

**RETAIL VENTURES INC. TELECONFERENCE**  
**4/13/2006 – 5:00 P. M. EASTERN TIME**

**OPERATOR:** Good morning. Welcome to the Retail Ventures year-end operating results call. As a reminder all lines will be on listen only mode and we will conduct a question and answer session at the end of the call. If you need technical assistance during the call please press star, zero to speak to an operator. At this time I'd like to turn the call over to Jim McGrady so we may begin, Jim.

**JIM MCGRADY:** Thank you, Peg. Good morning everybody. With us on the phone is Heywood Wilansky our CEO. Before proceeding, as always, I would like to restate with you the company's policy with respect to forward looking information pursuant to the Private Securities Litigation Reform Act of 1995. Statements made in the course of this call that are not purely historical such as statements regarding the company or management's intentions, expectations or projections of the future are forward looking statements. Our actual results could materially differ from those forward-looking statements. [Unintelligible] such differences include but are not limited to the risk factors that are discussed in the company's annual report on form 10K and the other reports filed from time to time by the company and its subsidiaries with the Securities and Exchange Commission. Any forward make, looking statements made during this call are based upon information presently available to the company and the company assumes no obligation to update any such forward-looking statements.

All of that being said good morning and today as everybody knows we announced a fourth quarter net loss of \$40.7 million per share compared to the net loss last year of \$16.9 million or 50 cents a share. During the fiscal year we were reporting a net loss of \$113.5 million and the prior year we had a net loss of \$19.4 million. The loss per share for each respective period is \$2.94 and 57 cents. The fourth quarter and year to date periods include non-cash accounting expense of \$43.2 million and \$74.3 million respectively related to the modification issue and [unintelligible] warrants. Remember no tax benefit has been recognized in connection with these charges in any of the periods presented. And this charge is

reported in the Value City segment. Adjusting for that the effect is in the fourth quarter that charge was about \$1.09 per share and on an annual basis that charge was \$1.92 a share. The total sales for the fourth quarter increased \$58.6 million or about 7.7% to \$820.5 million. Comp stores sales for the quarter increased 4.1%. That was comprised of a tenth of a percent increase at Value City and 11.3% increase at DSW and Filenes Basement improved by 7.8%. Value City's comp quarterly sales decreased in the non-apparel and hard lines business by 12.9% and increased in apparel by 4.4%. The apparel categories of men's and ladies had increases of 5.3% and 6.4% respectively while children's showed a slight decline of eight-tenths of a percent. Jewelry and shoes increased over the comparable period by 16.8% and 4.9% respectively. DSW sales were \$283.8 million, which is a 22.5% increase in the quarter, which includes a net increase of 29 stores, 11 non-affiliated leased shoe departments and one Filenes Basement leased shoe department. The merchandise categories of men's and women's had increases of 9.5 and 15.9% respectively. These results also include the recategorization of two DSW and Filenes Basement combo stores. Filenes Basement had a sales increase of 9.5% in the quarter, which includes the net increase of one store. The merchandise categories of men's, ladies and children had comp sales increases of 11.1%, 10.8% and 22.5% respectively. Jewelry had an increase of 6.1%, which was driven by watches and costume jewelry while our home goods increased by 3.6% at Filenes Basement. The total growth profit in the fourth quarter increased \$20.3 million. In the fourth quarter gross profit as the percentage of sales decreased 10 basis points to 36.3%. The decline in gross profit is comprised of decreases in the Value City and DSW segments. Gross profit as a percent of sales by, by each of our operating divisions in the quarter was at Value City 33.2%, DSW 41.7% at Filenes Basement 34.2%.

The Value City gross profit decreased \$5.2 million from the comparable quarter of 2004 and is [unintelligible] lower IMU as a result of the planship [phonetic] and strategy towards more brand name and better assortments at compelling prices. We also had some slightly higher markdowns in the quarter, which was related to some clearance merchandise compared to the prior year's quarter. At DSW our gross profit increased \$19 million during the quarter. The decrease in the rate as a percent of sales is

primary attributable to increased markdowns in all categories. This was offset to some extent by an increase in the IMU at DSW. Filenes Basement gross profit increased \$6.5 million, which is attributed to one new store and a reduction in markdowns. Our total SG and A expenses for the quarter decreased \$22.6 million and as a percent of sales decreased to 39 point, decreased from 39.1% to 33.6%. For the year-to-date period SG and A increased \$34.5 million, which is approximately 38.1% of sales, which is compared to 39.3% for the prior year. The 29 new DSW stores and 11 new non-affiliated leased shoe departments added approximately 18.9 million and \$800,000 to our SG and A expenses during the year and the 1 new Filenes Basement store added approximately \$2.3 million.

Also you might recall earlier this year DSW recorded a 6.5 million dollar charge related to the theft of credit card and other purchase information from some of their customers. Value City had a decrease in SGA, SG and A as its percent of sales is primarily are the result of the fixed cost that we've leveraged in occupancy and salaries against the current period sales. By division SG and A as a percent to sales was Value City 32.1%, DSW 35.9%, and Filenes Basement 35.3%. If we take a look at our operating profit and loss by segment as reported for the quarter Value City was a negative \$37.1 million. If we adjust for the fourth quarter charge for the warrants you would see that the Value City actually had an operating profit of \$6.1 million. DSW had an operating profit of 16.7 million and Filenes Basement was 1.3 million. If we take a look at the same numbers for the year-to-date period Value City had reported a loss of 126.4 million adjusting for the warrants on an annual basis that loss would have been 52.2 million. And DSW had an operating profit of 70.1 million and Filenes Basement had an operating loss of \$10.7 million.

Moving forward our net interest expense for the quarter decreased \$6.4 million. And this decrease is primarily due to a result of about \$178.5 million in average borrowings during the quarter compared to the prior year and a decrease in the weighted average borrowing rate of approximately 1.6%. For the fiscal net, net interest decreased by \$12.5 million. And this is primarily due to a decrease of about \$124.4

million in average borrowings during the year and it was offset by a slight increase in the overall weighted average borrowings for the year of about .28%.

As we turn to our balance sheet you'll see an inventory totaled \$491.9 million at the end of the year versus 473.1 million at the end of last year. This is an increase of approximately 4%. The total increase includes approximately \$18.1 million through the new, 29 new DSW stores, 1.2 million for the new leased departments and 1.1 million for the new Filenes Basement store. Our net working capital at the end of the year was \$263.7 million compared to 233.6 million in the prior year. Our current ratios were 1.5 and 1.7 respectively. Adjusting for the warrant liability and the current liabilities the working capital would have been 355.4 million with a current ratio of 1.9 million. Net cash U's [phonetic] for capital expenditures was approximately \$46.5 million during the year. And depreciation and amortization totaled approximately 58.9 million. Capital expenditures including non-cash additions included \$12 million for new stores, \$20.2 million for improvements in existing stores, \$4.6 million for office and warehousing and \$11.6 million for information technology and upgrade, upgrades and new systems. [Unintelligible] fourth quarter was negative \$5.5 million, again adjusting for the warrant liability charge that went through there it would have been \$37.3 million and the year would have been 60.8 million. At the end of the year our consolidated availability under our credit facilities was \$199.9 million. Presently our availability is \$235 million, which is comprised of \$94 million under the RVI revolver and \$141 million for, for DSW.

That concludes the look at the, the quarter and some of the year-to-date results. As we take a look forward at 2006 we are confirming our previous estimates that we believe that comp store sales at Value City's and Filenes Basement will be in the low single digit range and we do expect to see a margin improvement in both of those divisions of approximately 50 basis points. We also expect to see leverage from our sales improvements and expense reductions that we are implementing and have established throughout the prior year during all, through all the organizations. We also would expect to see Value City's SG and A to decline somewhere in the 75 to 100 basis point range and be flat with a small

improvement at Filenes Basement. The operating profit for Value City and Filenes Basement on a combined basis is still, as we said before, is expected somewhere near a negative to positive 1% of sales. I really won't go any further than that at this point in time because it's very hard to make an estimation of the change of the value of the warrants, which also is very much influences our effective tax rate throughout the year. That really concludes the summary of the financial look. And at this time I'd like to turn the call over to Heywood for some operations and other insight.

**HEYWOOD WILANSKY:** Thank you, Jim. Good morning everyone. Really I, I just made a few notes that I thought I'd kind of just walk through. And first and foremost the good news is, I guess, is that we're going to continue with the strategies that we've implemented over the course of 2005 as we've made significant progress and that is first and foremost on Filenes Basement part to continue to position the company as the high-end off price player. And the second piece is to continue to move Value City into more of the low mid tier players away from where they have previously traded down more at the bottom Wal-Mart level. So I'm not going to spend a lot of time talking about 2005 we all, we all, we all know the results. I really want to talk, spend time talking about 2006 and what's happening so far this year.

Jim has talked about the fact that he expected the small single digit comps from both Filenes Basement and Value City for 2006. I would tell you that for this season to date so far we're well within that range and things look positive from a comp perspective from both companies. Value City, which of course is the, the biggest issue to continue to fix and evolve, has had particular success ever since we started upgrading their apparel businesses. And if you look at the ladies business for Value City for the season to date so far they're comping at a high single to low double-digit increases. The men's business, which was a little slower to take hold as we changed the strategy, is also comping in a similar fashion at the high single digit to low double-digit basis. Ladies accessories that we worked on pretty early in our, in our change in strategy continues to comp at a very healthy high double-digit increase and continues to show

no signs of slowing down. The businesses that we're struggling with at this point in time currently intimate apparel is not performing up to expectations and that is one that we had expected would be better already. And in the children's world we knew we had issues and problems and it looks to me like the children's business won't be on the right trend until probably June of this year. Totally soft lines is comping at the mid to high single digit comp in total. And, and that's a very positive sign as we continue to change the inventory out, to spend more of our time on upfront purchases with full sizes and colors and current fashion. And the consumer really seems to be responding to it in spite of the fact that some of the prices are higher than they had been in the past.

We had spent a lot of time talking about home furnishings and the businesses that we had exited. As of August 1<sup>st</sup> of last year we exited as much as \$60 million worth of home furnishings, HPA, food, drugstore buyout businesses. And that, as I said before, we continue to show strong negative comps in home until we anniversaried that around August 1<sup>st</sup> of 2006. The good news is, is that in the domestics and in the housewares businesses we're running comps again in that mid single digit trend already when we take out the businesses that we've given up. Home in total actually is running, without the businesses we've given up, comps equal to or better than the total company at this point in time. So that's a very positive, positive move. The other business that has really shown great growth is in the seasonal business such as summer furniture where we were able to get out in front of it with direct imports to change the fashionability, to get more current price points are up a little and the business is up high double digits at this point in time. So as, as all of those businesses changes continue to tell me that we're on the right track with Value City, that the consumer will respond to the changes, and at the same time the margins there will continue to grow. And I think Jim's estimate of 50 basis points for the year is, is, is fairly comfortable it might even be a little conservative. The other business that it continues to show positive trends based upon the change in strategy is footwear and footwear is also comping in that mid single digit range already as we continue to evolve those businesses. The jewelry business is a little tougher, more in the, in the flat range and we're working on examining what is causing that particular problem there.

Staying with Value City the, the other things that we have talked about in the past but I want to reemphasize is we have changed out the team in Value City at a significant, significant proportion of our senior management there and that we've been working on this change out in strategy for about 15 months or so. Most recently, in January of this year we changed out the leadership in the home store, which has given me a lot of confidence and we're able to move that business faster. Paul Davies has joined us in January. Paul was the former President of Wachama [phonetic] and Garden Ridge, had spent time running home businesses at May Company, was most recently the President of a, of a small manufacturing home business as well. In a short period of time he has really helped to get the home business structured similarly to how we see the, the soft lines business with about 50 or 60% of the business done in an upfront, replenishable, in stock perspective and the other 35 or 40% for opportunistic deals and opportunities. Don Stanavich [phonetic] has also joined Paul. Don runs the housewares business now. Don ran the housewares business for all the federated department stores and has a, a ton of experience and background there. And he is also working with us and he is, he and Paul both have made tremendous contributions in a very small period of time. And previously I had said that I didn't think we would show positive trends in home until August of this year it won't be later than that, might be sooner. Things are, things are looking very positive in the, in the home world. As a reminder, actually, one other thing. We've also restructured the home a little bit and carved out what we're going to call the deal acquisition piece of the business and we've put Brady Churches [phonetic] who formerly ran home and is very astute at deal making, along with Josh Greenberg [phonetic] to create a deal division. And they're working 24/7 just on deals segmenting this away from the normal buying population to let the buying population focus on in-stock, current, fashionable products with full sizes, color and, and current inventory really takes the distraction, to some degree, out of their hands. These deals typically take an awful lot of time and attention chasing them down. Brady's an expert at that. And so we're able to segment that and I think that's going to help us in the long run get a much better performance out of the home business on a day-in, day-out basis.

Just a reminder of some of the major changes we've made in this short period of time. We have a new President there and Jerry Politzer has been there about a year. Susan Whiner [phonetic] is the head of marketing. She has been there less than a year. Susan was the head of marketing for KB Toys, Linens and Things, Marshall's and for some May Company divisions. We have a new head of stores, Rick Walker. He's been the head of stores for approximately six months. He's made major changes in the quality of the people that were working in the stores and the execution and standards that are out there. Those of you who have visited our stores have commented back to me that they, you can't believe the change out and what the stores look like. And Rick and his team have made a major contribution to that. We've added Glen Trunley. Glen is in charge of visual. He's been there, again, less than a year. Glen did visual for Burberrys and it may seem strange he's going to go from high-end couture to ours but he's made a fabulous adjustment. He's made a big difference in how the stores look and how we communicate in store to the consumer. We've added Beth Fair [phonetic] to run ladies apparel. And ladies apparel since last June or so was probably running close to a double digit increase based upon her leadership, what she's provided there. We've added Lance Itkoff to run men's. Beth ran feminine apparel at Bon Ton. Lance Itkoff ran men's apparel at Bon Ton. Lance, again as I said, home, men's businesses are trending in the high single to low double-digit trend for the season to date. And Lance made a big difference in that. And most importantly we've also added Mary Ellen Barnard [phonetic]. Mary Ellen was previously the President and CEO of Frederick Atkins [phonetic] and was the EVP of merchandising for Leann Fung [phonetic], which is the largest Asian sourcer for private brand businesses overseas. And Mary Ellen is in charge of our private brand business and has done a miraculous job. In 2004 in soft lines our private label business was less than \$5 million. In 2005 our private label business, as Mary Ellen got started about a year ago, got into the \$20 million range. In 2006 we are going to do between 50 and \$60 million in private label. And in 2007 it's going to be well over \$100 million. Those businesses, in addition to having full sizes and colors in current fashion provide us some significant margin opportunity. So over the course of 2006 and 2007 we should see some significant margin

improvement in these areas. And at the same time this has nothing to do with the home business, which does a fair amount of importing themselves and the current thought process is to continue that and perhaps expand that to avail us of additional margin opportunities but to do it on a, on a program basis versus a one time deal basis, which will give us much better consistency and in-stock position.

From a marketing strategy at Value City we talked about the fact last year that we had always done an insert program on Sundays. We added some television on the, towards the end of the week to support that. That is continuing and it really seems to, to show a pop with the weekend TV business. Our businesses on the weekends have been quite good and we think some of that, or a lot of that has to do with the impact of the TV that we're running. For the spring season I think we're running 11 flights of TV against 1 and we intend to anniversary the TV efforts we made from fall of 2005. It's expensive and marketing will probably be in the 5.5% range of sales for 2006. We said that we knew we were overspending but we needed to do that to continue to brand the company out to the consumer and we expect that that will happen throughout the end of 2006. And we expect that in 2007 and beyond we can pull that back into a more normalized range of perhaps 4 or 4.5% of sales.

At Filenes Basement, as I said, the business just like Value City is in that, that, you know, certainly that low to mid single digit comp increases and things are, are working well there. We changed their strategy over three years ago. It continues to evolve to be the high-end off price player that continues to be happening. And if you look at their businesses their men's businesses are up in the mid to high single digits. The ladies business are in the mid single digits. The accessories businesses are in the mid single digits. The kids businesses actually are quite good and higher than that. And the home business actually is about flat along with some of the other businesses. Footwear continues to be a positive in both companies, Filenes Basement and Value City, and again mid to high single digit increases in footwear.

The one thing we talked about in the past was that we were going to reduce our investments in some of

the European designer retail stock buyouts and increase our investments in the European production runs where you get full sizes and colors. And what's happened, if you look at this season as we, as we continue to execute that strategy is we actually have less inventory invested in the European retail stock business and we're doing more business in retail stock because of the change out, actually we're about double digits ahead with about 25 or 30% less inventory invested in those businesses. As the production merchandise turns much better and much more profitably than some of the retail stock buyouts that we had done in the past.

In terms of expanding the company, Filenes Basement talked about opening up five new stores in 2006. I guess we keep talking about maybe it's four to six, we picked five as the mid zone. We've announced one new store and it's a very important new store so far for 2006 and that is in downtown Boston. It actually will have entrances on both Boylston [phonetic] Street and Newbury [phonetic] Street just off of Arlington in the middle of the high-end back bay shopping district and is a major step forward for the company to kind of position ourselves in the environments where high-end off price really will work. The store is going to be a little bit over 38,000 square feet and we expect it to be a significant contributor to our sales line once it opens. We have not announced the exact locations of the other stores as those leases are in the very last stages prior to be signing. But we know that we have an additional four to five deals on the table that are about to be signed that will get us to around five stores for 2004, for 2006. In addition to that we've already working on three to four deals to 2007. Some of them are quite significant in terms of the locations and markets they're in, again, following the strategy of trying to be in the big markets with good size stores in high-end areas.

Gross margin, as we said, Filenes Basement has had a very good reaction to some of the inventory controls we put in place there to reduce the markdown reliance and actually they are showing significant margin improvement for the first quarter and we hope that will continue for the rest of the way.

The last thing I really want to talk about is something we tried in Value City that has had unique results. We made a big effort to try to increase the credit card base of Value City to get that loyal customer to come back. And, as you know, the Value City customer over the previous 5 to 10 years have kind of evolved into the, the low end of the socioeconomic platform. By moving our product up we were trying to attract a different consumer who was probably more credit worthy, so to speak. And we were able to increase our credit card availability of active credit cards from last year at this time around 350,000 active accounts to this year over 500,000 active accounts. And that's very impressive but that's just the beginning of the story. The second thing that we did is we created a, a membership club at Value City called Club V. Last year really we started up late in the year, and it offers some soft and some real incentives for the consumer to sign up. It gives us an opportunity to speak to the consumer with some regularity. And also being a member of the club increases loyalty, frequency of shopping, our size of the market basket has gone up considerably when we look at what these folks are buying versus the average. We started late fall of last year. We currently have signed up over 800,000 members. We will expect to be over 1 million members by this fall. And we market to those people every quarter plus on their birthday so that's at least five mailings a year to, to these folks. And we're hoping to get e-mail information and other information and we'll certainly communicate that way as well. Significant, significant reaction to this available club and we think that over time that'll become our major marketing effort as we reduce our reliance on some of the other things that we're doing, such as TV, which is expensive and convert that into loyalty club membership or reaction, a lower cost better reaction.

And with that, Jim, I would open the call up for any questions that people might have.

**JIM MCGRADY:** All right. Thank you. Peg, would you please open up the lines for us? Peg?

**OPERATOR:** Yes, sorry about that. At this time I'd like to open up the call for questions. If you'd like to ask a question, please press zero, one on your keypad. All right. We have our first question. It is from

Adam Kamora [phonetic]. Go ahead Adam.

**ADAM KAMORA:** Yes, thanks a lot. First of all I'd just to say it's, it's nice to hear that it sounds like things are on the right track on a lot of different fronts. I had a couple of questions. The first is you've given us a, a yearly EBIT [phonetic] target of minus one to plus one at, at the Value City and Filenes combined, how does that progress quarterly? Should, should every quarter be around break even or do we see more of the gains in, in the margin of the back half? If you could just explain that that would be helpful.

**JIM MCGRADY:** I see, you'll see some improvement here in the first and second quarters but a good piece of it will come towards the, the back half of the year when we actually have the opportunity, as Heywood said, to get some more focus and attention and emphasis on, on the hard lines, the home and the domestic areas and see those grow. And so that's really when it's going to be. You'll, the third and fourth quarter are really going to be the quarters that you'll see the, the biggest changes in.

**ADAM KAMORA:** Okay. Are there any other major cost initiatives that we're rolling through this year such that '07, you know, we, it sounds like, you know, you're doing something very interesting on the private label business so we should certainly get a margin lift, all else being equal '07 to '06 from that. But are there any other significant SG and A or other cost initiatives that you might be doing throughout '06 so that we could get, you know, another margin pump as we look into '07?

**JIM MCGRADY:** Actually we have about the back half of 2005 we actually changed our, our medical plan and that's really started to pay off for us. We actually upgraded the plan with a little different cost structure to the associates and then it seems to have, our associates have responded very well to the program and to the, to the increment in cost. So that, that looks good for us as we go through 2006. And beyond. We also in early February got our JDA inventory management system implemented, kicked off

and we're going to start to see benefits from that throughout the year as we get better visibility to our, our, our history, better visibility to our planning and our allocation process in the, in the Value City segment of the businesses Adam so. Yeah we've, we've, we've had a couple of things. We've actually challenged our executive group for cost savings and continue to do so throughout 2006. But, you know, I think we've, we've put some, put these numbers in our estimates and our, it's really hard to estimate that JDA, you know, when, when that's going to kick in because you obviously have to have a pretty solid history to start to, start to do a lot of these, you know, more sophisticated models and things like that. But as we get that more and more developed, more history developed we're going to see better and better benefits out of that throughout the year.

**HEYWOOD WILANSKY:** You know, Adam on, on, on the straight margin side as opposed to Jim's SG and A side at Value City you'll see increased margin based upon the reduction in some of the drugstore buyouts that look good at the first 30 or 40% of the deal that you sold and got killed in the last 60%, which is eliminated starting August 1<sup>st</sup> of 2006 we anniversary that. And also on the Filenes Basement side the, the margins in assorted European retail stock buyouts were quite tough. We've shifted inventory investment into more of production versus assorted buyout and that will also yield some margin improvement for them as well.

**ADAM KAMORA:** Okay. And just on the JDA side should we expect you guys to be able to start generating some cash out of working capital? Is that, is that sort of, and along those lines on the cash flow section what, what are we expecting for cap backs in 2006?

**JIM MCGRADY:** I actually think that cap backs is probably going to come in somewhere in the neighborhood of where it did in '05. I actually think that, that it has the potential and that's, that's overall that includes DSW. I would think that the Value City organization will probably spend a little bit less than it did in the prior year, which was about \$27.7 million for cap backs. I think that it'll probably come

in slightly lower than that. And I think that Filenes Basement will be a little bit lower than what it is based upon our expectation of store openings and everything like that it's really hard to estimate that when, when that timing's going to come through, at what part of the year. But I would say that they're probably going to be in the same range that they are.

**ADAM KAMORA:** Okay. Terrific. I'll let somebody else and then I'll get back in the cue.

**JIM MCGRADY:** Okay.

**OPERATOR:** All right. Our next question is from David Mann [phonetic], go ahead David.

**DAVID MANN:** Yes, good morning. Let me add, my, my comments that these trends were encouraging. First of all Jim, if you could talk a little bit in terms of the SG and A line at Value City. It looks like you, you took some, some heavy cost cuts there. Can you just elaborate on what's going, you know, where, where you made some of those cuts and if they are any one time items in there that we need to know about?

**JIM MCGRADY:** Actually the, the biggest benefit that we, we've seen in our SG and A line is we have continually for the past two years, and we're starting to see it pay off as we get into 2006, challenged our self on the, the number of people that we have in our backroom operations, the efficiencies of those operations and things like that. One of the, one of the major changes that we've made this year was in our, our store, store operation groups, David. We actually reorganized our, our receiving function in the backroom and took a real, real hard look at the number of associates that were working in our stores. And we took a pretty good, pretty good, pretty good cut there and really were able to maintain the same operational standards and customer service that we've had in the past. Actually I think we improved it a little bit with the reduction in the number of associates at, at the stores. We've also continually

challenged our self here at the corporate officers trying to reduce that, that overhead. We're taking a look at where we can get inefficiencies from, you know, combining contracts and doing combined bids for, you know, things like that, office supplies, et cetera. So it's, it's really just been, nothing's been untouched but really the biggest benefit has come from the, the workforce reductions that we've, we've seen throughout the past couple of years.

**DAVID MANN:** And, and given that the, it looks like the bulk of these cuts were in the fourth quarter, should we or should we consider that in '06 SG and A could be down on an absolute basis in terms of absolute dollars at Value City?

**JIM MCGRADY:** I would actually look for it to be if not slightly down, flat.

**DAVID MANN:** Okay. On another line of questions the store portfolio can, can you give a sense on how the portfolio at Value City is performing in terms of, you know, some of the different markets? Is the new merchandising strategy adhering in all of the markets? And also as a group, you know, are there any four-wall money losers that you need to address or that you think might need to be addressed over the course of the next year?

**JIM MCGRADY:** Well actually from a four wall perspective I, I would say that the stores are all in a, in a positive position. Through fiscal 2005 I would say that we, and I'm talking about Value City here, stores are all on a positive position. There are some where we have made some pretty significant management changes to try and increase that four-wall profitability as, as we've taken a real hard look at it. And I think Heywood might want to speak to the, to the market sensitivity of the merchandise mix that's out there. But really I think overall what we're seeing is, is that in each market there has been an acceptance to the new merchandising presentation that's out there. Some maybe not as strong as others, some we need to get a little more information that hopefully maybe our JDA system will give us some

insight to as to, you know, what, what the customer really is looking for at that store. So we're, we're taking, we have challenged our self each, each individual store not, not actually even by market. But, you know, obviously we have certain, certain markets where we have just one or two stores that we, it's, it's not, it's not as easy to spread, you know, our marketing costs across those as what it is where markets where we have five or six to seven stores in them. So we, we try to give credit and where we can for those things. But I think really, you know, overall I would have to say that the, the stores came in about, you know, where we thought they were as far as a performance base.

**HEYWOOD WILANSKY:** Dave, David from a market point of view the, the, there's no market that's really doing really poorly at this point in time; however, the best markets that have, that have reacted the best with this season, Atlanta, Baltimore, central PA, Cincinnati, Cleveland, Eerie PA, New Jersey, Louisville, Washington D.C., Virginia Beach, northeast Ohio, Philadelphia area, Pittsburgh, and St. Louis. Those markets have been the most positive. And, you know, so you try to see if there's something peculiar about that mix like are they all south, are they all north, are they, you know. And there really isn't, which actually I think is the best news is that it's eclectic and therefore it says that on a broad brush it seems like most of the markets unrelated to size to, to type to some degree almost and economics seem to reacting positively.

**DAVID MANN:** And now some of the markets I guess that you, you didn't mention are more in the heartland or the Midwest. I mean is there something going on there that you think, like, you know, perhaps associate with some of the travails of the auto business that might be—

**HEYWOOD WILANSKY:** Well if you look at, if you look at West Virginia less good, if you look at Toledo and western Ohio less good, you know, and, and you look at Detroit less good, you know. So I think that you could say that... And Indianapolis less good. That those markets, you know, maybe if being effected, I think twofold, one by the economics of the particular market. But also I think partly,

you know, it's, it's, been a, it's been a rather weird spring season from a, from a climate point of view and maybe these markets have been more impacted than others by the, by the lack of seasonal change in March where it, where it stayed, you know, pretty unseasonable.

**DAVID MANN:** So just to summarize when you look at your store portfolio it doesn't sound like you have any need in your mind to make any major investment in the, in the stores or any additional investment towards relocating stores or closing stores.

**HEYWOOD WILANSKY:** No I don't agree with that. You know, in 2005 we spent about \$2.5 million on upgraded fixturing to try to begin to show the consumer how the products would look in a better environment, at least from a loose fixture point of view. That included four-ways, moveable walls, three tiered tables, accessory fixturing, things of that nature. And I guess these year we're, we're targeted to spend, you know, a little less than that maybe a million and a half bucks as we're trying to, you know, keep control of the capital outlay while we see the reaction from the consumer. But if you, but if you wanted to be an all in, fix up the store from a fixture point of view you're still talking about, you know, a \$10 million investment and we're not prepared to make that until we get further down the line.

**DAVID MANN:** Okay. Thank you.

**OPERATOR:** Okay our next question is from Sam Kidston [phonetic], go ahead Sam.

**SAM KIDSTON:** Yeah hi guys, sorry, hi. You guys have talked a lot about the improvement by category at Value City you know men's, women's, et cetera. Could you break down the sales in each of those forests for last year? That would be very helpful, thank you.

**JIM MCGRADY:** Well actually we, we don't give that but I will say that the, the ladies apparel line,

you know, apparel represents approximately, I believe it's 60% of the overall business of which the ladies apparel line represent approximately 40% of that. So the, the men's and children's businesses comprise the rest of that. Our hard lines area is comprised basically of what we see as the domestics and home goods and seasonal. And really those, those are, are changing right now in, in the mixt of our presentation is out there. As Heywood said, we've exited some of the businesses throughout 2005. So, you know, it's, it's, it's hard to give what I would see as perhaps a future estimate of where, where those are going to be.

**SAM KIDSTON:** Just, just in terms, maybe a follow up, just in terms of the businesses that you've exited, I guess you guys referenced 60 million earlier on the call, \$60 million of annual sales. Is that about right for all of the lines that you've exited?

**HEYWOOD WILANSKY:** Yes, it's about, it's around \$60 million and it's maybe, it was probably 30 to 35 million in fall of '05 and 25 to 30 million in spring of '06. And the anniversary of that date will be right around August 1<sup>st</sup>.

**SAM KIDSTON:** All right. Thank you very much.

**OPERATOR:** Okay our next call is from Adam Kamora, go ahead Adam.

**ADAM KAMORA:** Yes, hi, thanks. Just one quick clarification on the guidance of minus one to positive one EBIT margins for Value City and Filenes, does that include all the corporate allocations to those businesses?

**JIM MCGRADY:** Yes.

**ADAM KAMORA:** All right, terrific. The other thing that we haven't really heard about yet on the call is the plan for growth at Filenes. What's the current thinking on, on how quickly and how big we can grow that business?

**HEYWOOD WILANSKY:** Well in, in, in, in previous calls, I guess, we've, we've said that we need to get Filenes Basement ramped up to an overall volume level run rate of about \$600 million to get to operating profits, you know, that are in the 3% or better range. In, in and that would be a four wall run rate. In 2006 we're planning on opening five stores, it could be four it could be six, we've used five as the mid point on that. And we've used the same number of new stores in 2007. Based upon our estimates of comp store sales growth, you know, in the 3% range let's say, and the new store growth we would think that at the end of 2007 we would have a run rate of sales that would be equal to a \$600 million company or better. And at that point, you know, you, you're profitable on an operating basis on a total basis you're able to start to invest more aggressively in the company and look at alternatives of how to grow it more rapidly, whether that's more stores, whether that's acquisitions, whether that's spinout. I mean, who knows between now and the end of 2007 a lot of things can happen but the game plan is to get it to that level and evaluate it as we, as we go along from there.

**ADAM KAMORA:** All right, terrific. And I think actually now you just touched upon what my next question was going to be, is, you know, obviously you guys are aware when you, when you look at the Retail Ventures stock and the, the underlying DSW stock it doesn't seem like we're getting a lot of credit or a lot of value out of Value City and Filenes. Have you guys thought any more about that? Any plans to do anything with the DSW stock? Just like to get your thoughts on it.

**HEYWOOD WILANSKY:** Well I'll talk and then Jim will talk. My plan is to improve the performance at Value City and Filenes Basement so that we will create value for it and that's what we're working on in 2006 and 2007. You know, in terms of what we do with the inventory, with the, the value

of the underlying asset of the DSW stock that RVI holds, you know, we consider what to do with it on a regular basis. For today, you know, the decisions today is that, you know, that we're, we're keeping it, that could change and we're holding our options open. Jim?

**JIM MCGRADY:** That's, that's right, Heywood. With, with our investment in DSW at this point in time we really have decided to take a, a hold and see attitude. We would really like to focus on the turnaround of the Value City operations and, and growing that DS, or excuse me, growing the, the Filenes Basement business. You know, I, we, we think that it fits well within our portfolio. It helps us with the shoe businesses and the other operations that we have. So at this point in time we really haven't come to any firm conclusion about what, what the long-term resolution or what we're going to do with that, that investment at this point in time.

**HEYWOOD WILANSKY:** I, I think it would be reasonable to say that sometime between 10:00 o'clock this morning, Adam, and infinity we'll monetize that asset. We just don't know when. And DSW is doing quite well and we expect their value to grow which continues to help us along the way while we get to that point.

**ADAM KAMORA:** Yeah, no, no, no question about that. The, okay, so, but it sounds like from a strategic point it's really just, you know, helping out in terms of the shoe businesses I, it doesn't sound like there's much more strategic synergies going on there though.

**JIM MCGRADY:** Well actually there is, we use, I mean, it, it does help in the shoe businesses but we utilize their warehousing, you know, where we can we both benefit when we're able to go into, you know, similar shopping centers, things like that, real estate locations. We do benefit from the, the shared services agreement that we have in place. It helps us keep the overall administrative costs of the businesses down. So it is, it's, it contributes in more ways than just, you know, having a monetary value.

**ADAM KAMORA:** Okay. Thanks a lot guys.

**JIM MCGRADY:** Okay.

**OPERATOR:** We have no additional questions at this time.

**JIM MCGRADY:** Okay, with that I would like to thank everybody for their participation in this morning's call. And if you have any questions, please feel free to reach out. Thank you everybody.

**HEYWOOD WILANSKY:** Thank you.

**JIM MCGRADY:** Have a good day.

**OPERATOR:** Thank you. At this time this call has been concluded.

**HEYWOOD WILANSKY:** All right. Jim, I'll give you a call.

[END]