

RETAIL VENTURES INC

Form S-3/A

July 17, 2006

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As filed with the Securities and Exchange Commission on July 14, 2006

Registration No. 333 - 134225

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 2
to
Form S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Retail Ventures, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Ohio

*(State or other jurisdiction of
incorporation or organization)*

20-0090238

*(I.R.S. Employer
Identification Number)*

**3241 Westerville Road
Columbus, Ohio 43224**

(614) 471-4722

*(Address, including Zip Code, and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)*

James A. McGrady

Executive Vice President, Chief Financial Officer and Treasurer

Retail Ventures, Inc.

3241 Westerville Road

Columbus, Ohio 43224

(614) 471-4722

*(Name, address, including zip code, and telephone number,
including area code, of agent for service)*

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Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and is not soliciting offers to buy these securities, in any state or jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated July 14, 2006.

PROSPECTUS

\$125,000,000 PIESSM
(Premium Income Exchangeable SecuritiesSM)
% Mandatorily Exchangeable Notes Due _____, 2011
(Subject to exchange into Class A common shares of DSW Inc.)

This is an offering by us of \$125,000,000 aggregate principal amount of % Mandatorily Exchangeable Notes Due _____, 2011, or PIES. The PIES are also referred to as Premium Income Exchangeable Securities.

The PIES will bear a coupon at an annual rate of % of the principal amount, payable quarterly in arrears on _____, _____, _____, and _____ of each year, commencing on _____, 2006 and ending on _____, 2011.

The PIES do not guarantee any return of principal. On the maturity date (unless the exchange has been accelerated as described in this prospectus), we will exchange your PIES into a number of Class A common shares of DSW Inc., or DSW (or the cash value thereof, as described below), equal to the exchange ratio. The exchange ratio will depend upon the price of DSW Class A common shares during the 20 consecutive trading day period ending on the third trading day immediately preceding the maturity date. The exchange ratio will be calculated, with respect to each \$50 principal amount of PIES being exchanged on the maturity date, as follows (subject to adjustment as described in this prospectus):

if the average of the volume weighted average prices of DSW Class A common shares over the 20 consecutive trading day period ending on the third trading day prior to the maturity date equals or exceeds \$ _____, the exchange ratio will be _____ shares;

if the average of the volume weighted average prices of DSW Class A common shares over the same period is less than \$ _____ but is greater than \$ _____, the exchange ratio will be between _____ and _____ shares; and

if the average of the volume weighted average prices of DSW Class A common shares over the same period is less than or equal to \$ _____ the exchange ratio will be _____ shares.

As a result, on the maturity date (unless the exchange has been accelerated as described in this prospectus), you will receive a total of between _____ and _____ DSW Class A common shares for each \$50 principal amount of PIES you own, subject to adjustment as described in this prospectus. We may elect, however, upon 25 business days prior notice, to pay you on the maturity date the cash value of all or a portion of the DSW Class A common shares, in lieu of delivering the DSW Class A common shares.

We will initially pledge a number of Class B common shares of DSW (which are exchangeable by us for DSW Class A common shares) equal to the maximum number of DSW Class A common shares deliverable by us upon exchange of the PIES to secure our obligation under the PIES.

Investing in the PIES is not equivalent to investing in DSW Class A common shares. You will not have the right to exchange your PIES for DSW Class A common shares prior to the maturity date (unless the exchange has been accelerated as described in this prospectus).

The PIES are obligations of Retail Ventures, Inc. DSW will have no obligation of any kind with respect to the PIES. We have attached to this prospectus the prospectus of DSW relating to DSW Class A common shares that you will receive upon exchange of the PIES, unless we elect to pay you the cash value of all or a portion of the DSW Class A common shares. The DSW prospectus does not constitute a part of this prospectus, nor is it incorporated into this

prospectus by reference.

The DSW Class A common shares are listed on the New York Stock Exchange, or the NYSE, under the symbol DSW. The last reported sale price of DSW Class A common shares on the NYSE on July 13, 2006 was \$33.35 per share. We intend to apply to list the PIES on the NYSE under the symbol RVH.

Investing in the PIES involves risks. See Risk Factors beginning on page 8.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these PIES or determined that this prospectus or the accompanying DSW prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per \$50 Principal Amount of PIES	Total
Public offering price(1)	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us(1)	\$	\$

(1) Plus accrued coupon, if any, from _____, 2006, if settlement occurs after that date.

We have granted the underwriter a 30-day option to purchase up to an additional \$18,750,000 aggregate principal amount of PIES from us on the same terms and conditions as set forth in this prospectus if the underwriter sells more than \$125,000,000 aggregate principal amount of PIES in connection with this offering.

Lehman Brothers expects to deliver the PIES in book-entry form on or about _____, 2006.

Lehman Brothers

, 2006

PIES and Premium Income Exchangeable Securities are service marks owned by Lehman Brothers Inc.

You should rely only on the information provided in this prospectus, as well as the information incorporated by reference. We have not authorized anyone to provide you with different information. We are not making an offer to sell the PIES in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus or any documents incorporated by reference herein is accurate only as of the date of the applicable document.

Because the PIES will generally be settled in DSW Class A common shares (unless we elect to pay the cash value thereof), we have included in this prospectus certain limited information about DSW, and we have attached to this prospectus the DSW prospectus, that more fully describes DSW and DSW Class A common shares that you may receive upon maturity of the PIES. The DSW prospectus does not constitute a part of this prospectus, nor is it incorporated into this prospectus by reference.

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PROSPECTUS SUMMARY

This summary highlights the material information regarding this offering contained elsewhere in this prospectus. This summary does not contain all the information you should consider before investing in our PIES. Before investing in our PIES, you should read this entire prospectus carefully, including the Risk Factors and Special Note Regarding Forward-Looking Statements sections.

As used in this prospectus Retail Ventures, Inc., or Retail Ventures, and its wholly-owned subsidiaries, including but not limited to, Value City Department Stores LLC, or Value City, and Filene's Basement, Inc., or Filene's Basement, and DSW Inc., or DSW, a controlled subsidiary, and DSW's wholly-owned subsidiary, DSW Shoe Warehouse, Inc., or DSWSW, are herein referred to collectively as we, us, our, or the Company, unless otherwise indicated.

Retail Ventures is a holding company operating retail stores in three segments: Value City, Filene's Basement and DSW. Value City is a full-line, value-price retailer carrying men's, women's and children's apparel, accessories, jewelry, shoes, home fashions, electronics and seasonal items. Located in the Midwest, mid-Atlantic and Southeastern United States and operating for over 80 years, Value City's strategy has been to provide exceptional value by offering a broad selection of brand name merchandise at prices substantially below conventional retail prices. As of April 29, 2006, there were 113 Value City stores in operation. Filene's Basement stores are located primarily in major metropolitan areas in the Northeast and Midwest. Filene's Basement's mission is to provide the best selection of stylish, high-end designer and famous brand name merchandise at surprisingly affordable prices in men's and women's apparel, jewelry, shoes, accessories and home goods. As of April 29, 2006, there were 26 Filene's Basement stores in operation. DSW is a leading U.S. specialty branded footwear retailer operating 204 shoe stores in 33 states as of April 29, 2006. DSW offers a wide selection of brand name and designer dress, casual and athletic footwear for women and men. DSW's typical customers are brand-, quality- and style-conscious shoppers who have a passion for footwear and accessories.

We own or license many trademarks and service marks. This prospectus contains trademarks, trade dress and trade names of other companies. Use or display of other parties' trademarks, trade dress or trade names is not intended to, and does not, imply a relationship with the trademark, trade dress or trade name owner.

In this prospectus, our fiscal years ended February 2, 2002, February 1, 2003, January 31, 2004, January 29, 2005 and January 28, 2006 are referred to as fiscal 2001, 2002, 2003, 2004 and 2005, respectively. Our fiscal year consists of 52 or 53 weeks and ends on the Saturday closest to January 31 in each year. All years referred to in this prospectus consisted of 52 weeks. Our fiscal year 2006 consists of 53 weeks.

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THE OFFERING

Issuer	Retail Ventures, Inc., an Ohio corporation.
Securities Offered	\$125,000,000 aggregate principal amount of % Mandatorily Exchangeable Notes Due , 2011, which we refer to as PIES, exchangeable into a number of Class A common shares of DSW Inc., an Ohio corporation, which we refer to as DSW Class A common shares, equal to the exchange ratio (or the cash value thereof) (\$143,750,000 aggregate principal amount of PIES if the underwriter exercises its option in full to purchase additional PIES).
Ranking	<p>The PIES will constitute our direct, senior obligations, ranking equally in right of payment with our existing and future senior debt. The PIES will be effectively junior to our other existing and future secured debt to the extent of the value of the assets securing that debt, and effectively subordinate to the debt and other liabilities, including trade payables and preferred stock, if any, of our subsidiaries.</p> <p>A substantial part of our operations is conducted through our subsidiaries. Certain of our subsidiaries, including Value City and Filene s Basement, but not DSW or DSWSW, are borrowers and/or guarantors under our loan agreements, including:</p> <ul style="list-style-type: none">the \$275 million loan and security agreement, as amended, entered into with National City Business Credit Inc., as administrative agent, and the other parties named therein, originally entered into in June 2002, or the Value City Revolving Loan;the \$240 million intercompany note, made payable by Retail Ventures to Value City, or the Intercompany Note; and/orthe \$50.0 million non-convertible loan among Cerberus Partners, L.P., as agent and lender, and Schottenstein Stores Corporation, or SSC, as lender, and the other parties named as guarantors therein, or the Non- Convertible Loan. <p>The obligations under the Value City Revolving Loan and the Non-Convertible Loan are secured by a lien on substantially all the personal property of Retail Ventures and its wholly-owned subsidiaries, except that the assets of DSW and DSWSW do not secure either of these credit facilities, and the common shares of DSW owned by Retail Ventures currently secure the Non-Convertible Loan but not the Value City Revolving Loan. The obligations under these credit facilities are also secured by leasehold interests on certain of the leasehold properties of Value City and Filene s Basement. Our Intercompany Note is currently secured by the capital stock of DSW and Filene s Basement held by Retail Ventures. We expect to repay \$49.5 million of the outstanding principal amount of the Non-Convertible Loan, together with fees and expenses relating thereto, with the proceeds of this offering.</p> <p>Upon completion of this offering, the lien on the common shares of DSW securing the Non-Convertible Loan, as well as the Intercompany Note will be released and the approximately \$49.7 million remaining balance of the Intercompany Note will be</p>

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repaid. However, we will pledge sufficient DSW common shares to the collateral agent for the PIES to enable us to satisfy our obligations to deliver DSW Class A common shares upon exchange of the PIES, and sufficient DSW common shares will continue to be subject to liens and/or contractual obligations to enable us to satisfy our obligations to the warrant holders to deliver DSW Class A common shares upon exercise of the warrants.

In addition, claims of unsecured creditors of our subsidiaries, including trade creditors, and claims of preferred shareholders, if any, of such subsidiaries will have priority with respect to the assets and earnings of such subsidiaries over the claims of creditors of Retail Ventures, including holders of the PIES. The PIES, therefore, are effectively subordinated to creditors, including trade creditors, and preferred shareholders, if any, of our subsidiaries.

As of April 29, 2006, we had consolidated debt of \$182.0 million, comprised of: \$103.5 million under the Value City Revolving Loan; \$50.0 million under the Non-Convertible Loan; and \$28.5 million in capital lease obligations of Value City. The Value City Revolving Loan and the Non-Convertible Loan are secured credit facilities. There were no outstanding borrowings under the \$150.0 million DSW Revolving Loan, among DSW and DSWSW, as borrowers, and National City Business Credit, Inc., as administrative agent and collateral agent, or the DSW Revolving Loan, which is also a secured credit facility. The DSW Revolving Loan is secured by substantially all the assets of DSW and DSWSW, including a pledge by DSW of the stock of DSWSW.

As of the same date, we had \$79.1 million and \$141.0 million of additional capacity under the Value City Revolving Loan and the DSW Revolving Loan, respectively. There were \$18.6 million and \$9.0 million in letters of credit issued and outstanding under these loan facilities, respectively.

Coupon Payments

The PIES will bear a coupon at an annual rate of _____ % of the principal amount thereof (equivalent to \$ _____ per year per \$50 principal amount). Coupon payments on the PIES will accrue from _____, 2006 and will be payable quarterly in arrears on each of _____, _____, and _____, commencing on _____, 2006 and ending on _____, 2011.

Exchange Date

The PIES will be exchanged on _____, 2011, which we refer to as the maturity date, unless exchanged earlier following a cash merger of DSW or an acceleration following an event of default. See *Description of the PIES Early Exchange upon Cash Merger and Events of Default; Waiver*. We refer to the date of exchange of the PIES, whether on the maturity date or an earlier date pursuant to a cash merger or an acceleration following an event of default, as the exchange date.

Exchange

On the exchange date, we will deliver to you, with respect to each \$50 principal amount of PIES that you hold, a number of DSW Class A common shares equal to the exchange ratio. In lieu of delivering DSW Class A common shares on the maturity date,

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however, we may elect, upon 25 business days prior notice to the trustee, to settle all or part of our obligation in cash.

The exchange ratio with respect to each \$50 principal amount of PIES is equal to the number of DSW Class A common shares determined as follows:

if the applicable market value of DSW Class A common shares equals or exceeds \$ (which we refer to as the threshold appreciation price), the exchange ratio will be shares;

if the applicable market value of DSW Class A common shares is less than \$ but is greater than \$ (which we refer to as the initial price), the exchange ratio will be equal to \$50 divided by the applicable market value, which is between and shares; and

if the applicable market value of DSW Class A common shares is less than or equal to \$, the exchange ratio will be shares.

Applicable market value means the average of the volume weighted average prices per DSW Class A common share during the 20 consecutive trading day period ending on the third trading day immediately preceding the maturity date, subject to adjustment.

The exchange ratio, the threshold appreciation price, the initial price and the applicable market value are subject to adjustment upon the occurrence of certain events.

No fractional DSW Class A common shares will be delivered upon exchange of the PIES.

See *Description of the PIES* *Exchange of the PIES*.

Early Exchange upon Cash
Merger

If DSW is involved in a merger, reclassification or sale of all or substantially all its assets, in which 30% or more of the consideration for the DSW Class A common shares consists of cash or cash equivalents, which we refer to as a cash merger, the exchange of the PIES will be accelerated.

On the early exchange date, we will deliver to you the amount of cash that you would have been entitled to receive in the cash merger if you had exchanged your PIES into DSW Class A common shares immediately before the cash merger. This amount will equal the number of DSW Class A common shares you will be assumed to have received multiplied by the amount of cash received per DSW Class A common share in the cash merger. For purposes of calculating the applicable exchange ratio upon a cash merger, the applicable market value of DSW Class A common shares means the average of the volume weighted average prices per DSW Class A common share during the 10 consecutive trading day period ending on the trading day immediately preceding the effective date of the cash merger, subject to adjustment.

If 100% of the consideration is cash, the exchange of the PIES will be fully accelerated. In addition to the cash described above, you will receive in cash accrued and unpaid coupon payments

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through the exchange date plus the present value of all future coupon payments.

If less than 100% of the consideration is cash, the exchange of the PIES will be partially accelerated. In addition to the cash described above, your PIES will remain outstanding and subject to exchange on the maturity date with respect to the portion of the merger consideration that is not early exchanged. In the case of a partial acceleration, there will be no decrease in the amount of coupon payable on your PIES.

See *Description of the PIES Early Exchange upon Cash Merger.*

Exchange Adjustments

If certain events affecting DSW Class A common shares occur prior to the exchange date, the exchange ratio, the threshold appreciation price, the initial price and the applicable market value are subject to adjustment and/or you will receive other property on the exchange date, instead of or in addition to DSW Class A common shares. See *Description of the PIES Exchange Adjustments.*

Collateral Requirement

Our exchange obligations under the PIES will be initially secured by a pledge of that number of our DSW Class B common shares (which are exchangeable for DSW Class A common shares) equal to the maximum number of DSW Class A common shares deliverable by us upon exchange of the PIES.

No Early Redemption or Early Optional Exchange by Us

We will not have the option to redeem the PIES or exchange the PIES into DSW Class A common shares prior to the maturity date (unless pursuant to a cash merger or an acceleration following an event of default).

No Early Repurchase or Early Exchange by You

You will not have the option to cause us to repurchase the PIES or exchange the PIES into DSW Class A common shares prior to the maturity date (unless pursuant to a cash merger or an acceleration following an event of default).

Consequences of Event of Default

In the case of an event of default arising from certain events of bankruptcy, insolvency or reorganization relating to us or any of our significant subsidiaries (which, as of the date hereof, includes DSW), the exchange of all outstanding PIES will be automatically accelerated. In the case of any other event of default, the exchange of all outstanding PIES will be accelerated upon notice from the trustee or the holders of not less than 25% of the aggregate principal amount of outstanding PIES.

Upon acceleration, the PIES shall be exchanged and accrued and unpaid coupon payments and a yield maintenance premium equal to the present value of all future coupon payments shall become immediately due and payable. For purposes of calculating the applicable exchange ratio upon acceleration following an event of default, the applicable market value of DSW Class A common shares means the average of the volume weighted average prices per share of DSW Class A common shares during the 10 consecutive trading day period ending on the trading day

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	immediately preceding the date of acceleration, subject to adjustment.
Denomination; Form of the PIES	The PIES will be issued in fully registered form in denominations of \$50 principal amount and whole multiples thereof. The PIES will be issued initially in the form of one or more global notes. The global notes will be deposited with, or on behalf of, DTC and registered in the name of DTC's nominee, Cede & Co.
Listing of the PIES	We intend to apply to have the PIES listed on the NYSE under the symbol RVH. Approval of our listing application is subject to the PIES meeting the NYSE listing standards, and therefore we cannot assure you that it will be approved.
Listing of DSW Class A Common Shares	The DSW Class A common shares are listed on the NYSE under the symbol DSW.
Use of Proceeds	Retail Ventures intends to use the net proceeds of the issuance and sale of the PIES to repay the approximately \$49.7 million remaining balance of the Intercompany Note, and Value City will use such proceeds to repay \$49.5 million of the outstanding principal amount of the \$50 million Non-Convertible Loan, together with fees and expenses related thereto, and apply the balance for general corporate purposes, which may include repayment of borrowings under the Value City Revolving Loan. For additional information, see <i>Use of Proceeds</i> .
Governing Law	The PIES, the indenture and the collateral agreement will be governed by, and construed in accordance with, the laws of the State of New York.
Tax Consequences	<p>By purchasing a PIES, you will be deemed to have agreed to characterize the PIES for all tax purposes as variable prepaid forward contracts. The summary below assumes that the PIES will be treated as such.</p> <p>Under the above characterization, for U.S. federal income tax purposes, your initial tax basis in a PIES should equal your cost for the PIES. Upon the sale or other taxable disposition of a PIES or the settlement of a PIES in cash, you should recognize long-or short-term capital gain or loss depending on the holding period of the PIES. On the settlement date (assuming we do not elect to settle all or part of our obligations in cash), you should recognize no gain or loss on the receipt of DSW common stock and your tax basis in such stock should equal your adjusted tax basis in the PIES (subject to reduction if cash is received in lieu of fractional shares). The tax treatment of the coupon payments is unclear under current authorities. To the extent we are required to file information returns with respect to the coupon payments, we intend to report such payments as ordinary income to you. If the coupon payments are not treated as ordinary income, your basis in the PIES may be reduced by the amount of the coupon payments. For additional information, see <i>United States Federal Income Tax Consequences</i>.</p>
Trustee and Collateral Agent	HSBC Bank USA, National Association, or HSBC.

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Risk Factors

You should carefully consider the risks described under **Risk Factors** and other information contained and incorporated by reference in this prospectus before deciding to purchase the PIES. You should also carefully consider the information in the DSW prospectus, including the information described under **Risk Factors** in the DSW prospectus. The DSW prospectus does not constitute a part of our prospectus, nor is it incorporated into our prospectus by reference.

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RISK FACTORS

Investing in our PIES involves a high degree of risk. You should carefully consider the following factors, as well as other information contained in this prospectus, and incorporated by reference in this prospectus before deciding to purchase the PIES. You should also carefully consider the information in the DSW prospectus, including the information described under Risk Factors in the DSW prospectus. If any of the following risks actually occurs, our business, financial condition, operating results or cash flow could suffer materially and adversely. In this case, the trading price of our PIES could decline, and you could lose all or part of your investment.

Safe Harbor Under the Private Securities Litigation Reform Act of 1995

Certain information in the registration statement of which this prospectus is a part, particularly information regarding future economic performance and finances, and plans, expectations and objectives of management, is forward-looking. The following factors, in addition to other possible factors not listed, could affect our actual results and cause such results to differ materially from those expressed in forward-looking statements:

Risk Factors Relating to Our Business

If we are unable to retain current and attract new customers to our Value City business segment, our results of operations, cash flow, financial condition and business could be materially adversely affected.

Our ability to execute our new management's strategy for the Value City segment is necessary to reverse the downward sales trend we have experienced. This strategy includes acquiring the right mix of merchandise in our key fashion areas of women's and men's, acquiring in season merchandise sooner in the season in complete runs (size and color) in recognizable brands and identifying the prevailing fashion trend. Our advertising and marketing efforts to retain and draw new customers will need to be focused on this strategy. The failure to impact the customers we have and draw in new customers may further reduce profitability, which could, in turn, have a material adverse impact on our business, financial condition, cash flow and results of operations.

We may be unable to open all the DSW and Filene's Basement stores contemplated by our growth strategy on a timely basis, and new stores we open may not be profitable or may have an adverse impact on the profitability of existing stores, any of which could have a material adverse effect on our business, financial condition, cash flow and results of operations.

We intend to open approximately 30 DSW stores per year in each fiscal year from 2006 through 2010, and four Filene's Basement stores in fiscal 2006. However, we may not achieve our planned expansion on a timely and profitable basis or achieve results in new locations similar to those achieved in existing locations in prior periods. Our ability to open and operate new DSW and Filene's Basement stores successfully on a timely and profitable basis depends on many factors, including, among others, our ability to:

- identify suitable markets and sites for new store locations;
- negotiate favorable lease terms;
- build-out or refurbish sites on a timely and effective basis;
- obtain sufficient levels of inventory to meet the needs of new stores;
- obtain sufficient financing and capital resources or generate sufficient cash flows from operations to fund growth;
- successfully open new DSW and Filene's Basement stores in regions of the United States in which we currently have few or no stores;
- open new stores at costs not significantly greater than those anticipated;
- control the costs of other capital investments associated with store openings, including, for example, those related to the expansion of distribution facilities;

hire, train and retain qualified managers and store personnel; and

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successfully integrate new stores into our existing infrastructure, operations and management and distribution systems or adapt such infrastructure, operations and systems to accommodate our growth.

As a result, we may be unable to open new stores at the rates expected or at all. If we fail to successfully implement our growth strategy, the opening of new stores could be delayed or prevented, could cost more than anticipated and could divert resources from other areas of our business, any of which could have a material adverse effect on our business, financial condition, cash flow and results of operations.

To the extent that we open new stores in our existing markets, we may experience reduced net sales in existing stores in those markets. As the number of our stores increases, our stores will become more concentrated in the markets we serve. As a result, the number of customers and financial performance of individual stores may decline and the average sales per square foot at our stores may be reduced. This could have a material adverse effect on our business, financial condition, cash flow and results of operations.

We intend to open new DSW stores at an increased rate compared to historical years, and we intend to open new Filene's Basement stores, which could strain our resources and have a material adverse effect on our business and financial performance.

Our continued and future growth in our DSW and Filene's Basement segments largely depends on our ability to successfully open and operate new stores on a profitable basis. We intend to continue to open approximately 30 new DSW stores per year in each fiscal year from fiscal 2006 through 2010, and expect to open four new Filene's Basement Stores in fiscal 2006. As of April 29, 2006, we have signed leases for an additional 20 new DSW stores to be opened in fiscal 2006 and 2007, and three Filene's Basement stores to be opened in fiscal 2006. During fiscal 2005, the average investment required to open a typical new DSW store and Filene's Basement store was approximately \$1.4 million and \$4.0 million, respectively. This continued expansion could place increased demands on our financial, managerial, operational and administrative resources. For example, our planned expansion will require us to increase the number of people we employ, as well as to monitor and upgrade our management information and other systems and our distribution facilities. These increased demands and operating complexities could cause us to operate our business less efficiently, adversely affect our operations and financial performance and slow our growth.

We rely on our good relationships with vendors and their factors which provide vendor financing to purchase brand name and designer merchandise at favorable prices. If these relationships were to be impaired, we may not be able to obtain a sufficient selection of merchandise at attractive prices, and we may not be able to respond promptly to changing fashion trends, either of which could have a material adverse effect on our competitive position, our business and financial performance.

We do not have long-term supply agreements or exclusive arrangements with any vendors (except for greeting cards, bottled drinks and a program for supplying merchandise at the register for our Value City stores), and, therefore, our success depends on maintaining good relations with our vendors in all business segments. Since our business is fundamentally dependent on selling brand name and designer merchandise at attractive prices, we must continue to obtain from our vendors a wide selection of this merchandise at favorable wholesale prices. Our growth strategy depends to a significant extent on the willingness and ability of our vendors to supply us with sufficient inventory to stock our stores, and of their factors to provide them with vendor financing. If we fail to continue to deepen and strengthen our relations with our existing vendors and their factors, or to enhance the quality of merchandise they supply us, and if we cannot maintain or acquire new vendors of in-season brand name and designer merchandise, we may limit our ability to obtain a sufficient amount and variety of merchandise at favorable prices, which could have a negative impact on our competitive position.

During fiscal 2005, taking into account industry consolidation, merchandise supplied to our DSW segment by three key vendors accounted for approximately 22% of DSW's net sales. The loss or reduction in the amount of merchandise made available by any one of these key vendors could have a material adverse effect on our business.

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We may be unable to anticipate and respond to fashion trends and consumer preferences in the markets in which we operate, which could materially adversely affect our business, financial condition, cash flow and results of operations.

Our merchandising strategy is based on identifying each region's customer base and having the proper mix of products in each store across our segments to attract its target customers. This requires us to anticipate and respond to numerous and fluctuating variables in fashion trends and other conditions in the markets in which our stores are situated. A variety of factors will affect our ability to maintain the proper mix of products in each store, including:

variations in local economic conditions, which could affect our customers' discretionary spending;

unanticipated fashion trends;

our success in developing and maintaining vendor relationships that provide us access to in-season merchandise at attractive prices;

our success in distributing merchandise to our stores in an efficient manner; and

changes in weather patterns, which in turn affect consumer preferences.

If we are unable to anticipate and fulfill the merchandise needs of each region, we may experience decreases in our net sales and may be forced to increase markdowns in relation to slow-moving merchandise, either of which could have a material adverse effect on our business, financial condition, cash flow and results of operations.

Our operations are affected by seasonal variability.

Our operations have been historically seasonal, with a disproportionate amount of sales and a majority of net income occurring in the Fall and Christmas selling seasons for Value City and Filene's Basement. DSW net sales have typically been higher in Spring and early Fall. As a result of seasonality, any factors negatively affecting us during these periods, including adverse weather, the timing and level of markdowns or unfavorable economic conditions, could have a material adverse effect on our financial condition, cash flow and results of operations for the entire year.

Our comparable store sales and quarterly financial performance may fluctuate for a variety of reasons in addition to seasonal factors, which could result in a decline in the price of the PIES.

Our business is sensitive to customers' spending patterns, which in turn are subject to prevailing regional and national economic conditions and the general level of economic activity. Our comparable store sales and quarterly results of operations have fluctuated in the past, and we expect them to continue to fluctuate in the future. In addition to seasonal fluctuations, including weather patterns, a variety of other factors affect our comparable store sales and quarterly financial performance, including:

changes in our merchandising strategy;

timing and concentration of new store openings and related pre-opening and other start-up costs;

levels of pre-opening expenses associated with new stores;

changes in our merchandise mix;

changes in and regional variations in demographic and population characteristics;

timing of promotional events;

actions by our competitors; and

general United States economic conditions and, in particular, the retail sales environment.

Accordingly, our results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, and comparable store sales for any particular future period may decrease. In the future, our financial performance may fall below the expectations of securities analysts and investors. In that event, the price of our PIES would likely decline.

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We have debt which could have consequences if we were unable to repay the balances or interest due.

The debt on our balance sheet could, among other things:

limit our flexibility in planning for, or reacting to, changes in our industry in which we operate;

place us at a competitive disadvantage compared to our competitors that have less debt;

limit our ability to seek and borrow additional funds; and

expose us to risks inherent in interest rate fluctuations because some of our borrowings are at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

Our ability to make payments on our indebtedness, including the PIES, and to refinance existing indebtedness and fund planned capital expenditures will depend on our ability to generate cash in the future. This, to some extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot provide assurance that our business will generate sufficient cash flow from operating activities or that future borrowings will be available to us under our credit facility in amounts sufficient to enable us to pay our indebtedness, including our obligations under the PIES, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before maturity. We cannot provide assurance that we would be able to refinance any of our indebtedness on commercially reasonable terms or at all.

Upon the occurrence of an event of default under the instruments governing our indebtedness, the lenders could elect to declare our indebtedness immediately due and payable and terminate all commitments to extend further credit. We cannot be sure that our lenders would waive a default or that we could repay our indebtedness if it were accelerated.

Retail Ventures is a holding company and relies on its subsidiaries to make payments on its indebtedness and meet its obligations.

Retail Ventures is a holding company and all our operations are conducted through our subsidiaries. Therefore, we rely on the cash flow of our subsidiaries to meet our obligations, including obligations under the PIES. The ability of these subsidiaries to distribute to Retail Ventures by way of dividends, distributions, interest or other payments (including intercompany loans) is subject to various restrictions, including restrictions imposed by the facilities governing our and our subsidiaries' indebtedness, and future indebtedness may also limit or prohibit such payments. You will not have any direct claim on the cash flows of the operating subsidiaries of Retail Ventures, and such subsidiaries have no obligation, contingent or otherwise, to pay amounts due in respect of the PIES or to make funds available to Retail Ventures. In addition, the ability of our subsidiaries to make such payments may be limited by relevant provisions of the laws of their respective jurisdictions of organization.

Value City's and DSW's secured revolving credit facilities could limit operational flexibility.

\$275 Million Secured Revolving Credit Facility – The Value City Revolving Loan

Value City has entered into a \$275 million secured revolving credit facility with a term expiring the earlier of July 2009 or the date 91 days prior to the maturity date of the Non-Convertible Loan, which is in June 2009. Under this facility, Retail Ventures and certain of its wholly-owned subsidiaries are named as co-borrowers and/or co-guarantors. This facility is subject to a borrowing base restriction and provides for borrowings at variable interest rates based on the London Interbank Offered Rate, or LIBOR, the prime rate and the Federal Funds effective rate, plus a margin. Value City's obligations under our secured revolving credit facility are secured by a lien on substantially all our personal property and certain leasehold properties of Value City. In addition, the secured revolving credit facility contains usual and customary restrictive covenants relating to our management and the operation of our business. These covenants, among other things, restrict Value City's ability to grant liens on its assets, incur additional indebtedness, open or close stores, pay cash dividends and make other distributions to us in excess of \$5.0 million in the aggregate, enter into transactions with affiliates and merge or consolidate with another entity. These covenants could restrict Value City's operational flexibility, and any failure to comply with these covenants or Value City's payment

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obligations would limit Value City's ability to borrow under the secured revolving credit facility and, in certain circumstances, may allow the lenders thereunder to require repayment. In addition to the borrowing base restrictions, 10% of the facility is deemed an excess reserve and is not available for borrowing.

\$150 Million Secured Revolving Credit Facility – The DSW Revolving Loan

DSW has entered into a \$150 million secured revolving credit facility with a term expiring July 2010. Under this facility, DSW and DSWSW are named as co-borrowers. This facility is subject to 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. DSW's and DSWSW's obligations under this secured revolving credit facility are secured by a lien on substantially all of their personal property and a pledge of all of DSW's shares of DSWSW. In addition, the secured revolving credit facility contains usual and customary restrictive covenants relating to the management and the operation of DSW's business. These covenants, among other things, restrict DSW's ability to grant liens on DSW's assets, incur additional indebtedness, open or close stores, pay cash dividends and make other distributions to us in excess of \$5.0 million in the aggregate, redeem DSW's stock, transfer its or DSWSW's assets to us, enter into transactions with affiliates and merge or consolidate with another entity. In addition, if at any time DSW utilizes over 90% of DSW's borrowing capacity under the facility, DSW must comply with a fixed charge coverage ratio test set forth in the facility documents. These covenants could restrict DSW's operational flexibility, and any failure to comply with these covenants or DSW's payment obligations would limit DSW's ability to borrow under the secured revolving credit facility and, in certain circumstances, may allow the lenders thereunder to require repayment.

Our failure to retain our existing senior management team and to continue to attract qualified new personnel could materially adversely affect our business.

Our business requires disciplined execution at all levels of our organization to ensure that we continually have sufficient inventories of assorted brand name merchandise at below traditional retail prices. This execution requires an experienced and talented management team. If we were to lose the benefit of the experience, efforts and abilities of any of our key executive and buying personnel, our business could be materially adversely affected. We have entered into employment agreements with certain of these officers. Furthermore, our ability to manage our retail expansion will require us to continue to train, motivate and manage our employees and to attract, motivate and retain additional qualified managerial and merchandising personnel. Competition for these personnel is intense, and we may not be successful in attracting, assimilating and retaining the personnel required to grow and operate profitably.

We may be unable to compete favorably in our highly competitive markets.

The off-price retail, department store and retail footwear markets are highly competitive with few barriers to entry. We compete against a diverse group of retailers, both small and large, including locally owned, regional and national department stores, specialty retailers, discount chains and off-price retailers. Some of our competitors are larger and have substantially greater resources than we do. Our success depends on our ability to remain competitive with respect to style, price, brand availability and customer service. The performance of our competitors, as well as a change in their pricing policies, marketing activities and other business strategies, could have a material adverse effect on our business, financial condition, cash flow, results of operations and our market share.

We are controlled indirectly by Schottenstein Stores Corporation, whose interests may differ from our other shareholders.

As of April 29, 2006, SSC owned approximately 42.8% of the outstanding shares of Retail Ventures and beneficially owned approximately 53.6% (assumes issuance of (i) 8,333,333 Retail Ventures common shares issuable upon the exercise of convertible warrants, (ii) 1,594,377 Retail Ventures common shares issuable upon the exercise of term loan warrants, and (iii) up to 479,792 Retail Ventures common shares issuable pursuant to the anti-dilution provisions of the term loan warrants) of the outstanding shares of Retail Ventures. SSC, a privately held corporation, is controlled by Jay L. Schottenstein, the Chairman of our Board of Directors, and members of his immediate family. Given its ownership interests, SSC will be able to control

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or substantially influence the outcome of all matters submitted to our shareholders for approval, including, the election of directors, mergers or other business combinations, and acquisitions or dispositions of assets. The interests of SSC may differ from or be opposed to the interests of our other shareholders, and its control may have the effect of delaying or preventing a change in control that may be favored by other shareholders.

SSC and/or its affiliates may compete directly against us.

Corporate opportunities may arise in the area of potential competitive business activities that may be attractive to SSC and us in the area of employee recruiting and retention. Any competition could intensify if SSC acquired a business that carried an assortment of shoes or merchandise in these stores similar to those found in our stores, targeted customers similar to ours or adopted a similar business model or strategy for its shoe businesses. Given that Retail Ventures and DSW are not wholly-owned, SSC may be inclined to direct relevant corporate opportunities to its other affiliates rather than us.

SSC is under no obligation to communicate or offer any corporate opportunity to us. In addition, SSC has the right to engage in similar activities as us, do business with our suppliers and customers and employ or otherwise engage any of our officers or employees. SSC and its affiliates engage in a variety of businesses, including, but not limited to, business and inventory liquidations, real estate management and real estate acquisitions.

A decline in general economic conditions, or the outbreak or escalation of war or terrorist acts, could lead to reduced consumer demand for our merchandise.

Consumer spending habits, including spending for the merchandise that we sell, are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, prevailing interest rates, income tax rates and policies, consumer confidence and consumer perception of economic conditions. In addition, consumer purchasing patterns may be influenced by consumers' disposable income. A general slowdown in the U.S. economy or an uncertain economic outlook could adversely affect consumer spending habits.

Consumer confidence is also affected by the domestic and international political situation. The outbreak or escalation of war, or the occurrence of terrorist acts or other hostilities in or affecting the United States, could lead to a decrease in spending by consumers. In the event of an economic slowdown, we could experience lower net sales than expected on a quarterly or annual basis and be forced to delay or slow our retail expansion plans.

We rely on foreign sources for our merchandise, and our business is therefore subject to risks associated with international trade.

We purchase merchandise from domestic and foreign vendors. In addition, many of our domestic vendors import a large portion of their merchandise from abroad. For this reason, we face risks inherent in purchasing from foreign suppliers, such as:

economic and political instability in countries where these suppliers are located;

international hostilities or acts of war or terrorism affecting the United States or foreign countries from which our merchandise is sourced;

increases in shipping costs;

transportation delays and interruptions, including as a result of increased inspections of import shipments by domestic authorities;

work stoppages;

adverse fluctuations in currency exchange rates;

laws of the United States affecting the importation of goods, including duties, tariffs and quotas and other non-tariff barriers;

expropriation or nationalization;

changes in local government administration and governmental policies;

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changes in import duties or quotas;

compliance with trade and foreign tax laws; and

local business practices, including compliance with local laws and with domestic and international labor standards.

We require our vendors to operate in compliance with applicable laws and regulations and our internal requirements. However, we do not control our vendors or their labor and business practices. The violation of labor or other laws by one of our vendors could have a material adverse effect on our business.

DSW and Filene's Basement each rely on a single distribution center. The loss or disruption of either of these centralized distribution centers could have a material adverse effect on our business and operations.

Most of DSW's inventory is shipped directly from suppliers to a single centralized distribution center in Columbus, Ohio, where the inventory is then processed, sorted and shipped to one of 12 pool locations located throughout the country and then on to DSW stores. Inventory for Filene's Basement stores is processed and shipped from a single distribution facility in Auburn, Massachusetts. Our operating results depend on the orderly operation of our receiving and distribution process, which in turn depends on third-party vendors' adherence to shipping schedules and our effective management of our distribution facilities. We may not anticipate all the changing demands that our expanding operations in these two segments will impose on our receiving and distribution systems, and events beyond our control, such as disruptions in operations due to fire or other catastrophic events, labor disagreements or shipping problems, may result in delays in the delivery of merchandise to our stores.

While we maintain business interruption and property insurance, in the event a distribution center were to be shut down for any reason or if we were to incur higher costs and longer lead times in connection with a disruption at a distribution center, our insurance may not be sufficient, and insurance proceeds may not be timely paid to us.

We will require strong cash flows from our operations to support capital expansion, operations and debt repayment.

In order to fully implement our strategy for our Value City segment, as well as implement our expansion strategy for both the Filene's Basement and DSW segments, we will require strong cash flows from operations to support our capital expansion requirements, our general operating activities and to fund debt repayment and the availability of financing sources. Our inability to generate sufficient cash flows to support these activities or the lack of availability of financing in adequate amounts and on appropriate terms could adversely affect our financial performance.

If we fail to execute our opportunistic buying and inventory management well, our business could be materially adversely affected.

We purchase some of the inventory for our Value City and Filene's Basement stores opportunistically with our buyers purchasing close to need. To drive traffic to the stores and to increase same store sales, the treasure hunt nature of the off-price buying experience requires continued replenishment of fresh high quality, attractively priced merchandise. While the practice of opportunistic buying enables our buyers to buy at the right time and price, in the quantities we need and into market trends, it places considerable discretion in our buyers. This discretion subjects us to risks that our buyers will miscalculate on the timing, quantity and nature of inventory flowing to the stores. We rely on our distribution infrastructure to support delivering goods to our stores on time. We must effectively and timely distribute inventory to stores, maintain an appropriate mix and level of inventory and effectively manage pricing and markdowns. Failure to acquire and manage our inventory well and to operate our distribution infrastructure effectively could materially adversely affect our performance and our relationship with our customers.

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If we do not attract and retain quality sales, distribution center and other associates in sufficient numbers as well as experienced buying and management personnel, our performance could be materially adversely affected.