1,192)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(335)	(776)	(666)	(1,427)
Pro forma net loss	\$ (157,586)	\$ (19)	\$ (169,376)	\$ (2,619)
(Loss) income per share:				
Basic and diluted as reported	\$ (4.03)	\$ 0.02	\$ (4.49)	\$ (0.04)
Basic and diluted pro forma	\$ (4.04)	\$ 0.00	\$ (4.50)	\$ (0.08)

* See Note 15

5. TRADENAMES AND OTHER INTANGIBLES

During the six months ended July 31, 2004, Retail Ventures acquired the Leslie Fay tradename for approximately \$4.1 million. The anticipated life of the amortizing asset has been assigned 15 years.

6. LONG-TERM OBLIGATIONS AND SHAREHOLDERS' EQUITY

On July 5, 2005, Retail Ventures amended or terminated the existing credit facilities and other debt obligations of Value City and its other affiliates, including certain facilities under which DSW had rights and obligations as a co-borrower and co-guarantor, as follows:

Amended and Restatement of Value City Revolving Credit Facility.

The Company and its affiliates amended and restated the Loan and Security Agreement originally entered into in June 2002 (the Revolving Credit Facility). Pursuant to the \$275 million Amended and Restated Loan and Security Agreement, entered into on July 5, 2005, (i) DSW was released from its obligations under the Revolving Credit Facility, (ii) the lenders released their liens on the shares of DSW's capital stock held by Retail Ventures and the capital stock of DSWSW held by DSW, and (iii) it was agreed that leasehold mortgages

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which had been granted by DSW and DSWSW in 2002 to secure obligations under the June 2002 Revolving Credit Facility would be released. Under the July 2005 Amended and Restated Loan and Security Agreement, Retail Ventures and its wholly-owned subsidiaries are named as co-borrowers. This amended facility has borrowing base restrictions and provides for borrowings at variable interest rates based on LIBOR, the prime rate and the Federal Funds effective rate, plus a margin. Retail Ventures' obligations under the new secured revolving credit facility are secured by a lien on substantially all of the personal property of Retail Ventures and its wholly-owned subsidiaries, including a pledge of all of Retail Ventures' shares of DSW. In addition, the new secured revolving credit facility contains usual and customary covenants that, among other things, restrict Retail Ventures' ability to grant liens on its assets, incur additional indebtedness, open or close stores, pay cash dividends and redeem its stock, enter into transactions with affiliates and merge or consolidate with another entity.

Amendment of Value City Term Loan Facility.

The Company and its affiliates amended the Financing Agreement, as amended, among Cerberus, as agent, and other parties named therein, originally entered into in June 2002 (the "Term Loan Facility"). Pursuant to the Fourth Amendment to Financing Agreement entered into July 5, 2005, (i) DSW was released from its obligations as a co-borrower, (ii) Value City repaid all the term loan indebtedness, and (iii) the Company agreed to amend the issued and outstanding 2,954,792 warrants ("Term Loan Warrants") to provide Cerberus Partners, L.P. ("Cerberus"), Schottenstein Stores Corporation ("SSC") and Back Bay Capital Funding LLC ("Back Bay") the right, from time to time, in whole or in part, to (A) acquire Retail Ventures' common shares at the then current conversion price (subject to the existing anti-dilution provisions), (B) acquire from Retail Ventures Class A common shares of DSW at an exercise price per share equal to the price of shares sold to the public in DSW's IPO, or (C) acquire a combination thereof. Although Retail Ventures does not intend or plan to undertake a spin-off of its DSW common shares to Retail Ventures' shareholders, in the event that Retail Ventures does effect such a spin-off in the future, the holders of outstanding unexercised Term Loan Warrants will receive the same number of DSW Class A common shares that they would have received had they exercised their Term Loan Warrants in full for Retail Ventures common shares immediately prior to the record date of such spin-off, without regard to any limitations on exercise contained in the Term Loan Warrants. Following the completion of any such spin-off, the Term Loan Warrants will be exercisable solely for Retail Ventures common shares. The Company has granted the term loan lenders registration rights with respect to the shares issuable upon exercise of the Term Loan Warrants. In June 2002, a value of \$6.1 million was ascribed to the Term Loan Warrants using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 5.6%; expected life of 10 years; expected volatility of 47%; illiquidity discount of 10%; and an expected dividend yield of 0%. The related debt discount was amortized into interest expense over the life of the debt.

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

Amendment and Restatement of Value City Convertible Loan Facility.

The Company and its affiliates amended and restated the Amended and Restated Senior Convertible Loan Agreement, as amended, with Cerberus, as agent and lender, SSC, as lender, and the other parties named therein, originally entered into in June 2002 (the "Convertible Loan Facility"). Pursuant to the Second Amended and Restated Senior Loan Agreement, entered into July 5, 2005, (i) DSW was released from its obligations as a co-guarantor, (ii) Value City repaid \$25 million of this facility, (iii) the remaining \$50 million convertible loan was converted into a non-convertible loan, (iv) the capital stock of DSW held by Retail Ventures continues to secure the amended loan facility, and (v) Retail Ventures agreed to issue to SSC and Cerberus convertible warrants (the "Conversion Warrants") which will be exercisable from time to time until the later of June 11, 2007 and the repayment in full of Value City's obligations under the Second Amended and Restated Senior Loan Agreement. The July 2005 Second Amended and Restated Senior Loan Agreement is not eligible for prepayment until June 11, 2007. Under the Conversion Warrants, SSC and Cerberus will have the right, from time to time, in whole or in part, to (i) acquire Retail Ventures common shares at the conversion price referred to in the Second Amended and Restated Senior Loan Agreement (subject to existing anti-dilution provisions), (ii) acquire from Retail Ventures Class A common shares of DSW at an exercise price per share equal to the price of the shares sold to the public in DSW's IPO (subject to anti-dilution provisions similar to those in the existing warrants held by SSC and Cerberus), or (iii) acquire a combination thereof. Although Retail Ventures does not intend or plan to undertake a spin-off of its DSW common shares to Retail Ventures shareholders, in the event that Retail Ventures does effect such a spin-off in the future, the holders of outstanding unexercised Conversion Warrants will receive the same number of DSW Class A common shares that they would have received had they exercised their Conversion Warrants in full for Retail Ventures common shares immediately prior to the record date of such spin-off, without regard to any limitations on exercise contained in the Conversion Warrants. Following the completion of any such spin-off, the Conversion Warrants will be exercisable solely for Retail Ventures common shares.

Warrants

As a result of the previously discussed modifications made on July 5, 2005, the detached Term Loan Warrants and detached Conversion Warrants with dual optionality qualified as derivatives under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). As a result of the modifications, the fair values of the warrants have been recorded on the balance sheet within current liabilities. As the Term Loan Warrants had previously been recorded on the balance sheet within equity, the difference of \$20.1 million between the book value of the warrants and the fair value at the time the warrants were reclassified to a liability was recorded to paid in capital. The liability has been recorded for the Conversion Warrants for the full amount of their fair value as a result of the modifications and a non-cash charge has been recorded within the Consolidated Statement of Operations. During the three and six months ended July 30, 2005, the Company has recorded a charge related to the change in the fair value of the warrants of \$137.6 million, including \$134.2 million relating to the initial recording of the Conversion Warrants. No tax benefit has been recognized in connection with this charge.

These derivative instruments do not qualify for hedge accounting under SFAS No. 133, changes in the fair values are recognized in earnings in the period of change.

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(unaudited)

Retail Ventures estimates the fair values of derivatives based on pricing models using current market rates and records all derivatives on the balance sheet at fair value. The fair market value of derivative instruments was \$163.8 million at July 30, 2005. There were no derivative instruments outstanding at January 29, 2005. 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 above amendments to the Term Loan Facility and the Convertible Loan Facility were viewed in aggregate and deemed to be modifications.

7. PENSION BENEFIT PLANS

The Company has three qualified defined pension benefit plans which it assumed at the time of previous acquisitions of three separate companies. The Company's funding policy is to contribute an amount annually that satisfies the minimum funding requirements of ERISA and that is tax deductible under the Internal Revenue Code of 1986, as amended. Contributions are provided not only for benefits attributed to service to date but also for those anticipated to be earned in the future. The Company uses a January 31 measurement date for its pension benefit plans.

The following table shows the components of net periodic benefit cost of the Company's pension benefit plans for the three and six months ended July 30, 2005 and July 31, 2004: