

**RETAIL VENTURES TELECONFERENCE  
6/11/2008 – 5:00 P. M. EASTERN TIME**

**OPERATOR:** Hello and welcome to the Retail Ventures Q1 operating results conference call. As a reminder, all lines will be on listen-only mode, and there will be a Q&A session at the end of the call. If you have any technical difficulties during your call, please press star 0 to speak to an operator. At this time I would like to turn the call over to Mr. Heywood Wilansky so that we may begin our call. Please go ahead Mr. Wilansky.

**MR. HEYWOOD WILANSKY:** Thanks - - and good afternoon everybody. The call will focus on the first quarter of 2008 in comparison to last year's first quarter of 2007, and the agenda will be that Jim McGrady will walk us through all the financials as it relates to that subject. I will then come on and kind of talk through how the first quarter sales are relative to Filene's Basement, in terms of stores and regions, what's happening there, and also in terms of business segments and how they're performing. And then I'm going to turn it back over to the group for any questions that you may have. So without further ado, I'd like to introduce Jim McGrady, the chief financial officer of Retail Ventures. Jim?

**MR. JIM McGRADY:** Thanks Heywood. Again, good evening everybody and welcome to the discussion. As always, before proceeding I need to restate the company's policy with respect to forward-looking information. Pursuant to the Private Securities Reform Act of '95, statements made in the course of this call that are not purely historical, such as statements regarding the company's or management's intention, expectations, or projections of the future are forward-looking statements. Actual results could materially differ from the forward-looking statements. Factors that could cause or contribute to such differences include but are not limited to the factors and risks discussed in the company's form 10-K for the period February 2<sup>nd</sup> 2008, and the other reports filed from time to time by the company with the SEC. Any forward-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.

As we proceed here, and I believe as everybody is aware, you know, on January 23<sup>rd</sup>, RVI disposed of an 81 percent ownership interest in its Value City operations, and as such the results of the Value City operations during the quarter ended May 5<sup>th</sup>, 2007, are presented in the operation statement as discontinued operations. Today we announced a first quarter net income of \$29.2 million or 56 cents per share on a diluted basis, compared to the prior year quarter net income of 2.7 million, or 5 cents per share. Income from continuing operations for the quarter was \$32.8 million, or 63 cents per diluted share compared to income from continued operations of 13.1 million, or 22 cents per share on a diluted basis last year.

In the first quarter of '08, we recognized a non-cash expense reduction of \$37.2 million, representing the change in fair value of conversion warrants, term loan warrants, and a conversion feature of the ties. Adjusting for these non-cash expense reductions, the first quarter 2008 non-GAAP net loss from continued operations is \$4.4 million and this is 9 cents per diluted share. Total sales for the first quarter were \$466.3 million, a \$500,000 increase from \$465.8 million last year. Comparable store sales for the quarter decreased 4.3 percent. By segment, comparable store sales were down 5.4 percent at DSW and showed a small decline of 2 cents a percent at Filene's Basement. DSW net sales were \$366.3 million for the three months in '08, a \$9.3 million increase over the comparable period. The 39 DSW store locations that opened subsequent to the first quarter last year, its e-commerce, and its e-commerce site, added \$27.5 million in sales during the first quarter, while the 22 new leased shoe departments added 1.5 million in sales. These increases were partially offset by the decreases in comp store sales and by a decrease in sales of \$1.9 million from the three leased departments and one DSW store that closed in '07. The decrease in comparable store sales was a result of decreases in traffic, the average unit retail, and the number of units in the basket. For the first quarter of '08, DSW comparable store sales decreased in women's by 5.8 percent, men's by 3.8, accessories by 8.1, and athletic category declined by 5.7 percent.

Filene's Basement net sales were \$100 million for the three months ending May 3<sup>rd</sup> of '08, an 8.1 percent decline over the comparable period. New stores not in the comparable store base contributed an additional net sales of \$5.3 million during the quarter, offset by two closed stores during - - '07, resulting in a decrease of about \$12.7 million. This represents approximately 12 percent of the first quarter '07 net sales. The categories of men's end of season and accessories had comp store sales increases of 1.7 percent, 26.6 percent, and 6.6 percent, while women's had a comp store sales decrease of 3.3 percent.

Total gross profit in the first quarter decreased \$6.2 million to \$193.2 million and as a percentage of sales decrease 140 basis points to 41.4 percent. The decrease in gross profit is comprised of decreases at DSW of 5.1 million and Filene's Basement of 1 million. DSW's gross profit for the quarter as a percent of sales decreased from 44.9 percent to 42.4 percent. This decrease is primarily attributable to the increased markdowns partially offset by an increase in initial markups. Filene's Basement gross profit as a percentage of net sales increased from 36 percent to 38.1 percent, and is attributable to improved initial markups and a decrease in markdowns. Our total FTN expense for the quarter increased by \$13.4 million to \$186.1 million and as a percent of sales was 39.9 percent compared to 37.1 percent last year. DSW's FTN expense for the quarter increased \$15.4 million as a percent of sales to—excuse me, to 38.2 percent, primarily as a result of deleveraged store and home office expenses. Filene's Basement FTN expenses decreased \$2.2 million in the quarter, an increase as a percent of sales from 46.1 percent to 48 percent, as a result of increased occupancy and corporate expenses, partially offset by a decrease in personnel and advertising expense.

Our first quarter operating profit of \$45.9 million was comprised of \$16 million at DSW, \$37.2 million at corporate, and an operating loss of 7.3 million at Filene's Basement. Adjusting for the operating impact of warrants, the ties, the non-GAAP operating profit is \$8.7 million in '08 compared to \$28.5 million last year. Net interest expense was \$2.8 million for the first quarter 2008 compared to \$400,000 in the 2007 quarter. The increase in interest expense is due primarily to increased average borrowing, which has

partially been offset by a decrease in weight average borrowing rate of about 4/10 of a percent during this quarter. Interest income decreased \$1.5 million in the first quarter of '08, primarily due to replacement of short-term investments with lower-yielding money market funds. The effective tax rate for the three months ending May 3<sup>rd</sup> '08 was 15 percent compared to 46.1 percent last year. This tax rate reflects the change in fair value of the mark to market accounting for the warrants, which are not tax deductible, excuse me, and a reduction in the valuation allowance on all state net deferred tax assets.

As we turn to our balance sheet, inventory totaled \$354.1 million at May 3<sup>rd</sup> of '08, compared to \$339.3 million at year end. This is an increase of about 4.4 percent. Net working capital at May 3<sup>rd</sup> '08 was 317.3 million compared to 295.9 million at year end. Current ratios were 2.14 and 1.98 respectively. If we adjust through the warrant liability included in current liabilities, working capital would have been 341.1 million with a current ratio of 2.34. Net cash used for capital expenditures was approximately \$22.9 million, but depreciation and amortization for the quarter totaled \$10.8 million compared with \$9.4 million in the prior year. For the—excuse me, for the quarter, capital expenditures of \$19.9 million included \$9.1 million for new stores, \$4 million for improvements in existing stores, \$500,000 for office and warehousing, \$1.9 million related to DSW's e-commerce channel, and \$4.4 million for technology upgrades and new systems, excluding DSW e-commerce channel.

EBITDA from continuing operations in the first quarter was \$54.1 million versus \$44.3 million for last year. Adjusting for the FAS 133 charge, EBITDA for the first quarter would've been \$16.9 million. Consolidated availability under our secured revolving credit facilities at May 3<sup>rd</sup> was \$165.2 million. Outstanding letters of credit totaled approximately \$3.2 million and \$11.9 for Filene's Basement and DSW respectively. Our current consolidated availability is approximately \$159 million, which is comprised of \$25 million under the Filene's Basement revolver and \$134 million for DSW. That concludes the historical review of the first quarter—excuse me, operations.

With the uncertainty in the economy, we are cautious about our expectations for the balance of fiscal 2008. We expect Filene's Basement comparable store sales to be in the low single digit positive range, and DSW comps to be down mid single digits. We do look for margin improvement as a percent of sales at Filene's Basement based in improved initial margins; excuse me, combined with reduced markdowns. Overall FTNA expenses will increase as a percent of sales for RVI as a result of new store openings, the deleveraging of fixed expenses and the impact of the disposition of Value City, which historically absorbed some of the fixed operating costs of RVI. At this time, I'll turn the call back over to Heywood. Thank you.

**MR. WILANSKY:** Thank you, Jim. Just to give some color and maybe expand a little upon Jim's comments about Filene's Basement's business, I first want to start with the first quarter overall, which was reported at a negative 2/10 of 1 percent. On a formal basis that translated for Filene's Basement into a positive 2 percent, and the reason for the discrepancy has to do with the fact that in the first quarter of 2007, Fine Jewelry was not a leased business, and in 2008 it is a leased business. So we don't include sales for the leased business on our sales line, although we do take credit for any of the income that it produces. So our comp sales are kind of artificially underreported based upon that changeover, and it's worth a little over 2 percent for the total company's swinging from a negative 2/10 to a positive 2 percent.

In terms of what's happening in the regions and the stores, for the first quarter, New England on a comp basis had a very, very strong quarter, and had a comp sales that were in the positive north of 10 percent range. And that was highlighted by very strong sales at our Back Bay store, and also very strong sales at our Watertown or Arsenal Mall store, which we redid over the course of last year. So both of those two stores are performing at a very high level. In the New York region, the total comps were about 2 percent, and again strong sales in our Fresh Meadows store and in our Union Square store, and we did have a couple of stores that were negative, resulting in a 2 percent comp positive for the New York market. These comps are on a formal basis, not including Fine Jewelry. Pittsburgh had a good quarter with low

single digit positive increases. Chicago as a total region on a comp basis was positive 1 percent, with pretty good sales in the both of the downtown stores, State Street and North Michigan Avenue. Our New Jersey comp store was negative 1 percent in Jersey Garden. And if we look at Washington DC as a region, that was a region that underperformed and had small negative comps, I think around negative 2 percent, and when you look at what drove it, Washington had really unseasonable weather for the Washington marketplace comparison to history. It was always colder than it had been the previous year. On a comp store basis, our Atlanta store has held its own, kind of breaking about even. And you take all those markets and mush them together, and it's about a positive 2 percent comp. On some of the new stores that are not part of the comp sales we've had mixed results with some positive and some negative, and we're still, obviously, working on trying to improve the performance of all of those stores.

If you look at the business, some things that are relatively interesting are ladies hosiery business was pretty good. It had a small positive comp. Our ladies accessory business had a double digit comp increase and was very positively affected by a product we bought out of Europe. Our children business had a small positive comp, and our intimate apparel business had a pretty good sizeable midlevel single digit comp driven by double digit comps in the bra area. Our handbag business was pretty good, with positive comps in the low single digits, and our jewelry business you can't really tell. That's why it's all unclear. We report a negative, you know, 25 to 30 percent, but that's without fine jewelry this year versus having part of it in the number last year. Total jewelry, including fine jewelry, costume jewelry, fashion watches, sterling silver, were positive double digit comps at about 12 percent. Our comps were driven down by the elimination of certain home products that we're getting out of as a business strategically, and that contributed to a loss in sales of about 1 percent for the company for the quarter. The home businesses that we are staying in, which include luggage and domestics, gourmet food, frames and candles, and our holiday businesses had positive comps in the upper single digits, so that looks pretty promising for the future.

Our men's business in total for the first quarter had small positive comps in the 1 to 2 percent range, driven really more by some of the contemporary sportswear businesses that we're in, as opposed to the traditional businesses. Also men's neckwear had a very strong positive comp performance along with men's basics, underwear and socks as well. Our bridal business in the first quarter was quite strong. You know, we run our bridal events typically in the first and third quarters of each year, and the first quarter businesses had major increases, and each event was successful in compared to last year event. On a European business that we buy direct from Europe, what we call our retail stock businesses, both out of Europe and also store stocks out of the domestic market in the U.S., we had strong positive comps in the upper double digits for the quarter. As you might expect, the ladies business in total was quite difficult, with small negative comps in the 3 percent range. The things that kind of stand out away from that are the junior business what had—which had double digit positive comps, and also the contemporary sportswear business in ladies had again double digit comps against double digit comps the year before as well, and that's a business that we're continuing to explode—exploit, and drive, and that will continue to grow in our estimation.

The other business that has been quite good, and that's on trend and we think will continue to stay very strong for the rest of the year are the dress businesses. While you may not be able to sell sportswear, dresses are flying out, and they had mid double digit comps for the first quarter. As you might expect with the unseasonable weather, shorts, T-shirts, swimwear, knit tops, all those businesses underperformed based upon I guess general economic conditions and also kind of unfavorable, unseasonable cool weather versus what had been normalized. Our shoe business was up about 2 percent positive comps, and that was pretty healthy, and our cosmetics business had double digit comp growth as well. And when you take that all together and mix it, it comes out to about a 2.1 percent positive comp on a formal basis, and without the jewelry swing it would be a negative 2/10 comp for the quarter.

So with that in mind, I'd like to open up the floor to any questions that anybody might have relative to

anything Jim or I might have addressed.

**OPERATOR:** Absolutely. At this time I would like to open up the call for Q&A. If you would like to ask a question, please press 01 on your phone's keypad to be placed into the queue. Again, if you would like to ask questions, please press 01 on your phone's keypad. Our first question comes from Sam Kitsen [phonetic]. Go ahead please, Sam.

**MR. SAM KITSEN:** Yeah hi guys, just a couple of quick questions. Number one is, you guys are giving the full year Filene's Basement comps at around 1 or, sorry, low single digits. Is that on a formal basis or on a presented basis?

**MR. WILANSKY:** On a formal basis, Sam.

**MR. KITSEN:** Okay.

**MR. WILANSKY:** And, you know, if you look at the last five years at the Basement, we've been, you know, 3 percent or better, and as I said we're running a little over 2 percent of formal basis for the first quarter, and, you know, things could change, but right now nothing points to us not continuing the current trend that we've established for the year.

**MR. KITSEN:** Okay. And could you guys just comment on—I remember, this is probably about a couple of years ago, but there was some discussion of Filene's Basement getting to around 600 million in sales, and then there was the idea you would get to about a 3 percent operating margin there or something like that. Whatever happened to that plan?

**MR. WILANSKY:** Well, that was done, Sam, well before we envisioned that we were going to be

selling Value City and trying to see how to divide up the additional central overhead. On a formal basis, you know, Filene's Basement if you had to pick a target number for this year, you know, might have sales in the neighborhood of \$540 million. That includes the downtown store being closed. When we made that statement we never realized we were going to have to close the downtown store.

**MR. KITSEN:** Right.

**MR. WILANSKY:** Which was you know, a number of at least \$60 million in sales on a formal basis, so that combined with this would've put us, you know, certainly at the \$600 million level and if we would've been able to divest of some of the additional overhead that we're going to absorb, you know, our margins, I think, would've put us into that operating range, but based upon circumstances we're not going to be there this year.

**MR. KITSEN:** Right. Right. So if we look forward, you know, to 2009, I mean is it safe to say that we're going to have in excess of 600 million of consolidated sales for Filene's Basement?

**MR. WILANSKY:** I think it's—I think, I think that it's safe to assume that if we—if we hit the, you know, the 540-ish number, give or take some room this year, that—and we have on drawing one new store which opens in we believe in October in Florida. We have an expanded Connecticut Avenue store in Washington, DC, that we believe will be in business, you know, in its new size for the fall of 2008, but we can't yet commit to an opening date for the downtown Boston store, so, you know, I can't tell you that we're going to be 600 or more until I understand the date that the downtown Boston store reopens.

**MR. KITSEN:** Right. Right.

**MR. WILANSKY:** And if you'd say that when the downtown Boston store reopens would we be

annualizing at that number, I think the answer would be yes.

**MR. KITSEN:** Okay. Okay. And just can you update us on the timeline of the Downtown Crossings store?

**MR. WILANSKY:** You know, it's—the answer is that it's unclear. We had hoped to be open sometime between April and September. We are not running the construction, the developer is, and like any large major project, they always find issues and they're still working on it. I would say that at the earliest, it would be in the early fall of 2009. We had hoped to maybe be in the middle or late second quarter, and I think that that date probably has slipped to that fall date at this point in time. And as we know more, we'll certainly update you.

**MR. KITSEN:** All right. Thank you, guys.

**OPERATOR:** Our next question comes from Jill Caruthers. Go ahead please, Jill.

**MS. JILL CARUTHERS:** Good afternoon. I was wondering if maybe you could update us on the shared services agreement, any type of timing of when you feel like you're going to be able to finalize that agreement?

**MR. WILANSKY:** Sure. We are still in the discussions with Value City regarding the future of the shared services agreement, and to a lesser extent with DSW at this point in time. I think that probably within, I'm going to say, the next three weeks that we should be able to finalize all of those discussions and make you know, file the 8-K with what that agreement's going to look like.

**MS. CARUTHERS:** Okay. Good. And maybe if you could comment on expectations if you think

you're going to have positive cashflow this year.

**MR. WILANSKY:** Are you talking about just at Filene's Basement or are you talking about on a consolidated basis?

**MS. CARUTHERS:** At Filene's Basement.

**MR. WILANSKY:** At Filene's Basement I'd look for it to be slightly negative.

**MS. CARUTHERS:** Okay. All right. Thank you very much.

**MR. WILANSKY:** Mm-hmm.

**OPERATOR:** Our last question comes from Todd Meadow. Go ahead please, Todd.

**MR. TODD MEADOW:** Hi. I was wondering if you could I guess give me some clarity around the transaction that was disclosed on the 13-D last night. It looks like on the Schottenstein interests were shuffled around a little bit. I just couldn't follow some of the purpose of that transaction and kind of what the end result was.

**MR. WILANSKY:** Well, I think I can give you as I read it. What appears to have happened, and I haven't really had an opportunity to talk to their counsel at any length regarding this, but apparently what they did is that the dividend, the ownership of Retail Ventures out of Schottenstein Stores to, what, an entity called SSC RVI or whatever that entity was and that LLC. And then they dividended out of there to the individual shareholders of RVI SSC LLC. I believe at the end of the day really what that means is that there is not a change of control at RVI and that I think it even said in the—I know it said in the 13-D

that Jay is the managing member of that LLC, so I think it really just gives, as I interpret it, it probably gives away—it's a tax planning, you know, structure. That's my view of it is that's really what it is. I'm not 100 percent certain. Again, I have not talked to their counsel in any great depth about that, but there's as far as RVI is concerned, there really isn't any major change at this point in time, and we don't expect to see that in the future.

**MR. MEADOW:** Okay. Thanks.

**MR. WILANSKY:** Okay.

**OPERATOR:** Our next question comes from Robert Weegan [phonetic]. Go ahead please, Robert.

**MR. ROBERT WEEGAN:** Hi gentlemen. Just a couple capital structure questions. Can you just go over the cash for me? I believe it's probably around 50 million at the Filene's Basement level. The ties and debt is probably around 144 and 25 million, is that correct?

**MR. WILANSKY:** The ties is 143,750, which is the 144, yes. The out—I think there's \$32 million outstanding under the revolving credit facility. And the cash, that's the approximate number, that's at the Filene's Basement RVI entity is about \$50 million.

**MR. WEEGAN:** Okay. And just in respect to the warrants, can you give me approximately how many are outstanding at which strikes?

**MR. WILANSKY:** Yes, there's 12, 12.7 million that are outstanding at \$4.50 a share, and then there are approximately, and this is kind of an either-or, - - both, or there could be a combination. There's about 2.7 million of DSW, you know, they're convertible into DSW at \$19 a share.

**MR. WEEGAN:** So it's 12.7 at \$4.50 or 2.7 at \$19, correct?

**MR. WILANSKY:** That's correct, yes.

**MR. WEEGAN:** And wasn't there about 150 previously at around \$10 for the RVI also?

**MR. WILANSKY:** Oh, 150,000, yes, the new warrant that's outstanding. I apologize, yeah, you're correct.

**MR. WEEGAN:** And I'm sorry, just one more on this. How much has that changed just recently in the last maybe three months to six months and where do you anticipate that going in the future?

**MR. WILANSKY:** As far as the warrants or—?

**MR. WEEGAN:** Yeah. Outstanding! I mean, have people been exercising and selling, or—?

**MR. WILANSKY:** The last exercise was actually back on June 6<sup>th</sup> of 2007, and there really hasn't been any—no transactions since then other than the issue of those 150,000 warrants to Value City, VCHI, which was the acquirer of Value City. There really hasn't been any activity there whatsoever.

**MR. WEEGAN:** Great. Thanks! and good luck with Filene's Basement.

**MR. WILANSKY:** All right. Thank you.

**OPERATOR:** And our last question comes from Sam Kitsen [phonetic]. Go ahead please, Sam.

**MR. KITSEN:** Yeah. Thanks guys, you already answered my question. Thank you.

**MR. WILANSKY:** Okay.

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

**MR. WILANSKY:** All right. With that I'd like to conclude the call and thanks everybody for their participation and please give us a call at your convenience. Thanks.

**MALE VOICE:** Thank you.

**OPERATOR:** Thank you. This call has been concluded.

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