

DSW Inc.  
Form 424B4  
June 30, 2005

**Table of Contents**

Filed Pursuant to Rule 424(b)(4)  
 Registration No. 333-123289

PROSPECTUS

14,062,500 Shares  
 Class A Common Shares

This is our initial public offering of Class A Common Shares. We are offering 14,062,500 shares. No public market currently exists for our shares.

We have two classes of authorized Common Shares, Class A Common Shares, which are offered hereby, and Class B Common Shares, all of which are owned by Retail Ventures, Inc., or Retail Ventures, a New York Stock Exchange listed public company. Holders of Class A Common Shares generally have identical rights to holders of Class B Common Shares, except that holders of Class A Common Shares are entitled to one vote per share on all matters to be voted on by shareholders, while holders of Class B Common Shares are entitled to eight votes per share on all matters to be voted on by shareholders, voting together with the holders of the Class A Common Shares as a single class. Prior to this offering, Retail Ventures owned all our capital stock. Upon completion of this offering, without giving effect to any exercise of the underwriters' option to purchase additional shares, Retail Ventures will own all our outstanding Class B Common Shares, which will represent approximately 66.2% of our outstanding Common Shares, and approximately 94.0% of the combined voting power of our outstanding Common Shares. After this offering, Retail Ventures will continue to control us.

Our Class A Common Shares have been approved for listing on the New York Stock Exchange under the symbol DSW.

*Investing in our Class A Common Shares involves risks. See Risk Factors beginning on page 9.*

	Per Share	Total
Public offering price	\$ 19.00	\$ 267,187,500
Underwriting discounts	\$ 1.33	\$ 18,703,125
Proceeds to DSW Inc. (before expenses)	\$ 17.67	\$ 248,484,375

We have granted the underwriters a 30-day option to purchase up to an aggregate of 2,109,375 additional Class A Common Shares from us at the public offering price less the underwriting discount if the underwriters sell more than 14,062,500 Class A Common Shares.

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

Lehman Brothers Inc., on behalf of the underwriters, expects to deliver the Class A Common Shares on or about July 5, 2005.

**Lehman Brothers**

**Goldman, Sachs & Co.**

**CIBC World Markets**

**Johnson Rice & Company L.L.C.**

June 28, 2005

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<u>PROSPECTUS SUMMARY</u>	1
<u>RISK FACTORS</u>	9
<u>FORWARD-LOOKING STATEMENTS</u>	22
<u>USE OF PROCEEDS</u>	23
<u>DIVIDEND POLICY</u>	24
<u>CAPITALIZATION</u>	25
<u>DILUTION</u>	26
<u>UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA</u>	27
<u>SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA</u>	31
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	33
<u>BUSINESS</u>	52
<u>MANAGEMENT</u>	64
<u>THE TRANSACTIONS</u>	81
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	82
<u>PRINCIPAL SHAREHOLDERS</u>	95
<u>DESCRIPTION OF INDEBTEDNESS</u>	97
<u>DESCRIPTION OF CAPITAL STOCK</u>	101
<u>SHARES ELIGIBLE FOR FUTURE SALE</u>	105
<u>MATERIAL U.S. FEDERAL INCOME AND ESTATE TAX CONSEQUENCES</u>	107
<u>UNDERWRITING</u>	109
<u>LEGAL MATTERS</u>	114
<u>EXPERTS</u>	114
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	114
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-1

Until July 23, 2005 (25 days after the commencement of this offering), all dealers effecting transactions in our Class A Common Shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligations to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

**ABOUT THIS PROSPECTUS**

In making your investment decision, you should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

The market share and industry data disclosed under **Business** **Industry Overview and Competition** in this prospectus have been obtained from NPD Fashionworld®, a division of NPD Group, Inc.

**Table of Contents**

**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 Class A Common Shares. Before investing in our Class A Common Shares, you should read this entire prospectus carefully, including the Risk Factors and Forward-Looking Statements sections and the consolidated financial statements and notes to those consolidated financial statements beginning on page F-1.

In this prospectus, our fiscal years ended February 3, 2001, February 2, 2002, February 1, 2003, January 31, 2004 and January 29, 2005 are referred to as fiscal 2000, 2001, 2002, 2003 and 2004, respectively. Our fiscal year consists of 52 or 53 weeks and ends on the Saturday closest to January 31 in each year. Fiscal 2000 consisted of 53 weeks and all other years shown consisted of 52 weeks. Our consolidated financial results as part of Retail Ventures contained in this prospectus may not reflect what our financial results would have been had we been a stand-alone company during the periods presented.

**OUR BUSINESS**

**Overview**

DSW is a leading U.S. specialty branded footwear retailer operating 177 DSW stores in 32 states as of April 30, 2005. We offer a wide selection of brand name and designer dress, casual and athletic footwear for women and men. Our core focus is to create a distinctive store experience that satisfies both the rational and emotional shopping needs of our customers by offering them a vast, exciting selection of in-season styles combined with the convenience and value they desire. We believe this combination of selection, convenience and value differentiates us from our competitors and appeals to a broad range of consumers.

DSW allows customers to personalize their shopping experience by offering a sea of shoes that are accessible, easy-to-shop, and fulfill a broad range of style and fashion desires. Typical DSW stores are approximately 25,000 square feet, with over 85% of total square footage used as selling space. Over 30,000 pairs of shoes in more than 2,000 styles are displayed on the selling floor of most of our stores, compared to a significantly smaller product offering at typical department stores. Our stores feature self-service fixtures that allow customers to view, touch, and try on the product without relying on salespeople to check availability. Our locations have clear signage, and well-trained sales associates are available to assist customers as desired. New footwear merchandise is organized by style on the main floor, and clearance goods are organized by size in the rear of the store. The store layout allows customers who do not have time for relaxed browsing to swiftly identify the shoe styles they are seeking and shop in a targeted, time-efficient manner.

Our goal is to further strengthen our position as a leading specialty branded footwear retailer of choice in the United States. In fiscal 2004, we generated \$961.1 million in net sales and \$56.1 million in operating profit. During the same period, we sold over 23.7 million pairs of shoes.

**Our Competitive Strengths**

We believe that our leading market position is driven by the following competitive strengths:

***Breadth of Product Offerings.*** Our goal is to excite our customers with a sea of shoes by offering the largest selection of brand name and designer merchandise of any footwear retailer or typical department store in the nation.

***Our Distinctive and Convenient Store Layout.*** We cater to both passionate shoe enthusiasts who take pleasure in the thrill of the hunt and to time-constrained customers who know exactly what they want. All merchandise is displayed on the selling floor with self-service fixtures, clear signage and spacious aisles.

***The Value Proposition Offered to Our Customers.*** We provide our customers with high-quality, in-season fashions at everyday prices that we believe are competitive with the typical sale price found at

## **Table of Contents**

specialty retailers and department stores. Through our customer loyalty program called Reward Your Style, we offer additional savings to frequent shoppers.

***Demonstrated Ability to Consistently Deliver Profitable Growth.*** Over the five-fiscal-year period ended January 29, 2005, our store base, net sales and operating profit have grown at compound annual rates of 24.3%, 31.3% and 48.9%, respectively. In fiscal 2004, we generated \$961.1 million of net sales and \$56.1 million of operating profit, or 5.8% of net sales.

### **Growth Strategy**

We plan to pursue the following three strategies for growth in sales and earnings:

***Expanding Our Store Base.*** We believe our retail concept provides substantial opportunity for expansion. Over the five-fiscal-year period ended January 29, 2005, we have opened 115 DSW stores and plan to open approximately 30 stores in each fiscal year from fiscal 2005 through fiscal 2009. We intend, over time, to cluster stores in strategic areas to enhance name recognition and achieve economies of scale.

***Driving Sales Through Enhanced Merchandising.*** We intend to increase the number of customer transactions and average transaction value by continually refining our merchandise mix and undertaking other initiatives, such as expanding vendor relationships, increasing sales within existing merchandise categories and extending into related product categories.

***Leveraging Our Operating Model.*** As we grow our business and fill in markets to their full potential, we believe we will continue to improve our profitability by leveraging our cost structure. We also intend to continue investing in our infrastructure to enhance our planning and allocation, inventory management, distribution and point of sale functions.

### **Leased Shoe Department Businesses**

As of April 30, 2005, we operated a total of 206 leased shoe departments for three non-affiliated retailers. As of April 30, 2005, we also operated 25 leased shoe departments for Filene's Basement, Inc., or Filene's Basement, a wholly-owned subsidiary of Retail Ventures. We pay a specified percentage of net sales as rent to these retailers. In fiscal 2004, leased shoe department sales comprised 9.4% of our total sales.

### **The Transactions**

On or about the date of the consummation of this offering, we intend to complete a series of related repayment and refinancing transactions, which include the following principal components:

We expect to be released from our obligations under the Value City revolving credit facility, and we expect to enter into a new \$150 million five-year senior secured revolving credit facility.

We expect to be released from our obligations under the Value City term loan and senior subordinated convertible loan facilities.

We will repay \$190.0 million of intercompany indebtedness incurred to fund dividends to Retail Ventures.

We refer to this series of transactions as the Transactions. For further discussion of the Transactions, see The Transactions. For a further discussion of our indebtedness, see Management's Discussion and Analysis of Financial Condition and Results of Operations and Description of Indebtedness.

### **Relationship with Retail Ventures**

Prior to the completion of this offering, we will enter into agreements with Retail Ventures related to the separation of our business operations from Retail Ventures, including, among others, a master separation agreement and a shared services agreement. Many aspects of our business which were fully managed and controlled by us without Retail Ventures' involvement will continue to operate as they did prior to this

**Table of Contents**

offering. We will continue to manage operations for critical functions such as merchandise buying, planning and allocation, distribution and store operations. Under the shared services agreement, which when signed will be effective as of January 30, 2005, we will provide services to several subsidiaries of Retail Ventures relating to planning and allocation support, distribution services and outbound transportation management, site research, lease negotiation, store design and construction management. Retail Ventures will provide us with services relating to import administration, risk management, information technology, tax, logistics and inbound transportation management, legal services, financial services, shared benefits administration and payroll and will maintain insurance for us and for our directors, officers and employees. We anticipate that the initial term of the shared services agreement will expire at the end of fiscal 2007 and will be extended automatically for additional one-year terms unless terminated by one of the parties. We expect some of these services to be provided for longer or shorter periods than the initial term.

Immediately following this offering, without giving effect to any exercise of the underwriters' option to purchase additional shares, Retail Ventures will control approximately 94.0% of the voting rights associated with our Common Shares and approximately 66.2% of the value of our Common Shares. Through its voting control, Retail Ventures will be able to control decisions regarding any merger, consolidation, sale of substantially all our assets or other major corporate transactions, without the support of any other shareholder.

Retail Ventures has advised us that its current intent is to continue to hold all the Class B Common Shares owned by it following this offering, except to the extent necessary to satisfy obligations under warrants it has granted to certain of its lenders. All the Class B Common Shares of DSW held by Retail Ventures will continue to be subject to liens in favor of these lenders, as well as a lien granted to Value City Department Stores LLC. For further discussion of these warrant agreements, see Management's Discussion and Analysis of Financial Condition and Results of Operations—The DSW Separation, Certain Relationships and Related Party Transactions—Notes, Credit Agreements and Guarantees and Description of Indebtedness.

Retail Ventures will be subject to (a) contractual obligations with its lenders to retain ownership of at least 55% by value of the Common Shares of DSW for so long as the Value City convertible loan facility remains outstanding and (b) contractual obligations with its warrant holders to retain enough DSW Common Shares to be able to satisfy its obligations to deliver such shares to its warrant holders if the warrant holders elect to exercise their warrants in full for DSW Class A Common Shares. For purposes of determining Retail Ventures' ownership interest in DSW, DSW Common Shares transferred by Retail Ventures to the warrant holders upon exercise of their warrants will not be subtracted from Retail Ventures' ownership. In addition, Retail Ventures has agreed not to sell or otherwise dispose of any of our Common Shares for a period of 180 days after the date of this prospectus without the prior written consent of Lehman Brothers Inc. on behalf of the underwriters. See Underwriting. There can be no assurance concerning the period of time during which Retail Ventures will maintain its ownership of our Common Shares following this offering. For a further discussion of the ongoing relationships between us and Retail Ventures, and the risks relating to our relationship with and separation from Retail Ventures, see Risk Factors—Risks Relating to our Business and Risks Relating to our Relationship with and Separation From Retail Ventures and Certain Relationships and Related Party Transactions—Relationships Between Our Company and Retail Ventures.

**Our Corporate Information**

We were incorporated on January 20, 1969. We opened our first DSW store in Dublin, Ohio in July 1991. In 1998, Value City Department Stores, Inc. purchased DSW and affiliated shoe businesses from Schottenstein Stores Corporation, or SSC, and Nacht Management, Inc. In December 2004, Retail Ventures completed a corporate reorganization whereby Value City Department Stores, Inc., a wholly-owned subsidiary of Retail Ventures, merged with and into Value City Department Stores LLC, or Value City, another wholly-owned subsidiary of Retail Ventures. In turn, Value City transferred all the issued and outstanding shares of DSW to Retail Ventures in exchange for a promissory note. In February 2005, we changed our name from Shonac Corporation to DSW Inc.

**Table of Contents**

Our principal executive offices are located at 4150 East 5th Avenue, Columbus, Ohio 43219. Our telephone number at that address is (614) 237-7100. Our website address is <http://www.dswshoe.com>. Information on our website is provided for informational purposes only and should not be considered to be part of, or incorporated by reference in, this prospectus.

**Recent Developments**

*Results of Operations*

Net sales for the four week period ended May 28, 2005 increased by \$12.7 million, or 14.5%, to \$100.5 million from \$87.8 million for the four week period ended May 29, 2004. Total comparable stores sales increased 0.2% for the same period.

Net sales for the thirteen week period ended April 30, 2005 increased by \$49.2 million, or 21.2%, to \$281.8 million from \$232.6 million for the thirteen week period ended May 1, 2004. Total comparable stores sales increased 4.4% for the same period.

*The Theft of Customer Purchase Information*

On March 8, 2005, we announced that we had learned of the theft of credit card and other purchase information. On April 18, 2005, we issued the findings from our investigation into the theft. The theft took place primarily over two weeks and covered all customers who made purchases at 108 DSW stores, primarily during a three-month period from mid-November 2004 to mid-February 2005. Transaction information involving approximately 1.4 million credit cards was obtained. For each card, the stolen information included credit card or debit card numbers, name and transaction amount. In addition, data from transactions involving approximately 96,000 checks were stolen. In these cases, checking account numbers and driver's license numbers were obtained.

We have contacted and are cooperating with federal law enforcement and other authorities with regard to this matter. In addition, we are working with a leading computer security firm to minimize the risk of any further data theft. To mitigate potential negative effects on our business and financial performance, we have been working with credit card companies and issuers and trying to contact as many of our affected customers as possible. On June 6, 2005, the Ohio Attorney General brought an action seeking to require us to notify all customers affected who have not thus far been notified by us. There can be no assurance that there will not be additional proceedings or claims brought against us in the future.

As of April 30, 2005, we estimate that the potential exposures for losses related to this theft range from approximately \$6.5 million to approximately \$9.5 million. Because of many factors, including the early development of information regarding the theft and recoverability under insurance policies, there is no amount in the estimated range that represents a better estimate than any other amount in the range. Therefore, in accordance with Financial Accounting Standard No. 5, Accounting for Contingencies, we have accrued a charge to operations in the first quarter of fiscal 2005 equal to the low end of the range set forth above, or \$6.5 million. As the situation develops and more information becomes available to us, the amount of the reserve may increase or decrease accordingly. The amount of any such change may be material.

We do not yet know what effect this incident may have on our customers' perception of us. Since the announcement of the theft, we have not discerned any negative effect on comparable store sales trends after accounting for the shifting Easter holiday. However, given the short time period involved, these recent trends may not be indicative of the long-term effects of the incident.

**Table of Contents**

**OUR CORPORATE STRUCTURE**

The following diagram sets forth our corporate structure as of the date of this prospectus, after giving effect to the Transactions and this offering.

- (1) Approximately 49.6% before accounting for the effects of dilution.
- (2) Immediately following this offering, holders of Class A Common Shares will own approximately 33.8% of our outstanding Common Shares and 6.0% of the combined voting power of our outstanding Common Shares (approximately 37.0% of our outstanding Common Shares and 6.8% of the combined voting power of our outstanding Common Shares if the underwriters exercise their option to purchase additional shares in full).
- (3) Immediately following this offering, Retail Ventures, which will hold 100% of our Class B Common Shares, will own approximately 66.2% of our outstanding Common Shares and 94.0% of the combined voting power of our outstanding Common Shares (approximately 63.0% of our outstanding Common Shares and 93.2% of the combined voting power of our outstanding Common Shares if the underwriters exercise their option to purchase additional shares in full).



**Table of Contents**

**THE OFFERING**

**Class A Common Shares offered by us in this offering** 14,062,500 shares

**Common Shares outstanding after this offering:**

**Class A Common Shares** 14,162,500 shares

**Class B Common Shares** 27,702,667 shares

**Total** 41,865,167 shares

**Use of proceeds** We intend to use the net proceeds of this offering to repay \$190.0 million of intercompany indebtedness owed to Retail Ventures and for working capital and other general corporate purposes, including paying down \$40.0 million under the new DSW secured revolving credit facility. The intercompany indebtedness was incurred to fund dividends to Retail Ventures.

**Dividend policy** We do not anticipate paying cash dividends on our Common Shares in the foreseeable future.

**Voting rights** Holders of Class A Common Shares are entitled to one vote per share on all matters to be voted on by shareholders, while holders of Class B Common Shares are entitled to eight votes per share on all matters to be voted on by shareholders, voting together with the holders of the Class A Common Shares as a single class. Immediately following completion of this offering, Retail Ventures will own all our outstanding Class B Common Shares.

**Proposed New York Stock Exchange symbol** Our Class A Common Shares have been approved for listing on the New York Stock Exchange under the symbol DSW.

**Risk factors** See Risk Factors and other information included in this prospectus for a discussion of factors you should consider carefully before investing in our Class A Common Shares.

Unless we specifically state otherwise, all information in this prospectus: assumes that the underwriters do not exercise their option to purchase additional shares. If the underwriters exercise their option to purchase additional shares in full, immediately following this offering, 16,271,875 Class A Common Shares and 27,702,667 Class B Common Shares will be outstanding, and Retail Ventures will own approximately 63.0% of our outstanding Common Shares and will control 93.2% of the combined voting power of our outstanding Common Shares;

assumes that the initial public offering price is \$19.00 per share;

gives effect to the amendment of our articles of incorporation prior to the consummation of this offering, pursuant to which the 410.09 outstanding common shares of DSW were changed into 27,702,667 Class B Common Shares of DSW; and

assumes that the number of shares that will be outstanding immediately following this offering excludes up to 900,000 registered Class A Common Shares subject to employee stock options exercisable at a price per share equal to the initial public offering price per share and includes 100,000 restricted Class A Common Shares and stock units issued at a price per share equal to the initial public offering price per share. We expect to issue these stock options, restricted shares and stock units immediately following the pricing of but prior to the consummation of this offering; however, these stock option, restricted share and stock unit issuances remain subject to approval by the DSW board of directors prior to the consummation of this offering.

**Table of Contents**

**SUMMARY CONSOLIDATED HISTORICAL AND PRO FORMA FINANCIAL INFORMATION**

We present below summary historical and pro forma financial data. The following summary historical financial data (i) as of January 29, 2005 and January 31, 2004, and for each of fiscal years 2002, 2003 and 2004, were derived from our audited historical consolidated financial statements included elsewhere in this prospectus, (ii) as of April 30, 2005 and for the thirteen week periods ended April 30, 2005, and May 1, 2004, were derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus, (iii) as of May 1, 2004 were derived from our unaudited consolidated financial statements not included herein and (iv) as of February 1, 2003 were derived from our audited consolidated financial statements not included herein.

The summary unaudited pro forma condensed consolidated financial data presented below were derived by the application of pro forma adjustments to our historical consolidated financial statements included elsewhere in this prospectus. The pro forma adjustments are based upon available information and assumptions that we believe are reasonable and do not give effect to any transactions other than those described in the bullet points below. The unaudited pro forma condensed consolidated financial data for the fiscal year ended January 29, 2005 and the thirteen week period ended April 30, 2005 assume that each of the following items had occurred on February 1, 2004.

the consummation of this offering;

the incurrence of \$25.0 million of additional intercompany indebtedness incurred to fund a dividend to Retail Ventures, for total intercompany indebtedness incurred during the period of \$190.0 million;

the repayment of \$190.0 million of intercompany indebtedness incurred to fund dividends to Retail Ventures and \$2.7 million of accrued interest related thereto, and the application of net proceeds as set forth under Use of Proceeds ;

the completion of the Transactions;

the reallocation of shoe warehousing and distribution costs allocated to the leased shoe departments of Value City, using the allocation parameters set forth in the shared services agreement; and

the incurrence of additional estimated operating expenses, including the reallocation of corporate department charges between Retail Ventures and DSW and the net cost of services to be provided under the shared services agreement.

The unaudited pro forma condensed consolidated financial data do not purport to (i) represent what net income actually would have been had we been a stand-alone company during the periods presented and had this offering occurred as of the dates indicated or (ii) project our net income for any period. The following data are presented for informational purposes only and should be read in conjunction with Risk Factors, Capitalization, Unaudited Pro Forma Condensed Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, The Transactions and with our audited consolidated financial statements and notes thereto and our unaudited interim consolidated financial statements, all included elsewhere in this prospectus.

**Table of Contents****SUMMARY CONSOLIDATED HISTORICAL AND  
PRO FORMA FINANCIAL AND OPERATING DATA**

	For the Fiscal Year Ended			For the Thirteen Week Period Ended	
	2/1/03	1/31/04	1/29/05	5/1/04	4/30/05
				(Unaudited)	(Unaudited)
	(Dollars in thousands except net sales per average gross square foot)				
<b>Statement of Income</b>					
<b>Data:</b>					
Net sales <sup>(1)</sup>	\$ 644,345	\$ 791,348	\$ 961,089	\$ 232,559	\$ 281,806
Gross profit	\$ 158,756	\$ 202,927	\$ 270,211	\$ 67,587	\$ 82,798
Operating profit <sup>(2)</sup>	\$ 17,781	\$ 28,053	\$ 56,109	\$ 13,805	\$ 15,053
Net income <sup>(2)</sup>	\$ 8,060	\$ 14,807	\$ 34,955	\$ 7,816	\$ 6,980
Pro forma net income <sup>(2)(3)</sup>			\$ 33,998		\$ 8,840
<b>Balance Sheet Data:</b>					
Total assets	\$ 295,703	\$ 291,184	\$ 395,437	\$ 319,919	\$ 407,115
Working capital <sup>(4)</sup>	\$ 87,141	\$ 103,244	\$ 138,919	\$ 123,923	\$ 151,715
Current ratio <sup>(5)</sup>	2.07	2.39	2.28	2.57	2.21
Long term obligations <sup>(6)</sup>	\$ 54,116	\$ 35,000	\$ 55,000	\$ 45,000	\$ 205,000
<b>Other Data:</b>					
Number of DSW stores at end of period <sup>(7)</sup>	126	142	172	151	177
DSW store square footage added <sup>(8)</sup>	584,652	386,734	835,020	251,637	181,371
Average gross square footage <sup>(9)</sup>	2,912,545	3,364,094	4,010,245	3,704,437	4,440,123
Net sales per average gross sq. ft. <sup>(10)</sup>	\$ 214	\$ 214	\$ 217	\$ 57	\$ 57
Number of leased shoe departments at end of period	113	168	224	172	231
Total comparable store sales change <sup>(11)</sup>	0.1%	5.9%	5.0%	11.0%	4.4%

(1) Includes net sales of leased shoe departments.

(2) Actual and pro forma results for the thirteen week period ended April 30, 2005 include a \$6.5 million pre-tax charge and a \$3.9 million after-tax charge in operating profit and net income, respectively, related to the reserve for estimated losses associated with the theft of credit card and other purchase information.

(3) Gives pro forma effect to the after-tax impact of the six adjustments presented in the bullet points above and the footnotes to the tables entitled Unaudited Pro Forma Condensed Consolidated Statement of Income.

- (4) Working capital represents current assets less current liabilities.
- (5) Current ratio represents current assets divided by current liabilities.
- (6) Comprised of borrowings under the Value City revolving credit facility, except for the amounts outstanding as of April 30, 2005, which also include \$165.0 million of intercompany indebtedness incurred to fund a dividend to Retail Ventures. We expect to repay this intercompany indebtedness with the net proceeds of this offering.
- (7) Number of DSW stores for each period presented prior to the first quarter of fiscal 2005 includes two combination DSW/Filene's Basement stores which were re-categorized as leased shoe departments in the first quarter of fiscal 2005.
- (8) DSW square footage added represents the total amount of square footage added during the period attributable to new store openings for DSW stores only; it does not reflect changes in square footage of leased shoe departments.
- (9) Average gross square footage represents the monthly average of square feet for DSW stores only for each period presented and consequently reflects the effect of opening stores in different months throughout the period.
- (10) Net sales per average gross square foot is the result of dividing net sales for DSW stores only for the period presented by average gross square footage calculated as described in footnote 8 above.
- (11) Comparable DSW stores and comparable leased shoe departments are those units that have been in operation for at least 14 months at the beginning of the fiscal year. Stores or leased shoe departments, as the case may be, are added to the comparable base at the beginning of the year and are dropped for comparative purposes in the month that they are closed.

**Table of Contents**

**RISK FACTORS**

*Investing in our Class A Common Shares involves a high degree of risk. You should carefully consider the following factors, as well as other information contained in this prospectus, before deciding to invest in our Class A Common Shares. 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 Class A Common Shares could decline, and you could lose all or part of your investment.*

**Risks Relating to Our Business**

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

Our continued and future growth largely depends on our ability to successfully open and operate new DSW stores on a profitable basis. During fiscal 2004, fiscal 2003 and fiscal 2002, we opened 30 (net of one store closing during that period), 16 and 22 new DSW stores, respectively. We intend to open approximately 30 stores per year in each fiscal year from fiscal 2005 through fiscal 2009. As of April 30, 2005, we have opened seven new stores in fiscal 2005 and have signed leases for an additional 22 stores and one store relocation. During fiscal 2004, the average investment required to open a typical new DSW store was approximately \$1.7 million. 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 continually 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 may be unable to open all the 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, either of which could have a material adverse effect on our business, financial condition and results of operations.***

We intend to open approximately 30 stores per year in each fiscal year from fiscal 2005 through fiscal 2009. 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 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;
- open new stores at costs not significantly greater than those anticipated;
- successfully open new DSW stores in regions of the United States in which we currently have few or no stores;
- 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
- 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.



**Table of Contents**

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 DSW 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 and results of operations.

To the extent that we open new DSW 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 and results of operations.

***We rely on our good relationships with vendors 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 negative impact on our competitive position, our business and financial performance.***

We do not have long-term supply agreements or exclusive arrangements with any vendors and, therefore, our success depends on maintaining good relations with our vendors. 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 new stores. If we fail to strengthen our relations with our existing vendors 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, our ability to obtain a sufficient amount and variety of merchandise at favorable prices may be limited, which could have a negative impact on our competitive position. In addition, our inability to stock our DSW stores with in-season merchandise at attractive prices could result in lower net sales and decreased customer interest in our stores, which, in turn, would adversely affect our financial performance.

During fiscal 2004, taking into account industry consolidation, merchandise supplied to DSW by three key vendors accounted for approximately 19% of our net sales. The loss of or a reduction in the amount of merchandise made available to us by any one of these key vendors could have an adverse effect on our business.

***We may be unable to anticipate and respond to fashion trends and consumer preferences in the markets in which we operate, which could adversely affect our business, financial condition 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 to attract our target customers in that region. 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 an adverse effect on our business, financial condition and results of operations.



**Table of Contents**

***Our comparable store sales and quarterly financial performance may fluctuate for a variety of reasons, which could result in a decline in the price of our Class A Common Shares.***

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. 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 DSW store openings and related pre-opening and other start-up costs;

levels of pre-opening expenses associated with new DSW stores;

changes in our merchandise mix;

changes in and regional variations in demographic and population characteristics;

timing of promotional events;

seasonal fluctuations due to weather conditions;

actions by our competitors; and

general U.S. 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. Our future financial performance may fall below the expectations of securities analysts and investors. In that event, the price of our Class A Common Shares would likely decline. For more information on our quarterly results of operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations.

***We rely on a single distribution center. The loss or disruption of our centralized distribution center or our failure in the future to add additional distribution facilities could have an adverse effect on our business and operations.***

Most of our 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 11 pool locations located throughout the country and then on to our stores. 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 will impose on our receiving and distribution system, 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.

We may need to increase our distribution capacity in 2006 to accommodate our expanding retail store base. Because our ability to expand our distribution facilities at our current site is limited, we may need to acquire, construct or lease additional distribution facilities in other geographic locations to accommodate our planned expansion. We may also need to invest in additional information technology to achieve a unified receiving and distribution system.

While we maintain business interruption and property insurance, in the event our 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 our distribution center, our insurance may not be sufficient, and insurance proceeds may not be timely paid to us.

**Table of Contents*****Following this offering, we will continue to be dependent on Retail Ventures to provide us with many key services for our business.***

Since 1998, DSW has been operated as a wholly-owned subsidiary of Value City Department Stores, Inc. or Retail Ventures, and many key services required by DSW for the operation of our business are currently provided by Retail Ventures and its subsidiaries. Prior to the completion of this offering, we will enter into agreements with Retail Ventures related to the separation of our business operations from Retail Ventures including, among others, a master separation agreement and a shared services agreement. Under the terms of the shared services agreement, which when signed will be effective as of January 30, 2005, Retail Ventures will provide us with key services relating to import administration, risk management, information technology, tax, logistics and inbound transportation management, legal services, financial services, shared benefits administration and payroll and will maintain insurance for us and for our directors, officers, and employees. In turn, we will provide several subsidiaries of Retail Ventures with services relating to planning and allocation support, distribution services and outbound transportation management, site research, lease negotiation, store design and construction management. We anticipate that the initial term of the shared services agreement will expire at the end of fiscal 2007 and will be extended automatically for additional one-year terms unless terminated by one of the parties. We expect some of these services to be provided for longer or shorter periods than the initial term. We believe it is necessary for Retail Ventures to provide these services for us under the shared services agreement to facilitate the efficient operation of our business as we transition to becoming an independent public company. We will, as a result, initially be dependent on our relationship with Retail Ventures for shared services following this offering. See **Certain Relationships and Related Party Transactions Relationships Between Our Company and Retail Ventures Agreements Relating to our Separation from Retail Ventures.**

Once the transition periods specified in the shared services agreement have expired and are not renewed, or if Retail Ventures does not or is unable to perform its obligations under the shared services agreement, we will be required to provide these services ourselves or to obtain substitute arrangements with third parties. We may be unable to provide these services because of financial or other constraints or be unable to timely implement substitute arrangements on terms that are favorable to us, or at all, which would have an adverse effect on our business, financial condition and results of operations.

We have not been operated as a stand-alone company since 1998. Following the completion of this offering, our business will no longer have access to the borrowing capacity, cash flow, assets and some services provided by Retail Ventures and its subsidiaries as we did while we were wholly-owned by Retail Ventures.

***Our failure to retain our existing senior management team and to continue to attract qualified new personnel could 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 several of these officers. For more information on our management team and their employment agreements and severance agreements, see **Management**. 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 types of personnel is intense, and we may not be successful in attracting, assimilating and retaining the personnel required to grow and operate our business profitably.

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

The retail footwear market is highly competitive with few barriers to entry. We compete against a diverse group of retailers, both small and large, including locally owned shoe stores, regional and national department stores, specialty retailers and discount chains. Some of our competitors are larger and have substantially

**Table of Contents**

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, results of operations and our market share.

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

Consumer spending habits, including spending for the footwear and related accessories 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, primarily from China, Brazil and Italy. We believe that almost all the merchandise we purchased during fiscal 2004 was manufactured outside the United States. 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;

U.S. laws 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;

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 an adverse effect on our business.

**Table of Contents*****Following the completion of this offering, our new secured revolving credit facility could limit our operational flexibility.***

On or about the date of the consummation of this offering, we expect to enter into a new \$150 million secured revolving credit facility with a term of five years. Under this new facility, we expect that we and our subsidiary, DSW Shoe Warehouse, Inc., or DSWSW, will be named as co-borrowers. This new facility is expected to be subject to a borrowing base restriction and will provide 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. Our obligations under our new secured revolving credit facility will be secured by a lien on substantially all our personal property and a pledge of our shares of DSWSW. In addition, the new secured revolving credit facility will contain usual and customary restrictive covenants relating to our management and the operation of our business. These covenants will, among other things, restrict our ability to grant liens on our assets, incur additional indebtedness, open or close stores, pay cash dividends and redeem our stock, enter into transactions with affiliates and merge or consolidate with another entity. In addition, if at any time we utilize over 90% of our borrowing capacity under this facility, we must comply with a fixed charge coverage ratio test set forth in the facility documents. These covenants could restrict our operational flexibility, and any failure to comply with these covenants or our payment obligations would limit our ability to borrow under the new secured revolving credit facility and, in certain circumstances, may allow the lenders thereunder to require repayment. For more information regarding the new secured revolving credit facility, see Description of Indebtedness.

***We will incur increased costs as a result of being a public company.***

Prior to this offering, as a subsidiary of a publicly-held company, we were not directly responsible for the corporate governance and financial reporting practices and policies required of a publicly-traded company. As a public company, we will incur significant legal, accounting and other expenses that we did not directly incur in the past. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules implemented by the Securities and Exchange Commission, or the SEC, and the New York Stock Exchange, or NYSE, require changes in corporate governance practices of public companies. We expect these new rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly.

***DSW has not been operated as an entity separate from Value City and Retail Ventures since 1998, and, as a result, our historical and pro forma financial information may not be indicative of DSW's historical financial results or future financial performance.***

Our consolidated financial information included in this prospectus may not be indicative of our future financial performance. This is because these statements do not necessarily reflect the historical financial condition, results of operations and cash flows of DSW as they would have been had we been operated during the periods presented as a separate, stand-alone entity.

Our consolidated financial information assumes that DSW, for the periods presented, had existed as a separate legal entity, and has been derived from the consolidated financial statements of Retail Ventures. Some costs have been reflected in the consolidated financial statements that are not necessarily indicative of the costs that we would have incurred had we operated as an independent, stand-alone entity for all periods presented. These costs include allocated portions of Retail Ventures' corporate overhead, interest expense and income taxes.

***We face security risks related to our electronic processing and transmission of confidential customer information. On March 8, 2005, we announced the theft of credit card and other purchase information relating to DSW customers. This security breach could adversely affect our reputation and business and subject us to liability.***

We rely on commercially available encryption software and other technologies to provide security for processing and transmission of confidential customer information, such as credit card numbers. Advances in

## **Table of Contents**

computer capabilities, new discoveries in the field of cryptography, or other events or developments, including improper acts by third parties, may result in a compromise or breach of the security measures we use to protect customer transaction data. Compromises of these security systems could have a material adverse effect on our reputation and business, and may subject us to significant liabilities and reporting obligations. A party who is able to circumvent our security measures could misappropriate our information, cause interruptions in our operations, damage our reputation and customers' willingness to shop in our stores and subject us to possible liability. We may be required to expend significant capital and other resources to protect against these security breaches or to alleviate problems caused by these breaches.

On March 8, 2005, we announced that we had learned of the theft of credit card and other purchase information. On April 18, 2005, we issued the findings from our investigation into the theft. The theft took place primarily over two weeks and covered all customers who made purchases at 108 DSW stores, primarily during a three-month period from mid-November 2004 to mid-February 2005. Transaction information involving approximately 1.4 million credit cards was obtained. For each card, the stolen information included credit card or debit card numbers, name and transaction amount. In addition, data from transactions involving approximately 96,000 checks were stolen. In these cases, checking account numbers and driver's license numbers were obtained.

As of April 30, 2005, we estimate that the potential exposures for losses related to this theft range from approximately \$6.5 million to approximately \$9.5 million. Because of many factors, including the early development of information regarding the theft and recoverability under insurance policies, there is no amount in the estimated range that represents a better estimate than any other amount in the range. Therefore, in accordance with Financial Accounting Standard No. 5, Accounting for Contingencies, we have accrued a charge to operations in the first quarter of fiscal 2005 equal to the low end of the range set forth above, or \$6.5 million. As the situation develops and more information becomes available to us, the amount of the reserve may increase or decrease accordingly. The amount of any such change may be material.

On June 6, 2005, the Ohio Attorney General brought an action seeking to require us to notify all customers affected who have not thus far been notified by us. There can be no assurance that there will not be additional proceedings or claims brought against us in the future.

We do not yet know what effect this incident may have on our customers' perceptions of us. Since the announcement of the theft, we have not discerned any negative effect on comparable store sales trends after accounting for the shifting Easter holiday. However, given the short time period involved, these recent trends may not be indicative of the long-term effects of the incident.

### **Risks Relating to Our Class A Common Shares and This Offering**

*After this offering, we will continue to be controlled directly by Retail Ventures and indirectly by SSC, whose interests may differ from other shareholders.*

Retail Ventures, a public corporation, will own 100% of our Class B Common Shares, which will represent approximately 66.2% of our outstanding Common Shares after this offering, or approximately 63.0% if the underwriters exercise their option to purchase additional shares in full. These shares collectively will represent 93.2% of the combined voting power of our outstanding Common Shares if the underwriters exercise their option to purchase additional shares in full. Approximately 48.2% of Retail Ventures' common shares on a fully diluted basis are beneficially owned by SSC, a privately held corporation controlled by Jay L. Schottenstein, the Chairman of the Board of Directors of DSW and Retail Ventures and the Chief Executive Officer of DSW, and members of his immediate family. Given their respective ownership interests, Retail Ventures and, indirectly, SSC, will be able to control 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.



**Table of Contents**

The interests of Retail Ventures or SSC may differ from or be opposed to the interests of our other shareholders, and their control may have the effect of delaying or preventing a change in control that may be favored by other shareholders. See [Principal Shareholders](#) and [Certain Relationships and Related Party Transactions](#).

***After this offering, SSC and Retail Ventures 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 Retail Ventures, SSC and us in the area of employee recruiting and retention. Any competition could intensify if Value City begins to carry an assortment of shoes in its stores similar to those found in our stores, target customers similar to ours or adopt a similar business model or strategy for its shoe businesses. Given that after the consummation of this offering, Value City will continue to be a wholly-owned subsidiary of Retail Ventures and DSW will not be wholly-owned, Retail Ventures and SSC may be inclined to direct relevant corporate opportunities to them rather than us.

Our amended and restated articles of incorporation will provide that Retail Ventures and SSC are under no obligation to communicate or offer any corporate opportunity to us. In addition, Retail Ventures and SSC will have the right to engage in similar activities as us, do business with our suppliers and customers and, except as limited by the master separation agreement, 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 and real estate acquisitions. The provisions also outline how corporate opportunities are to be assigned in the event that our, Retail Ventures or SSC's directors and officers learn of corporate opportunities. These provisions are substantially similar to those that currently apply to us through provisions of Retail Ventures' amended articles of incorporation. See [Certain Relationships and Related Party Transactions - Provisions of Our Amended Articles of Incorporation Governing Corporate Opportunities and Related Party Transactions](#).

***Some of our directors and officers may also serve as directors or officers of Retail Ventures, and may have conflicts of interest because they may own Retail Ventures stock or options to purchase Retail Ventures stock, or they may receive cash- or equity-based awards based on the performance of Retail Ventures.***

Some of our directors and officers will also serve as directors or officers of Retail Ventures and may own Retail Ventures stock or options to purchase Retail Ventures stock, or they may be entitled to participate in the Retail Ventures Plans as defined in [Management - Executive Compensation - Employee Incentive Plans](#). Jay L. Schottenstein will be our Chief Executive Officer and Chairman of the Board of Directors and Chairman of the Board of Directors of Retail Ventures; Heywood Wilansky will be a director of DSW and Chief Executive Officer of Retail Ventures; Harvey L. Sonnenberg will be a director of DSW and of Retail Ventures; Julia A. Davis will be Executive Vice President and General Counsel of both DSW and Retail Ventures, and will serve as Secretary and Assistant Secretary for DSW and Retail Ventures, respectively; Steven E. Miller will be Senior Vice President and Controller of both DSW and Retail Ventures; and James A. McGrady will be a Vice President of DSW and Executive Vice President, Chief Financial Officer, Treasurer and Secretary of Retail Ventures. The Retail Ventures Plans provide cash- and equity-based compensation to employees based on Retail Ventures' performance. These employment arrangements and ownership interests or cash- or equity-based awards could create, or appear to create, potential conflicts of interest when directors or officers who own Retail Ventures stock or stock options or who participate in the Retail Ventures Plans are faced with decisions that could have different implications for Retail Ventures than they do for us. These potential conflicts of interest may not be resolved in our favor.

***We do not expect to pay dividends in the foreseeable future.***

We anticipate that future earnings will be used principally to finance our retail expansion. Thus, we do not intend to pay cash dividends on our Common Shares in the foreseeable future. Provisions in our new secured revolving credit facility may also restrict us from declaring dividends. Our board of directors will have sole discretion to determine the dividend amount, if any, to be paid. Our board of directors will consider



**Table of Contents**

a number of factors, including applicable provisions of Ohio corporate law, our financial condition, capital requirements, funds generated from operations, future business prospects, applicable contractual restrictions and any other factors our board may deem relevant. For further description of our dividend policy, see Dividend Policy.

***If our existing shareholders or holders of rights to purchase our Common Shares sell the shares they own, or if Retail Ventures distributes its Common Shares to its shareholders, it could adversely affect the price of our Class A Common Shares.***

The market price of our Class A Common Shares could decline as a result of market sales by our existing shareholders, including Retail Ventures, or a distribution of our Common Shares to Retail Ventures shareholders after this offering or the perception that such sales or distributions will occur. These sales or distributions also might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. We cannot predict the size of future sales of our Common Shares or the impact that such sales may have on the shares purchased or acquired by investors in this offering.

Upon completion of this offering, there will be 14,062,500 Class A Common Shares of DSW outstanding which will be freely transferable without restriction or further registration under the Securities Act of 1933, as amended, or the Securities Act. We expect to issue up to 100,000 restricted Class A Common Shares and stock units pursuant to the terms of DSW's equity incentive plan immediately following the pricing of but prior to the consummation of this offering; however, the issuance of these restricted shares and stock units remains subject to approval by the DSW board of directors prior to the consummation of this offering. The remaining 27,702,667 Class B Common Shares outstanding will be restricted securities within the meaning of Rule 144 under the Securities Act but will be eligible for resale subject to applicable volume, manner of sale, holding period and other limitations of Rule 144.

Following consummation of this offering, SSC, Cerberus Partners L.P., or Cerberus, and Back Bay Capital Funding LLC, or Back Bay, will have the right to acquire Class A Common Shares of DSW from Retail Ventures pursuant to warrant agreements they will enter into with Retail Ventures. For further discussion of these warrant agreements, see Management's Discussion and Analysis of Financial Condition and Results of Operations The DSW Separation, Certain Relationships and Related Party Transactions Notes, Credit Agreements and Guarantees and Description of Indebtedness. We, Retail Ventures, SSC, Cerberus, and Back Bay, as well as our officers and directors, have agreed to a lock-up, meaning that neither we nor they will sell any Common Shares without the prior consent of Lehman Brothers Inc. on behalf of the underwriters for 180 days following the date of this prospectus. However, Cerberus may transfer the warrants issued by Retail Ventures and held by Cerberus as of the effective date of this offering to up to four transferees, provided that any transferee or transferees of Cerberus also agree, for the duration of the lock-up period, that any further transfer shall be made on the terms set forth in the lock-up agreement, and provided further that neither Cerberus nor its direct or indirect transferees may transfer any DSW Common Shares underlying the warrants for the remainder of the lock-up period. In addition, persons purchasing more than 1,000 Class A Common Shares in the directed share program described in Underwriting will be subject to a 25-day lock-up period.

Upon the expiration of this lock-up period, all these Common Shares will be eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. Retail Ventures has registration rights with respect to its DSW Common Shares in specified circumstances pursuant to the master separation agreement. In addition, SSC and Cerberus (and any party to whom either of them transfers at least 15% of their interest in registrable DSW Common Shares) have the right to require that we register for resale in specified circumstances the Class A Common Shares issued to them upon exercise of their warrants, and each of these entities and Back Bay will be entitled to participate in registrations initiated by the other entities. See Shares Eligible for Future Sale and Certain Relationships and Related Party Transactions for a discussion of Common Shares that may be sold into the public market in the future.

**Table of Contents**

***There currently exists no market for our Class A Common Shares. An active trading market may not develop for our Class A Common Shares. If our share price fluctuates after this offering, you could lose all or a significant part of your investment.***

Prior to this offering, no public market existed for our Class A Common Shares. An active and liquid market for the Class A Common Shares may not develop following the completion of this offering, or, if developed, may not be maintained. If an active public market does not develop or is not maintained, you may have difficulty selling your Class A Common Shares. The initial public offering price of our Class A Common Shares was arrived at by negotiations between us, Retail Ventures and the underwriters for this offering and may not be indicative of the price at which the Class A Common Shares will trade following the completion of this offering.

The market price of our Class A Common Shares may also be influenced by many other factors, some of which are beyond our control, including, among other things:

actual or anticipated variations in comparable store sales or quarterly operating results;

changes in financial estimates by research analysts;

actual or anticipated changes in the U.S. economy or the retailing environment;

terrorist acts or wars;

changes in the market volatility of other shoe or retail companies;

announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives; and

actual or anticipated sales or distributions of Common Shares by Retail Ventures, SSC, Cerberus, or Back Bay, as well as our officers and directors, whether in the market, in subsequent public offerings or in a distribution to shareholders.

As a result of this volatility, you may not be able to resell your Class A Common Shares at or above the initial public offering price. In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies like DSW. These broad market and industry factors may materially reduce the market price of the Class A Common Shares, regardless of our operating performance.

***Investors purchasing Class A Common Shares in this offering will incur substantial and immediate dilution.***

The initial public offering price of our Class A Common Shares is substantially higher than the net tangible book value per outstanding share of our Common Shares. Purchasers of our Class A Common Shares in this offering will incur immediate and substantial dilution of \$14.10 per share in the net tangible book value of our Common Shares from the initial public offering price of \$19.00 per share. If the underwriters exercise their option to purchase additional shares in full, there will be dilution of \$13.49 per share in the net tangible book value of our Common Shares. This means that if we were to be liquidated immediately after this offering, there might be no assets available for distribution to you after satisfaction of all our obligations to creditors. For further description of the effects of dilution in the net tangible book value of our Common Shares, see Dilution.

***Our amended articles of incorporation, amended and restated code of regulations and Ohio state law contain provisions that may have the effect of delaying or preventing a change in control of DSW. This could adversely affect the value of your shares.***

Our amended articles of incorporation authorizes our board of directors to issue up to 100,000,000 preferred shares and to determine the powers, preferences, privileges, rights, including voting rights, qualifications, limitations and restrictions on those shares, without any further vote or action by the

**Table of Contents**

shareholders. The rights of the holders of our Class A Common Shares will be subject to, and may be adversely affected by, the rights of the holders of any preferred shares that may be issued in the future. The issuance of preferred shares could have the effect of delaying, deterring or preventing a change in control and could adversely affect the voting power of your shares.

In addition, provisions of our amended articles of incorporation, amended and restated code of regulations and Ohio law, together or separately, could discourage potential acquisition proposals, delay or prevent a change in control and limit the price that certain investors might be willing to pay in the future for our Common Shares. Among other things, these provisions establish a staggered board, require a supermajority vote to remove directors, and establish certain advance notice procedures for nomination of candidates for election as directors and for shareholder proposals to be considered at shareholders' meetings. For further description of these provisions of amended articles of incorporation, amended and restated code of regulations and Ohio law, see [Description of Capital Stock](#) [Anti-Takeover Effects of Certain Provisions of our Amended Articles of Incorporation](#), our Amended and Restated Code of Regulations and Ohio Law.

**Risks Relating to our Relationship with and Separation from Retail Ventures*****The new agreements we are entering into with Retail Ventures in connection with this offering could restrict our operations and adversely affect our financial condition.***

Upon the consummation of this offering, we and Retail Ventures will have entered into a number of agreements governing our separation from and our future relationship with Retail Ventures, including a master separation agreement and a shared services agreement, in the context of our relationship to Retail Ventures as a wholly-owned subsidiary. Accordingly, the terms and provisions of these agreements may be less favorable to us than terms and provisions we could have obtained in arm's length negotiations with unaffiliated third parties.

We and Retail Ventures intend to enter into a tax separation agreement that will become effective upon consummation of this offering. The tax separation agreement will govern the respective rights, responsibilities, and obligations of Retail Ventures and us with respect to tax liabilities and benefits, tax attributes, tax contests and other matters regarding taxes and related tax returns. Although Retail Ventures does not intend or plan to undertake a spin-off of our stock to Retail Ventures stockholders, we and Retail Ventures have agreed to set forth our respective rights, responsibilities and obligations with respect to any possible spin-off in the tax separation agreement. If Retail Ventures were to decide to pursue a possible spin-off, we have agreed to cooperate with Retail Ventures and to take any and all actions reasonably requested by Retail Ventures in connection with such a transaction. We have also agreed not to knowingly take or fail to take any actions that could reasonably be expected to preclude Retail Ventures' ability to undertake a tax-free spin-off. In addition, we generally would be responsible for any taxes resulting from the failure of a spin-off to qualify as a tax-free transaction to the extent such taxes are attributable to, or result from, any action or failure to act by us or certain transactions in our stock (including transactions over which we would have no control, such as acquisitions of our stock and the exercise of warrants, options, exchange rights, conversion rights or similar arrangements with respect to our stock) following or preceding a spin-off. We would also be responsible for a percentage (based on the relative market capitalizations of DSW and Retail Ventures at the time of such spin-off) of such taxes to the extent such taxes are not otherwise attributable to DSW or Retail Ventures. Our agreements in connection with such tax matters last indefinitely. See [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) [Separation Agreements](#) and [Certain Relationships and Related Party Transactions](#) [Relationships Between Our Company and Retail Ventures](#).

***We may be prevented from issuing stock to raise capital, to effectuate acquisitions or to provide equity incentives to members of our management and board of directors.***

Beneficial ownership of at least 80% of the total voting power and 80% of each class of nonvoting capital stock is required in order for Retail Ventures to effect a tax-free spin-off of DSW or certain other tax-free transactions. Although as of the date of this prospectus Retail Ventures does not intend or plan to

**Table of Contents**

undertake a spin-off of our stock to Retail Ventures shareholders, under the terms of our tax separation agreement, we have agreed that for so long as Retail Ventures continues to own greater than 50% of the voting control of our outstanding stock, we will not knowingly take or fail to take any action that could reasonably be expected to preclude Retail Ventures' ability to undertake a tax-free spin-off. In addition, Retail Ventures will be subject to (a) contractual obligations with its lenders to retain ownership of at least 55% by value of the Common Shares of DSW for so long as the Value City convertible loan facility remains outstanding and (b) contractual obligations with its warrant holders to retain enough DSW Common Shares to be able to satisfy its obligations to deliver such shares to its warrant holders if the warrant holders elect to exercise their warrants in full for DSW Class A Common Shares. For purposes of determining Retail Ventures' ownership interest in DSW, DSW Common Shares transferred by Retail Ventures to the warrant holders upon exercise of their warrants will not be subtracted from Retail Ventures' ownership. These restrictions may prevent us from issuing additional equity securities to raise capital, to effectuate acquisitions or to provide management or director equity incentives. See *Certain Relationships and Related Party Transactions Relationships Between Our Company and Retail Ventures*.

***Our prior and continuing relationship with Retail Ventures exposes us to risks attributable to Retail Ventures businesses.***

Retail Ventures is obligated to indemnify us for losses that a party may seek to impose upon us or our affiliates for liabilities relating to the Retail Ventures business that are incurred through a breach of the master separation agreement or any ancillary agreement by Retail Ventures or its non-DSW affiliates, if such losses are attributable to Retail Ventures in connection with this offering or are not expressly assumed by us under the master separation agreement. Immediately following this offering, any claims made against us that are properly attributable to Retail Ventures or Value City in accordance with these arrangements would require us to exercise our rights under the master separation agreement to obtain payment from Retail Ventures. We are exposed to the risk that, in these circumstances, Retail Ventures cannot, or will not, make the required payment. If this were to occur, our business and financial performance could be adversely affected. See *Certain Relationships and Related Party Transactions*.

***Possible future sales of Class A Common Shares by Retail Ventures, SSC, Cerberus and Back Bay could adversely affect prevailing market prices for the Class A Common Shares.***

After completion of this offering, the Class B Common Shares held by Retail Ventures will continue to be subject to liens in favor of SSC, Cerberus and Value City. However, Retail Ventures may sell any and all of the Common Shares held by it upon the consent of these lenders, subject to applicable securities laws and the restrictions set forth below. For a discussion of these liens, see *Management's Discussion and Analysis of Financial Condition and Results of Operations The DSW Separation and Description of Indebtedness*. In addition, SSC, Cerberus and Back Bay will have the right to acquire from Retail Ventures Class A Common Shares of DSW after the consummation of this offering. Sales or distribution by Retail Ventures, SSC, Cerberus and Back Bay of a substantial number of Class A Common Shares in the public market or to their respective shareholders, or the perception that such SSC, Cerberus and Back Bay sales or distributions could occur, could adversely affect prevailing market prices for the Class A Common Shares. See *Certain Relationships and Related Party Transactions Relationships Between our Company and Retail Ventures Agreements Relating to our Separation from Retail Ventures Exchange Agreement*.

Retail Ventures has advised us that its current intent is to continue to hold all the Common Shares owned by it following this offering, except to the extent necessary to satisfy obligations under warrants it has granted to SSC, Cerberus, and Back Bay. See *Management's Discussion and Analysis of Financial Condition and Results of Operations The DSW Separation, Certain Relationships and Related Party Transactions Notes, Credit Agreements and Guarantees and Description of Indebtedness*. In addition, Retail Ventures will be subject to (a) contractual obligations with its lenders to retain ownership of at least 55% by value of the Common Shares of DSW for so long as the Value City convertible loan facility remains outstanding and (b) contractual obligations with its warrant holders to retain enough DSW Common Shares to be able to satisfy its obligations to deliver such shares to its warrant holders if the warrant holders elect to exercise their warrants in full for DSW Class A Common Shares. For purposes of determining Retail Ventures' ownership interest in DSW, DSW Common Shares transferred by Retail Ventures to the



**Table of Contents**

warrantholders upon exercise of their warrants will not be subtracted from Retail Ventures' ownership. In addition, Retail Ventures has agreed not to sell or otherwise dispose of any Common Shares of DSW that Retail Ventures holds for a period of 180 days after the date of this prospectus without the prior written consent of Lehman Brothers Inc. on behalf of the underwriters. See "Underwriting."

As of the date of this prospectus, Retail Ventures is highly leveraged as a result of the indebtedness outstanding under the Value City term loan facility, revolving credit facility and convertible loan facility. After the consummation of this offering, Retail Ventures will continue to be highly leveraged as a result of the indebtedness outstanding under the Value City revolving credit facility and convertible loan facility, and it may incur additional indebtedness in the future. If Retail Ventures were to require additional funds to service or refinance this indebtedness or to fund its operations in the future and could not obtain capital from alternative sources, it could seek to sell some or all of the Common Shares of DSW that it holds in order to obtain such funds.

Similarly, SSC, Cerberus and Back Bay are not subject to any contractual obligation to retain Class A Common Shares they may acquire from Retail Ventures, except that they, too, have agreed not to sell or otherwise dispose of any of our Common Shares for a period of 180 days after the date of this prospectus without the prior written consent of Lehman Brothers Inc. However, Cerberus may transfer the warrants issued by Retail Ventures and held by Cerberus as of the effective date of this offering to up to four transferees, provided that any transferee or transferees of Cerberus also agree, for the duration of the lock-up period, that any further transfer shall be made on the terms set forth in the lock-up agreement, and provided further that neither Cerberus nor its direct or indirect transferees may transfer any DSW Common Shares underlying the warrants for the remainder of the lock-up period. As a result, there can be no assurance concerning the period of time during which Retail Ventures, SSC, Cerberus and Back Bay will maintain their respective beneficial ownership of Common Shares following this offering. Retail Ventures, SSC and Cerberus (and any party to whom either of them transfers at least 15% of their interest in registrable DSW Common Shares) will have registration rights with respect to their respective Common Shares following this offering, which would facilitate any future distribution, and SSC, Cerberus and Back Bay will be entitled to participate in the registrations initiated by the other entities. See "Certain Relationships and Related Party Transactions" and "Relationships Between Our Company and Retail Ventures" and "Shares Available for Future Sale."

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

Some of the statements under Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere in this prospectus may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as outlook, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, estimates, anticipates or the negative version of those words or other comparable words. Any forward-looking statements contained in this prospectus are based upon our historical performance and on current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us, the underwriters or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include but are not limited to those described under Risk Factors. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this prospectus. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we may have projected. Any forward-looking statements you read in this prospectus reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, financial condition, growth strategy and liquidity. You should specifically consider the factors identified in this prospectus that could cause actual results to differ before making an investment decision.

**Table of Contents**

**USE OF PROCEEDS**

We estimate that the net proceeds from our sale of the 14,062,500 Class A Common Shares we are offering will be \$241.5 million, after deducting estimated underwriting discounts and offering expenses. If the underwriters exercise their option to purchase additional shares in full, we estimated that the net proceeds will be \$278.8 million, after deducting estimated underwriting discounts and offering expenses.

We intend to use the net proceeds:

to repay \$190.0 million of intercompany indebtedness owed to Retail Ventures, plus the accrued interest related thereto, which was \$2.7 million as of April 30, 2005; and

the remainder for working capital and other general corporate purposes, including paying down \$40.0 million under the new DSW secured revolving credit facility. This facility is expected to have borrowing base restrictions and will provide for borrowings at variable interest rates based on LIBOR, the prime rate and the Federal Funds effective rate, plus a margin.

The intercompany indebtedness was incurred to fund a \$165.0 million dividend and a \$25.0 million dividend to Retail Ventures. The \$165.0 million of indebtedness is evidenced by a note which is scheduled to mature in March 2020 and bears interest at a rate equal to LIBOR plus 850 basis points per year. As of April 30, 2005, the interest rate was 11.2%. The \$25.0 million of indebtedness is evidenced by a note which is scheduled to mature in May 2020 and bears interest at a rate equal to LIBOR plus 950 basis points per year. Had this note been outstanding as of April 30, 2005, the interest rate would have been 12.2%.



**Table of Contents**

**DIVIDEND POLICY**

We do not anticipate paying cash dividends on our Common Shares in the foreseeable future. Management anticipates that all our earnings and other cash resources, if any, will be retained by us for investment in our business. The payment of dividends is subject to the discretion of our board of directors and will depend on our results of operations, financial position and capital requirements, general business conditions, restrictions imposed by financing arrangements, legal restrictions on the payment of dividends and other factors the board of directors deems relevant. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Description of Indebtedness Our New Secured Revolving Credit Facility.

**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of April 30, 2005:

on an actual basis;

on a pro forma basis to give effect to the incurrence of an additional \$25.0 million of intercompany indebtedness incurred to fund a dividend to Retail Ventures, and the amendment of our articles of incorporation pursuant to which the outstanding common shares of DSW were changed into 27,702,667 Class B Common Shares of DSW; and

on a pro forma as adjusted for this offering basis to give further effect to (i) our issuance and sale of 14,062,500 Class A Common Shares in this offering at a public offering price of \$19.00 per share, (ii) issuance of 100,000 restricted Class A Common Shares and stock units, (iii) the deduction of estimated underwriting discounts and offering expenses payable by us, (iv) the repayment of \$190.0 million of intercompany indebtedness incurred to fund dividends to Retail Ventures and the application of the net proceeds of this offering, as described under Use of Proceeds and (v) expected borrowings under our new secured revolving credit facility (none). We expect to issue these restricted shares and stock units immediately following the pricing of but prior to the consummation of this offering; however, the issuance of the restricted shares and stock units referred to in (ii) above remains subject to approval by the DSW board of directors prior to the consummation of this offering.

This table contains unaudited information and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the accompanying notes that appear elsewhere in this prospectus.

**As of April 30, 2005**

	<b>Actual</b>	<b>Pro Forma</b>	<b>Pro Forma As Adjusted for this Offering</b>
<b>(Dollars in thousands)</b>			
Cash	\$ 13,718	\$ 13,718	\$ 22,587
Short-term debt			
Long-term debt			
Retail Ventures revolving credit facility	\$ 40,000	\$ 40,000	
New DSW revolving credit facility			\$
Intercompany indebtedness	165,000	190,000 <sup>(1)</sup>	
<b>Total debt</b>	<b>\$ 205,000</b>	<b>\$ 230,000</b>	<b>\$</b>
Equity:			
Common Shares, no par value, 500 shares authorized, 410.09 shares outstanding actual; no shares authorized or outstanding, pro forma or pro forma as adjusted to give effect to this offering	\$	\$	\$
Class A Common Shares, no par value, 170,000,000 shares authorized; no shares outstanding, actual and pro forma; 14,162,500 shares outstanding, pro forma as			

adjusted to give effect to this offering  
 Class B Common Shares, no par value,  
 100,000,000 shares authorized; no shares  
 outstanding, actual; 27,702,667 shares outstanding,  
 pro forma and pro forma as adjusted to give effect  
 to this offering

Preferred Shares, no par value, 100,000,000 shares  
 authorized, no shares outstanding actual, pro forma  
 and pro forma as adjusted to give effect to this  
 offering

Additional paid-in capital			241,541
Retained earnings	20,806	(4,194)	(4,194)
Total equity	\$ 20,806	\$ (4,194)	\$ 237,347
Total capitalization	\$ 225,806	\$ 225,806	\$ 237,347

(1) Represents \$190.0 million of intercompany indebtedness incurred to fund dividends to Retail Ventures. Of this \$190.0 million of intercompany indebtedness, \$25.0 million was incurred subsequent to April 30, 2005.

**Table of Contents****DILUTION**

If you invest in our Class A Common Shares, your interest will be diluted to the extent of the difference between the initial public offering price per share of our Class A Common Shares and the net tangible book value per share of our Common Shares after this offering.

Net tangible book value per share represents the amount of total tangible assets less total liabilities, divided by the number of Common Shares then outstanding. Our net tangible book value as of April 30, 2005 was approximately (\$12.0) million, which includes the effect of the \$165.0 million of intercompany indebtedness owed to Retail Ventures. After giving effect to the change of 410.09 common shares of DSW into 27,702,667 Class B Common Shares, our pro forma net tangible book value would have been (\$0.43) per share as of April 30, 2005. After giving effect to our sale of Class A Common Shares in this offering at the initial public offering price of \$19.00 per share, deducting estimated underwriting discounts and estimated offering expenses, and adjusting to give effect to the subsequent incurrence of \$25.0 million of intercompany indebtedness owed to Retail Ventures, our pro forma net tangible book value as of April 30, 2005 would have been \$204.6 million, or \$4.90 per Common Share (assuming no exercise of the underwriters' option to purchase additional shares). This represents an immediate increase in the pro forma net tangible book value of \$5.33 per share and an immediate and substantial dilution of \$14.10 per share to new investors purchasing Class A Common Shares in this offering. The following table illustrates this dilution per share:

Initial public offering price per share	\$ 19.00
Pro forma net tangible book value per share as of April 30, 2005	\$ (0.43)
Increase in pro forma net tangible book value per share attributable to this offering	\$ 5.33
Pro forma net tangible book value per share after giving effect to this offering	\$ 4.90
Dilution per share to new investors	\$ 14.10

The foregoing discussion and tables assume no exercise of any stock options or issuance of restricted shares that will be outstanding immediately following this offering. As of the date of the consummation of this offering, there will be (i) options outstanding to purchase a total of up to 900,000 registered Class A Common Shares of DSW at an exercise price per share equal to the initial public offering price per share and (ii) up to 100,000 restricted Class A Common Shares and stock units issued at a price per share equal to the initial public offering price per share. We expect to issue these stock options, restricted shares and stock units immediately following the pricing of but prior to the consummation of this offering; however, these stock option, restricted share and stock unit issuances remain subject to approval by the DSW board of directors prior to the consummation of this offering. To the extent that any of these options are exercised or restricted shares or stock units are issued in the future, there may be further dilution to new investors.

The following table sets forth, as of April 30, 2005, on the pro forma basis as described above, the difference between the number of Common Shares purchased from us and the total price paid to us by our existing shareholder, Retail Ventures, and by the new investors in this offering at an initial public offering price of \$19.00 per share and prior to deducting the estimated underwriting discounts and estimated offering expenses.

	Shares Purchased		Total Consideration	
	Number	Percentage	Amount	Percentage
			(\$ in millions)	
Retail Ventures	27,702,667	66.3%	\$ 101.4	27.5%
New investors	14,062,500	33.7%	\$ 267.2	72.5%
Total	41,765,167	100%	\$ 368.6	100%

If the underwriters' option to purchase additional shares is exercised in full, the following will occur:

the percentage of Common Shares held by Retail Ventures will decrease to approximately 63.1% of the total number of Common Shares outstanding; and

the number of Common Shares held by new investors will be increased to 16,171,875 shares, or approximately 36.9% of the total number of our Common Shares outstanding after this offering.

**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA**

The unaudited pro forma condensed consolidated financial data presented below were derived by the application of pro forma adjustments to our historical consolidated financial statements included elsewhere in this prospectus. The pro forma adjustments are based upon available information and assumptions that we believe are reasonable and do not give effect to any transactions other than those described below.

The unaudited pro forma condensed consolidated statements of income for the year ended January 29, 2005 and the thirteen week period ended April 30, 2005 assume that each of the following items described in the bullet points below had occurred on February 1, 2004. The unaudited pro forma condensed consolidated balance sheet as of April 30, 2005 assumes that each of the following items had occurred on April 30, 2005:

the consummation of this offering;

the incurrence of \$25.0 million of additional intercompany indebtedness incurred to fund a dividend to Retail Ventures, for total intercompany indebtedness incurred during the period of \$190.0 million;

the repayment of \$190.0 million of intercompany indebtedness incurred to fund dividends to Retail Ventures and \$2.7 million of accrued interest related thereto, and the application of net proceeds as set forth under Use of Proceeds ;

the completion of the Transactions;

the reallocation of shoe warehousing and distribution costs allocated to the leased shoe departments of Value City, using the allocation parameters set forth in the shared services agreement; and

the incurrence of additional estimated operating expenses, including the reallocation of corporate department charges between Retail Ventures and DSW and the net cost of services to be provided under the shared services agreement.

The unaudited pro forma condensed consolidated financial statements do not purport to (i) represent what our financial position and results of operations actually would have been had we been a stand-alone company during the periods presented and had this offering occurred as of the dates indicated and (ii) project our financial performance for any period. The following data are presented for informational purposes only and should be read in conjunction with Risk Factors, Capitalization, Selected Consolidated Financial and Operating Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, The Transactions and with our audited consolidated financial statements and the notes thereto and our unaudited interim consolidated financial statements and the notes thereto, all included elsewhere in this prospectus.

**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**For the Thirteen Week Period Ended April 30, 2005**

	Actual	Operating Adjustments	Pro Forma As Adjusted
<b>(Dollars in thousands, except per share amounts)</b>			
Net sales	\$ 281,806	\$	\$ 281,806
Cost of sales	(199,008)	22 <sup>(1)</sup>	(198,986)
Gross profit	82,798	22	82,820
Operating expenses <sup>(2)</sup>	(67,745)	(470) <sup>(3)</sup>	(68,215)
Operating profit <sup>(2)</sup>	15,053	(448)	14,605
Interest expense	(3,521)	3,521 <sup>(4)</sup>	
Earnings before income taxes <sup>(2)</sup>	11,532	3,073	14,605
Income taxes	(4,552)	(1,213) <sup>(5)</sup>	(5,765)
Net income <sup>(2)</sup>	\$ 6,980	\$ 1,860	\$ 8,840
Unaudited pro forma as adjusted basic net income per share <sup>(6)</sup>			\$ 0.21
Shares used in computing unaudited pro forma as adjusted basic net income per share <sup>(6)</sup>			41,865,167
Unaudited pro forma as adjusted diluted net income per share <sup>(6)</sup>			\$ 0.21
Shares used in computing unaudited pro forma as adjusted diluted net income per share <sup>(6)</sup>			41,865,167

- (1) Reflects the reallocation of shoe warehousing and distribution costs allocated to the leased shoe departments of Value City, using the allocation parameters set forth in the shared services agreement.
- (2) Actual and pro forma results for the thirteen week period ended April 30, 2005 include a \$6.5 million pre-tax charge and a \$3.9 million after-tax charge in operating profit and net income, respectively, related to the reserve for estimated losses associated with the theft of credit card and other purchase information.
- (3) Reflects additional estimated operating expenses, including the reallocation of corporate department charges between Retail Ventures and DSW and the cost of services to be provided under the shared services agreement from Retail Ventures to DSW (net of income to be earned from services provided by DSW to Retail Ventures).
- (4) Reflects the elimination of interest on borrowings under the revolving credit facility and on \$165.0 million of indebtedness incurred to fund a dividend to Retail Ventures, which we expect to repay upon completion of this offering.
- (5) The effective tax rate applied to the pro forma adjustments is 39.5%, the tax rate that was in effect for the thirteen week period ended April 30, 2005.

- (6) During the thirteen week period ended April 30, 2005, DSW operated as a wholly-owned subsidiary of Retail Ventures and, accordingly, did not have publicly traded shares outstanding. Unaudited pro forma as adjusted basic and diluted net income per share is computed by dividing unaudited pro forma as adjusted net income by the number of common shares. For this calculation, we have assumed that there will be 41,865,167 Common Shares outstanding after this offering.



**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**For the Fiscal Year Ended January 29, 2005**

	Actual	Operating Adjustments	Pro Forma As Adjusted
<b>(Dollars in thousands, except per share amounts)</b>			
Net sales	\$ 961,089	\$	\$ 961,089
Cost of sales	(690,878)	3,006 <sup>(1)</sup>	(687,872)
Gross profit	270,211	3,006	273,217
Operating expenses	(214,102)	(7,201) <sup>(2)</sup>	(221,303)
Operating profit	56,109	(4,195)	51,914
Interest expense	(2,734)	2,734 <sup>(3)</sup>	
Earnings before income taxes	53,375	(1,461)	51,914
Income taxes	(18,420)	504 <sup>(4)</sup>	(17,916)
Net income	\$ 34,955	\$ (957)	\$ 33,998
Unaudited pro forma as adjusted basic net income per share <sup>(5)</sup>			\$ 0.81
Shares used in computing unaudited pro forma as adjusted basic net income per share <sup>(5)</sup>			41,865,167
Unaudited pro forma as adjusted diluted net income per share <sup>(5)</sup>			\$ 0.81
Shares used in computing unaudited pro forma as adjusted diluted net income per share <sup>(5)</sup>			41,865,167

- (1) Reflects the reallocation of shoe warehousing and distribution costs allocated to the leased shoe departments of Value City, using the allocation parameters set forth in the shared services agreement.
- (2) Reflects additional estimated operating expenses, including the reallocation of corporate department charges between Retail Ventures and DSW and the cost of services to be provided under the shared services agreement from Retail Ventures to DSW (net of income to be earned from services provided by DSW to Retail Ventures).
- (3) Reflects the elimination of interest on borrowings under the revolving credit facility, which we expect to repay upon completion of this offering.
- (4) The effective tax rate applied to the pro forma adjustments is 34.5%, the tax rate that was in effect for the fiscal year ended January 29, 2005.
- (5) During the fiscal year ended January 29, 2005, DSW operated as a wholly-owned subsidiary of Retail Ventures and, accordingly, did not have publicly traded shares outstanding. Unaudited pro forma as adjusted basic and diluted net income per share is computed by dividing unaudited pro forma as adjusted net income by the number of common shares. For this calculation, we have assumed that there will be 41,865,167 Common Shares

outstanding after this offering.

Table of Contents

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET**  
**As of April 30, 2005**

	Actual	Capital Structure Adjustments	Pro Forma As Adjusted for Capital Structure Adjustments	Offering Adjustments <sup>(3)</sup>	Pro Forma As Adjusted for the Offering and for Capital Structure Adjustments
(Dollars in thousands)					
Current assets	\$ 277,231		\$ 277,231	\$ 8,869	\$ 286,100
Property & equipment net	91,055		91,055		91,055
Goodwill, tradenames & other	38,829		38,829		38,829
Total assets	\$ 407,115	\$ 0	\$ 407,115	\$ 8,869	\$ 415,984
Current liabilities	\$ 125,516		\$ 125,516	\$ (2,672)	\$ 122,844
Long term obligations	40,000 <sup>(1)</sup>		40,000	(40,000)	
Intercompany indebtedness owned to Retail Ventures	165,000	25,000	190,000 <sup>(2)</sup>	(190,000)	
Other non current liabilities	55,793		55,793		55,793
Common shareholders equity	20,806	(25,000) <sup>(2)</sup>	(4,194)	241,541	237,347
Total liabilities & shareholders equity	\$ 407,115	\$ 0	\$ 407,115	\$ 8,869	\$ 415,984

(1) Represents borrowings on the existing revolving credit facility of Value City, which are attributable to DSW.

(2) Represents the issuance of \$190.0 million of intercompany indebtedness incurred to fund dividends to Retail Ventures. Of this \$190.0 million of intercompany indebtedness, \$25.0 million was incurred subsequent to April 30, 2005.

(3) Represents the issuance of 14,062,500 Class A Common Shares at an assumed aggregate initial offering price of \$267.2 million, or \$19.00 per share, the payment of estimated fees and expenses assumed to be \$25.6 million, and the application of the net proceeds as set forth under Use of Proceeds.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA**

We present below summary historical financial data. The following summary historical financial data (i) as of January 29, 2005 and January 31, 2004, and for each of fiscal years 2002, 2003 and 2004, were derived from our audited historical consolidated financial statements included elsewhere in this prospectus, (ii) as of April 30, 2005 and for the thirteen week periods ended April 30, 2005 and May 1, 2004, were derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus, (iii) as of February 1, 2003 and for fiscal 2001 were derived from our audited consolidated financial statements not included herein and (iv) as of May 1, 2004, February 3, 2001 and February 2, 2002 and for fiscal 2000 were derived from our unaudited consolidated financial statements for these periods not included herein.

	For the Fiscal Year Ended				For the Thirteen Week Period Ended		
	2/3/01 <sup>(1)</sup>	2/2/02	2/1/03	1/31/04	1/29/05	5/1/04	4/30/05
	(Unaudited)					(Unaudited)	(Unaudited)
(Dollars in thousands except net sales per average gross square foot)							
<b>Statement of Income Data:</b>							
Net sales <sup>(2)</sup>	\$ 421,548	\$ 523,509	\$ 644,345	\$ 791,348	\$ 961,089	\$ 232,559	\$ 281,806
Gross profit	\$ 103,675	\$ 123,396	\$ 158,756	\$ 202,927	\$ 270,211	\$ 67,587	\$ 82,798
Operating profit <sup>(3)</sup>	\$ 9,955	\$ 4,668	\$ 17,781	\$ 28,053	\$ 56,109	\$ 13,805	\$ 15,053
Net income <sup>(3)</sup>	\$ 5,242	\$ 239	\$ 8,060	\$ 14,807	\$ 34,955	\$ 7,816	\$ 6,980
<b>Balance Sheet Data:</b>							
Total assets	\$ 230,660	\$ 232,821	\$ 295,703	\$ 291,184	\$ 395,437	\$ 319,919	\$ 407,115
Working capital <sup>(4)</sup>	\$ 2,687	\$ 60,121	\$ 87,141	\$ 103,244	\$ 138,919	\$ 123,923	\$ 151,715
Current ratio <sup>(5)</sup>	1.03	1.77	2.07	2.39	2.28	2.57	2.21
Long term obligations <sup>(6)</sup>	\$ 513	\$ 325	\$ 54,116	\$ 35,000	\$ 55,000	\$ 45,000	\$ 205,000
<b>Other Data:</b>							
Number of DSW stores: <sup>(7)</sup>							
Beginning of period	58	78	104	126	142	142	172
New stores	20	26	22	16	31	9	7
Closed/re-categorized stores <sup>(7)</sup>	0	0	0	0	1	0	2
End of period	78	104	126	142	172	151	177
Comparable DSW stores (units)	44	54	74	102	124	125	139
DSW store square footage added <sup>(8)</sup>	544,999	684,086	584,652	386,734	835,020	251,637	181,371
Average gross square footage <sup>(9)</sup>	1,536,307	2,217,108	2,912,545	3,364,094	4,010,245	3,704,437	4,440,123
Net sales per average gross sq. ft. <sup>(10)</sup>	\$ 267	\$ 230	\$ 214	\$ 214	\$ 217	\$ 57	\$ 57
Number of leased shoe departments at end of period							
	16	16	113	168	224	172	231
	16	16	16	17	22	20	25

Affiliated leased shoe departments							
Non-affiliated leased shoe departments	0	0	97	151	202	152	206
Total comparable store sales change <sup>(11)</sup>	19.1%	0.0%	0.1%	5.9%	5.0%	11.0%	4.4%

(1) Fiscal 2000 includes 53 weeks; all other years contain 52 weeks.

(2) Includes net sales of leased shoe departments.

(3) Results for the thirteen week period ended April 30, 2005 include a \$6.5 million pre-tax charge, and a \$3.9 million after-tax charge in operating profit and net income, respectively, related to the reserve for estimated losses associated with the theft of credit card and other purchase information.

**Table of Contents**

- (4) Working capital represents current assets less current liabilities.
- (5) Current ratio represents current assets divided by current liabilities.
- (6) Comprised of borrowings under the Value City revolving credit facility, except for the amounts outstanding as of April 30, 2005, which also include \$165.0 million of intercompany indebtedness incurred to fund a dividend to Retail Ventures. We expect to repay this intercompany indebtedness with the net proceeds of this offering.
- (7) Number of DSW stores for each fiscal period presented prior to the first quarter of fiscal 2005 includes two combination DSW/Filene's Basement stores which were re-categorized as leased shoe departments in the first quarter of fiscal 2005.
- (8) DSW square footage added represents the total amount of square footage added during the period attributable to new store openings for DSW stores only; it does not reflect changes in square footage of leased shoe departments.
- (9) Average gross square footage represents the monthly average of square feet for DSW stores only for each period presented and consequently reflects the effect of opening stores in different months throughout the period.
- (10) Net sales per average gross square foot is the result of dividing net sales for DSW stores only for the period presented by average gross square foot calculated as described in footnote 8 above.
- (11) Comparable DSW stores and comparable leased shoe departments are those units that have been in operation for at least 14 months at the beginning of the fiscal year. Stores or leased shoe departments, as the case may be, are added to the comparable base at the beginning of the year and are dropped for comparative purposes in the month that they are closed.

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This management's discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks and uncertainties. Please see [Forward-Looking Statements](#) for a discussion of the uncertainties, risks and assumptions associated with these statements. You should read the following discussion in conjunction with our historical consolidated financial statements and the notes thereto, our unaudited pro forma financial statements and the notes to our unaudited pro forma financial statements appearing elsewhere in this prospectus, including [Prospectus Summary](#), [Summary Consolidated Financial Information](#), [Capitalization](#), [Unaudited Pro Forma Consolidated Financial Data](#) and [Selected Consolidated Financial and Operating Data](#). The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those listed under [Risk Factors](#) and included elsewhere in this prospectus.

**Overview**

DSW is a leading U.S. specialty branded footwear retailer operating 177 DSW stores in 32 states as of April 30, 2005, with net sales of approximately \$961.1 million in fiscal 2004. We offer in our DSW stores a combination of selection, convenience and value that we believe differentiates us from our competitors such as mall-based department stores, national chains and independent shoe retailers and appeals to consumers from a broad range of socioeconomic and demographic backgrounds. In addition to operating DSW stores, as of April 30, 2005, we operated a total of 206 leased shoe departments for three non-affiliated retailers, including 154 leased shoe departments for Stein Mart, Inc., or Stein Mart; 51 for Gordman's, Inc., or Gordmans; and one for Frugal Fannie's Fashion Warehouse, or Frugal Fannie's. As of April 30, 2005, we also operated 25 leased shoe departments for Filene's Basement, a wholly-owned subsidiary of Retail Ventures. We plan to further strengthen our position as a leading specialty branded footwear retailer by pursuing three primary strategies for growth: expanding our store base, driving sales through enhanced merchandising and continuing to improve profitability.

The first DSW store was opened in July 1991, and in 1998, the DSW business was acquired by Value City Department Stores, Inc., which subsequently became a wholly-owned subsidiary of Retail Ventures. In December 2004, Retail Ventures completed a corporate reorganization whereby Value City Department Stores, Inc., a wholly-owned subsidiary of Retail Ventures, merged with and into Value City, another wholly-owned subsidiary of Retail Ventures. In turn, Value City transferred all the issued and outstanding shares of DSW to Retail Ventures in exchange for a promissory note. We have operated as a division of Retail Ventures, and our assets, liabilities and operating results have been included in the financial statements of Value City Department Stores, Inc. or Retail Ventures since the time of our acquisition and the formation of Retail Ventures, respectively. In connection with the sale of Class A Common Shares offered pursuant to this prospectus, DSW will become a publicly-traded company and will operate its business as a stand-alone entity. For more information regarding the separation of the DSW business from Retail Ventures, please see [Separation Agreements](#) and [Certain Relationships and Related Party Transactions](#) [Relationships Between Our Company and Retail Ventures](#).

Our consolidated financial statements, which are discussed below, reflect the historical position, results of operations and cash flows of the DSW business, which has been transferred to us from Retail Ventures or other affiliates pursuant to the reorganization. They assume that DSW, for the periods presented, had existed as a separate legal entity. Our consolidated financial statements reflect the accounting policies adopted by Retail Ventures in the preparation of its financial statements. Some costs have been reflected in the consolidated financial statements that are not necessarily indicative of the costs that DSW would have incurred had it operated as an independent, stand-alone entity for all periods presented. These costs include allocated portions of Retail Ventures' corporate overhead, interest expense and income taxes.

**Table of Contents*****Sources of Revenue***

DSW generates revenues by purchasing primarily in-season shoes and accessories directly from vendors for sale to customers in DSW stores and leased shoe departments. We have operated leased shoe departments in Filene's Basement stores since April 2000, in Stein Mart stores since July 2002 and in Gordmans stores since June 2004.

***Expansion Strategy***

The main growth strategy for our business is to increase total net sales through DSW store expansion while maintaining positive comparable store sales growth for DSW stores. We intend to open approximately 30 stores per year in each fiscal year from fiscal 2005 through fiscal 2009. As of April 30, 2005, we have opened seven new stores in fiscal 2005 and signed leases for an additional 22 stores and one store relocation. For fiscal 2005, we have budgeted approximately \$10.5 million and \$26.4 million, respectively, for capital expenditures and inventory in connection with new DSW store openings. We expect to receive approximately \$9.0 million in tenant allowances in connection with these store openings. We plan to finance investment in new DSW stores with cash flows from operating activities and by drawing from our new \$150 million secured revolving credit facility when necessary. However, we may be unable to open new stores contemplated by our growth plan on a timely basis. For a further discussion of the risks associated with our growth strategy, see Risk Factors Risks Relating to Our Business.

We expect our expenses to increase as we operate the additional stores and support the increasing size of the business. However, we will strive to limit the growth rate of our expenses to a rate that is less than the growth rate of net sales. We expect the increase in net sales to come primarily from an increase in our market share, as we do not expect a significant increase in the total footwear market.

We utilize economic and demographic information to select new DSW store locations that will generate additional incremental sales with minimal negative effects on existing stores. The selection of stores is based on evaluating total sales expectations for the location, as well as the appropriateness of the size and rent. In the past, we have closed stores which have not been profitable, and we may do so again in the future. In addition, we have also moved stores to other locations in the same market. In fiscal years 2002, 2003, and 2004 we have opened DSW stores that were approximately 6% larger than the average store size of a typical DSW store in prior fiscal years. However, to date, the sales volumes of these newer stores have been less than our average store sales, and, as a result, we have experienced a decrease in net sales per average gross square foot. As the newer stores increase their net sales and we open new stores sized to fit market potential, we expect to improve our net sales per gross square foot performance in the future.

We anticipate that cash from operations, together with borrowings under our new secured revolving credit facility, will be adequate to fund operating expenses, working capital, capital expenditures and our planned retail expansion. However, there can be no assurance as to the future availability of external financing or internally generated funds required to execute our DSW store expansion strategy as planned. For more information regarding our plans for funding our operations and expansion, see Liquidity and Capital Resources.

***Key Financial and Non-Financial Measures***

In evaluating DSW's results of operations, our management refers to a number of key financial and non-financial measures relating to the performance of our business. Among our key financial results are net sales, operating profit and net income. Non-financial measures that we use in evaluating our performance include number of DSW stores and leased shoe departments, net sales per average gross square foot for DSW stores, and change in comparable stores sales.

The following describes certain line items set forth in our consolidated statement of income:

*Net Sales.* We record net sales exclusive of sales tax and net of returns. For comparison purposes, we define stores or leased shoe departments as comparable or non-comparable. A store's or leased shoe department's sales are included in comparable sales if the store or leased shoe department has been in



**Table of Contents**

operation at least 14 months at the beginning of the fiscal year. Stores and leased shoe departments are excluded from the comparison in the month that they close. Stores that are remodeled or relocated are excluded from the comparison if they are closed for more than two fiscal months or are relocated out of their market area.

*Cost of Sales.* Our cost of sales includes the cost of merchandise, distribution and warehousing (including depreciation), store occupancy (excluding depreciation), permanent and point of sale reductions, markdowns and shrinkage provision. After the consummation of this offering, our cost of sales will also reflect the impact of shared services.

*Operating Expenses.* Operating expenses include expenses related to store selling, store management and store payroll costs, advertising, leased shoe department operations, store depreciation and amortization, pre-opening advertising and other pre-opening costs (which are expensed as incurred), corporate expenses for buying services, information services, depreciation expense for corporate cost centers, marketing, insurance, legal, finance, outside professional services, allocable costs from Retail Ventures and other corporate related departments and benefits for associates and related payroll taxes. After the consummation of this offering, our operating expenses will also reflect the cost of shared services and the cost of operating as a public company. Corporate level expenses are primarily attributable to operations at our corporate offices in Columbus, Ohio.

***Fiscal Year; Seasonality***

We follow a 52/53-week fiscal year that ends on the Saturday nearest to January 31 in each year. Fiscal 2004, 2003, 2002 and 2001 each consisted of 52 weeks and fiscal 2000 consisted of 53 weeks.

Our business, measured in terms of net sales, is subject to seasonal trends. Our net sales, measured on a comparable stores basis, have typically been higher in spring and early fall, when our customers' interest in new seasonal styles increases. In addition, when measured in terms of operating profit, our business has historically experienced lower levels of profitability in the fourth quarter of our fiscal year, due primarily to moderately lower sales in the fourth quarter. Unlike many other retailers, we have not historically experienced a large increase in net sales during our fourth quarter associated with the winter holiday season.

***Separation Agreements***

We will enter into several agreements with Retail Ventures in connection with the separation of the DSW business from the Retail Ventures group.

*Master Separation Agreement.* The separation agreement will become effective upon the consummation of this offering. The master separation agreement contains key provisions relating to the separation of our business from Retail Ventures. The master separation agreement will require us to exchange information with Retail Ventures, follow certain accounting practices and resolve disputes with Retail Ventures in a particular manner. We also will agree to maintain the confidentiality of certain information and preserve available legal privileges. The separation agreement also will contain provisions relating to the allocation of the costs of our initial public offering, indemnification, non-solicitation of employees and employee benefit matters.

Under the master separation agreement, we have agreed to effect up to one demand registration per calendar year of our Common Shares, whether Class A or Class B, held by Retail Ventures, if requested by Retail Ventures. We have also granted Retail Ventures the right to include its Common Shares of DSW in an unlimited number of other registrations of such shares initiated by us or on behalf of our other shareholders.

*Shared Services Agreement.* Many aspects of our business, which were fully managed and controlled by us without Retail Ventures' involvement, will continue to operate as they did prior to this offering. We will continue to manage operations for critical functions such as merchandise buying, planning and allocation, distribution and store operations. Under the shared services agreement, which when signed will become effective as of January 30, 2005, we will provide services to several subsidiaries of Retail Ventures relating to planning and allocation support, distribution services and outbound transportation management, site research, lease negotiation, store design and construction management. Retail Ventures will provide us with services relating to import administration, risk management, information technology, tax, logistics and inbound

**Table of Contents**

transportation management, legal services, financial services, shared benefits administration and payroll and will maintain insurance for us and for our directors, officers, and employees.

We anticipate that the initial term of the shared services agreement will expire at the end of fiscal 2007 and will be extended automatically for additional one-year terms unless terminated by one of the parties. As of the date of this prospectus, we expect that Retail Ventures will provide us with several information technology services for a period longer than the initial term, and we expect that distribution services will be provided for a period shorter than the initial term. With respect to each of the other shared services, we cannot reasonably anticipate whether the services will be shared for a period shorter or longer than the initial term.

*Tax Separation Agreement.* We have historically been included in Retail Ventures' consolidated group, or the Consolidated Group, for U.S. federal income tax purposes as well as in certain consolidated, combined or unitary groups which include Retail Ventures and/or certain of its subsidiaries, or a Combined Group, for state and local income tax purposes. We intend to enter into a tax separation agreement with Retail Ventures that will become effective upon consummation of this offering. Pursuant to the tax separation agreement, we and Retail Ventures generally will make payments to each other such that, with respect to tax returns for any taxable period in which we or any of our subsidiaries are included in the Consolidated Group or any Combined Group, the amount of taxes to be paid by us will be determined, subject to certain adjustments, as if we and each of our subsidiaries included in the Consolidated Group or Combined Group filed our own consolidated, combined or unitary tax return. Retail Ventures will prepare pro forma tax returns for us with respect to any tax return filed with respect to the Consolidated Group or any Combined Group in order to determine the amount of tax separation payments under the tax separation agreement. We will have the right to review and comment on such pro forma tax returns. We will be responsible for any taxes with respect to tax returns that include only us and our subsidiaries.

Retail Ventures will be exclusively responsible for preparing and filing any tax return with respect to the Consolidated Group or any Combined Group. We generally will be responsible for preparing and filing any tax returns that include only us and our subsidiaries. Retail Ventures has agreed to undertake to provide these services with respect to our separate tax returns. For the tax services to be provided to us by Retail Ventures, we will pay Retail Ventures a monthly fee equal to 50% of all costs associated with the maintenance and operation of Retail Ventures' tax department (including all overhead expenses). In addition, we will reimburse Retail Ventures for 50% of any third party fees and expenses generally incurred by Retail Ventures' tax department and 100% of any third party fees and expenses incurred by Retail Ventures' tax department solely in connection with the performance of the tax services to be provided to us.

Retail Ventures will be primarily responsible for controlling and contesting any audit or other tax proceeding with respect to the Consolidated Group or any Combined Group; provided, however, that, except in cases involving taxes relating to a spin-off, we will have the right to control decisions to resolve, settle or otherwise agree to any deficiency, claim or adjustment with respect to any item for which we are solely liable under the tax separation agreement. Pursuant to the tax separation agreement, we will have the right to control and contest any audit or tax proceeding that relates to any tax returns that include only us and our subsidiaries. We and Retail Ventures will have joint control over decisions to resolve, settle or otherwise agree to any deficiency, claim or adjustment for which we and Retail Ventures could be jointly liable, except in cases involving taxes relating to a spin-off. Disputes arising between the parties relating to matters covered by the tax separation agreement are subject to resolution through specific dispute resolution provisions.

We have been included in the Consolidated Group for periods in which Retail Ventures owned at least 80% of the total voting power and value of our outstanding stock. It is not expected that we will be included in the Consolidated Group following this offering. Each member of a consolidated group for U.S. federal income tax purposes is jointly and severally liable for the U.S. federal income tax liability of each other member of the consolidated group. Similarly, in some jurisdictions, each member of a consolidated, combined or unitary group for state, local or foreign income tax purposes is jointly and severally liable for the state, local or foreign income tax liability of each other member of the consolidated, combined or unitary group. Accordingly, although the tax separation agreement allocates tax liabilities



**Table of Contents**

between us and Retail Ventures, for any period in which we were included in the Consolidated Group or a Combined Group, we could be liable in the event that any income tax liability was incurred, but not discharged, by any other member of the Consolidated Group or a Combined Group.

As of the date of this prospectus Retail Ventures does not intend or plan to undertake a spin-off of our stock to Retail Ventures stockholders. Nevertheless, we and Retail Ventures have agreed to set forth our respective rights, responsibilities and obligations with respect to any possible spin-off in the tax separation agreement. If Retail Ventures were to decide to pursue a possible spin-off, we have agreed to cooperate with Retail Ventures and to take any and all actions reasonably requested by Retail Ventures in connection with such a transaction. We have also agreed not to knowingly take or fail to take any actions that could reasonably be expected to preclude Retail Ventures ability to undertake a tax-free spin-off. In addition, we generally would be responsible for any taxes resulting from the failure of a spin-off to qualify as a tax-free transaction to the extent such taxes are attributable to, or result from, any action or failure to act by us or certain transactions in our stock (including transactions over which we would have no control, such as acquisitions of our stock and the exercise of warrants, options, exchange rights, conversion rights or similar arrangements with respect to our stock) following or preceding a spin-off. We would also be responsible for a percentage (based on the relative market capitalizations of us and Retail Ventures at the time of such spin-off) of such taxes to the extent such taxes are not otherwise attributable to us or Retail Ventures. Our agreements in connection with such spin-off matters last indefinitely. In addition, present and future majority-owned affiliates of DSW or Retail Ventures will be bound by our agreements, unless Retail Ventures or we, as applicable, consent to grant a release of an affiliate (such consent cannot be unreasonably withheld, conditioned or delayed), which may limit our ability to sell or otherwise dispose of such affiliates. Additionally, a minority interest participant(s) in a future joint venture, if any, would need to evaluate the effect of the tax separation agreement on such joint venture, and such evaluation may negatively affect their decision whether to participate in such a joint venture. Furthermore, the tax separation agreement may negatively affect our ability to acquire a majority interest in a joint venture.

***Critical Accounting Policies and Estimates.***

As discussed in Note 1 to our consolidated financial statements included elsewhere in this prospectus, the preparation of our consolidated financial statements in conformity with generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and judgments, including, but not limited to, those related to inventory valuation, depreciation, amortization, recoverability of long-lived assets (including intangible assets), estimates for self insurance reserves for health and welfare, workers compensation and casualty insurance, income taxes, contingencies, litigation and revenue recognition. We base these estimates and judgments on our historical experience and other factors we believe to be relevant, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The process of determining significant estimates is fact-specific and takes into account factors such as historical experience, current and expected economic conditions, product mix, and in some cases, actuarial and appraisal techniques. We constantly re-evaluate these significant factors and make adjustments where facts and circumstances dictate.

While we believe that our historical experience and other factors considered provide a meaningful basis for the accounting policies applied in the preparation of the consolidated statements, we cannot guarantee that our estimates and assumptions will be accurate. As the determination of these estimates requires the exercise of judgment, actual results inevitably will differ from those estimates, and such differences may be material to our financial statements.

**Table of Contents**

We believe the following represent the most significant accounting policies, critical estimates and assumptions, among others, used in the preparation of our consolidated financial statements:

*Revenue Recognition.* Revenues from merchandise sales are recognized at the point of sale and are net of returns and exclude sales tax. Revenue from gift cards is deferred and the revenue is recognized upon redemption of the gift cards.

*Cost of Sales and Merchandise Inventories.* Merchandise inventories are stated at the lower of cost, determined using the first-in, first-out basis, or market, using the retail inventory method. The retail inventory method is widely used in the retail industry due to its practicality. Under the retail inventory method, the valuation of inventories at cost and the resulting gross profit are calculated by applying a calculated cost to retail ratio to the retail value of inventories. The cost of the inventory reflected on our consolidated balance sheet is decreased by charges to cost of sales at the time the retail value of the inventory is lowered through the use of markdowns. Hence, earnings are negatively impacted as merchandise is marked down prior to sale. Reserves to value inventory at the lower of cost or market were \$14.2 million and \$11.5 million at the end of fiscal 2004 and 2003, respectively.

Inherent in the calculation of inventories are certain significant management judgments and estimates, including setting the original merchandise retail value or mark-on, markups of initial prices established, reductions in prices due to customers' perception of value (known as markdowns), and estimates of losses between physical inventory counts, or shrinkage, which, combined with the averaging process within the retail inventory method, can significantly impact the ending inventory valuation at cost and the resulting gross profit.

We include in the cost of sales expenses associated with warehousing, distribution and store occupancy. Warehousing costs are comprised of labor, benefits and other labor-related costs associated with the operations of the warehouse, which are primarily payroll-related taxes and benefits. The non-labor costs associated with warehousing include rent, depreciation, insurance, utilities and maintenance and other operating costs that are passed to us from the landlord. Distribution costs include the transportation of merchandise to the warehouse and from the warehouse to our stores. Store occupancy costs include rent, utilities, repairs, maintenance and janitorial costs and other costs associated with licenses and occupancy-related taxes, which are primarily real estate taxes passed to us by our landlords.

*Asset Impairment and Long-lived Assets.* We must periodically evaluate the carrying amount of our long-lived assets, primarily property and equipment, and finite life intangible assets when events and circumstances warrant such a review to ascertain if any assets have been impaired. The carrying amount of a long-lived asset is considered impaired when the carrying value of the asset exceeds the expected future cash flows (undiscounted and without interest) from the asset. Our reviews are conducted down at the lowest identifiable level, which include a store. The impairment loss recognized is the excess of the carrying value, based on discounted future cash flows, of the asset over its fair value. Should an impairment loss be realized, it will be included in operating expenses. The amount of impairment losses recorded during fiscal 2004 was \$0.9 million, while in fiscal 2003 and 2002 the amounts of impairment losses were immaterial to the financial statements. We believe at this time that the long-lived assets' carrying values and useful lives continue to be appropriate. To the extent these future projections or our strategies change, the conclusion regarding impairment may differ from our current estimates.

*Self-insurance Reserves.* We record estimates for certain health and welfare, workers compensation and casualty insurance costs that are self-insured programs. These estimates are based on actuarial assumptions and are subject to change based on actual results. Should the total cost of claims for health and welfare, workers compensation and casualty insurance exceed those anticipated, reserves recorded may not be sufficient, and, to the extent actual results vary from assumptions, earnings would be impacted.

**Table of Contents**

*Customer Loyalty Program.* We maintain a customer loyalty program for our DSW stores in which customers receive a future discount on qualifying purchases. The Reward Your Style program is designed to promote customer awareness and loyalty and provide us with the ability to communicate with our customers and enhance our understanding of their spending trends. Upon reaching the target spending level, customers may redeem these discounts on a future purchase. Generally, these future discounts must be redeemed within six months. We accrue the estimated costs of the anticipated redemptions of the discount earned at the time of the initial purchase and charge such costs to operating expense based on historical experience. The estimates of the costs associated with the loyalty program require us to make assumptions related to customer purchase levels and redemption rates. The accrued liability as of January 29, 2005 and January 31, 2004 was \$4.5 million and \$3.0 million, respectively. To the extent assumptions of purchases and redemption rates vary from actual results, earnings would be impacted.

*Income Taxes.* We are required to determine the aggregate amount of income tax expense to accrue and the amount which will be currently payable based upon tax statutes of each jurisdiction we do business in. In making these estimates, we adjust income based on a determination of generally accepted accounting principles for items that are treated differently by the applicable taxing authorities. Deferred tax assets and liabilities, as a result of these differences, are reflected on our balance sheet for temporary differences that will reverse in subsequent years. A valuation allowance is established against deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized. If our management had made these determinations on a different basis, our tax expense, assets and liabilities could be different.

**Results of Operations**

As of April 30, 2005, we operated 177 DSW stores and leased shoe departments in 154 Stein Mart stores, 51 Gordmans stores, 25 Filene's Basement stores and one Frugal Fannie's store. We manage our operations as one segment. The following table represents selected components of our historical consolidated results of operations, expressed as percentages of net sales:

	For the Fiscal Year Ended			For the Thirteen Week Period Ended	
	February 1, 2003 (52 Weeks)	January 31, 2004 (52 Weeks)	January 29, 2005 (52 Weeks)	May 1, 2004 (13 Weeks)	April 30, 2005 (13 Weeks)
Net sales, including sales from leased departments	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	(75.4)	(74.4)	(71.9)	(70.9)	(70.6)
Gross profit	24.6	25.6	28.1	29.1	29.4
Operating expenses	(21.9)	(22.1)	(22.3)	(23.1)	(24.1)
Operating profit	2.7	3.5	5.8	6.0	5.3
Interest expense, net	(0.6)	(0.3)	(0.3)	(0.3)	(1.2)
Income before income taxes	2.1	3.2	5.5	5.7	4.1
Provision for income taxes	(0.9)	(1.3)	(1.9)	(2.3)	(1.6)
Net income	1.2%	1.9%	3.6%	3.4%	2.5%

**Thirteen Week Period Ended April 30, 2005 (First Quarter of Fiscal 2005) Compared to the Thirteen Week Period Ended May 1, 2004 (First Quarter of Fiscal 2004)**

*Net Sales.* Net sales for the thirteen week period ended April 30, 2005 increased by 21.2%, or \$49.2 million, to \$281.8 million from \$232.6 million in the thirteen week period ended May 1, 2004. Our comparable store sales in the first quarter of fiscal 2005 improved 4.4% compared to the first quarter of fiscal 2004. After accounting for the recategorization of two DSW/Filene's Basement combination stores from DSW

**Table of Contents**

stores to leased shoe departments in the first quarter of fiscal 2005, the increase includes a net increase of 26 new DSW stores, 53 non-affiliated leased shoe departments and three Filene's Basement leased shoe departments in the first quarter of fiscal 2005. The new DSW locations added \$32.6 million in sales compared to the first quarter of fiscal 2004, while the new leased shoe departments added \$5.7 million. Leased shoe department sales comprised 10.8% of total net sales in the first quarter of fiscal 2005, compared to 8.9% in the first quarter of fiscal 2004.

Compared with first quarter of fiscal 2004, DSW comparable store sales increased in women's 2.7%, athletic 12.3% and men's 4.9%, and decreased in the accessories category by 3.2%. Sales increases in women's and men's were driven by increases in the dress and casual categories, while the increase in athletic was the result of an increase in the fashion athletic category. The decrease in accessories was the result of declines in the handbags and hosiery categories.

*Gross Profit.* Gross profit increased \$15.2 million to \$82.8 million in the first quarter of fiscal 2005 from \$67.6 million in the first quarter of fiscal 2004, and increased as a percentage of net sales from 29.1% in the first quarter of fiscal 2004 to 29.4% in the first quarter of fiscal 2005. This increase is primarily attributable to increased initial markups resulting in higher average unit retail prices. The benefit of the higher initial markups was partially offset by markdowns on transitional spring merchandise that had been brought into the stores in December 2004 and January 2005. Warehouse expense as a percentage of net sales decreased from 2.4% in the first quarter of fiscal 2004 to 1.7% in the first quarter of fiscal 2005. The decrease in warehouse expense is the result of improved operational efficiencies achieved through the use of electronic shipping information, increased unit volumes and a higher allocation of warehouse expense to Value City's shoe operations pursuant to the shared services agreement. This decrease in warehouse expense was partially offset by increases in store occupancy, from 11.9% of net sales in the first quarter of fiscal 2004 to 12.6% of net sales in the first quarter of fiscal 2005. The increase in store occupancy is the result of increases in lease expense for new stores.

*Operating Expenses.* For the first quarter of fiscal 2005, operating expenses increased \$13.9 million from \$53.8 million in the first quarter of fiscal 2004 to \$67.7 million in the first quarter of fiscal 2005. Operating expenses represented 24.1% of net sales in the first quarter of fiscal 2004 and 23.1% of net sales in the first quarter of fiscal 2005. Operating expenses for the first quarter of fiscal 2005 include \$1.5 million in pre-opening costs compared to \$2.8 million in the first quarter of fiscal 2004. Pre-opening costs are expensed as incurred and therefore do not necessarily reflect expenses for the stores opened in a given fiscal period. Included in operating expenses is the related operating cost associated with operating the leased shoe departments, excluding occupancy. The new DSW stores and leased shoe departments added \$6.1 million in expenses compared to the first quarter of fiscal 2004, excluding pre-opening expenses.

During the quarter we accrued an estimated liability related to the theft of credit card and other purchase information. Potential exposures for losses related to stolen information were estimated to fall within a range of approximately \$6.5 million to approximately \$9.5 million. Because of many factors, including the early development of information regarding the theft and recoverability under insurance policies, there is no amount in the estimated range that represents a better estimate than any other amount in the range. Therefore, in accordance with Financial Accounting Standard No. 5, *Accounting for Contingencies*, we have accrued a charge to operations equal to the low end of the range set forth above, or \$6.5 million. As the situation develops and more information becomes available to us, the amount of the reserve may increase or decrease accordingly. The amount of any such change may be material.

*Operating Profit.* Operating profit was \$15.1 million in the first quarter of fiscal 2005 compared to \$13.8 million in the first quarter of fiscal 2004, and decreased as a percentage of net sales from 6.0% in the first quarter of fiscal 2004 to 5.3% in the first quarter of fiscal 2005. Operating profit was positively affected by the thirteen weeks of operation for our DSW stores and leased shoe departments opened in the previous fiscal year but was offset by operating expenses related to the estimate for our potential losses related to the theft of credit card and other purchase information.

*Interest Expense.* Interest expense, net of interest income, increased \$2.8 million to \$3.5 million for the first quarter of fiscal 2005 from \$0.7 million for the first quarter of fiscal 2004. Included in interest expense





**Table of Contents**

is \$2.7 million of interest due to Retail Ventures related to \$165.0 million of indebtedness incurred to fund a dividend. The indebtedness is evidenced by a note that bears interest at a rate equal to LIBOR plus 850 basis points. The interest expense also reflects higher weighted average borrowing rates. Interest expense includes the amortization of debt issuance costs of \$0.1 million in each of the first quarters of fiscal 2005 and 2004.

*Income Taxes.* Our effective tax rate for the first quarter of fiscal 2005 was 39.5%, compared to 40.2% for the first quarter of fiscal 2004.

**Fiscal Year Ended January 29, 2005 (Fiscal 2004) Compared to Fiscal Year Ended January 31, 2004 (Fiscal 2003)**

*Net Sales.* Net sales for the fifty-two weeks ended January 29, 2005 increased by 21.4%, or \$169.8 million, to \$961.1 million from \$791.3 million in the fifty-two week period ended January 31, 2004. Our comparable store sales in fiscal 2004 improved 5.0% compared to the previous fiscal year. The increase includes a net increase of 30 new DSW stores, 51 non-affiliated leased shoe departments and five Filene's Basement leased shoe departments in fiscal 2004. The new DSW locations added \$82.0 million in sales compared to fiscal 2003, while the new leased shoe departments added \$12.7 million. Leased shoe department sales comprised 9.4% of total net sales in fiscal 2004, compared to 8.9% in fiscal 2003.

Compared with fiscal 2003, DSW comparable store sales increased in women's 4.3%, athletic 11.6% and accessories 9.6%, and decreased in the men's category by 0.3%. Sales increases in women's were driven by increases in dress, better and sandals in the spring and women's casual in the fall. The increase in athletic was the result of sales increases in fashion athletic in both the men's and women's categories. The increase in accessories was the result of additional new merchandise being offered.

*Gross Profit.* Gross profit increased \$67.3 million to \$270.2 million in fiscal 2004 from \$202.9 million in fiscal 2003, and increased as a percentage of net sales from 25.6% in fiscal 2003 to 28.1% in fiscal 2004. This increase is primarily attributable to increased initial markups and a decrease in markdowns when compared to the prior fiscal year. The initial markup increase is the result of increased average unit retail prices and the ability to buy at lower costs, which is due to the fact that we placed larger orders. Warehouse expense as a percentage of net sales decreased from 2.5% in fiscal 2003 to 2.2% in fiscal 2004. The decrease in warehouse expense is the result of improved operational efficiencies achieved through the use of electronic shipping information and increased unit volumes. This decrease in warehouse expense was partially offset by increases in store occupancy, from 12.8% of net sales in fiscal 2003 to 12.9% of net sales in fiscal 2004.

*Operating Expenses.* For fiscal 2004, operating expenses increased \$39.2 million from \$174.9 million in fiscal 2003 to \$214.1 million in fiscal 2004. Operating expenses represented 22.1% of net sales in fiscal 2003 and 22.3% of net sales in fiscal 2004. Operating expenses for fiscal 2004 include \$10.8 million in pre-opening costs compared to \$5.1 million in the prior fiscal year. Pre-opening costs are expensed as incurred and therefore do not necessarily reflect expenses for the stores opened in a given fiscal year. Included in operating expenses is the related operating cost associated with operating the leased shoe departments, excluding occupancy. The new DSW stores and leased shoe departments added \$14.8 million in expenses compared to fiscal 2003, excluding pre-opening expenses.

*Operating Profit.* Operating profit was \$56.1 million in fiscal 2004 compared to \$28.1 million in fiscal 2003, and increased as a percentage of net sales from 3.5% in fiscal 2003 to 5.8% in fiscal 2004. Operating profit was positively affected by the full year of operations for our DSW stores and leased shoe departments opened in fiscal 2003.

*Interest Expense.* Interest expense, net of interest income, was \$2.7 million in each of fiscal 2004 and fiscal 2003. Interest expense in fiscal 2004 was the result of an increase in the average weighted borrowing rate, offset in part by a decrease in average weighted borrowings. Interest expense includes the amortization of debt issuance costs of \$0.5 million in each of fiscal 2004 and fiscal 2003.

*Income Taxes.* Our effective tax rate for fiscal 2004 was 34.5%, compared to 41.5% for fiscal 2003. The favorable rate experienced in fiscal 2004, primarily in the fourth quarter, was driven by several factors which included the deductibility of certain expenses associated with the termination benefits of the former

**Table of Contents**

Chief Executive Officer of Retail Ventures, among others. The favorable effective tax rate is not expected to continue into the future as DSW anticipates its effective tax rate will approximate its statutory rate.

**Fiscal Year Ended January 31, 2004 (Fiscal 2003) Compared To Fiscal Year Ended February 1, 2003 (Fiscal 2002)**

*Net Sales.* Net sales for the fifty-two weeks ended January 31, 2004 increased by 22.8%, or \$147.0 million, to \$791.3 million from \$644.3 million in the fifty-two week period ended February 1, 2003. Our comparable store sales in fiscal 2003 improved 5.9% compared to the previous fiscal year. The increase includes a net increase of 16 new DSW stores, 54 non-affiliated leased shoe departments and one Filene's Basement leased shoe department in fiscal 2003. The new DSW locations added \$32.8 million in sales compared to fiscal 2002, while the new leased shoe departments added \$25.4 million. Leased shoe department sales comprised 8.9% of total net sales in fiscal 2003, compared to 3.5% in fiscal 2002.

Compared with fiscal 2002, DSW comparable store sales increased in women's 7.3%, men's 4.5%, athletic 1.5% and accessories 3.2%. The increase in women's was primarily attributable to a strong year-long comparable store performance in the women's better category and a strong seasonal boot performance in the fourth quarter of fiscal 2003. The increase in men's was primarily driven by increases in the casual and fashion dress shoe categories. In athletic, the increase was primarily attributable to an increase in the men's athletic category. The increase in accessories was primarily driven by an increase in the gift category.

*Gross Profit.* Gross profit increased \$44.1 million to \$202.9 million in fiscal 2003 from \$158.8 million in fiscal 2002, and increased as a percentage of net sales from 24.6% in fiscal 2002 to 25.6% in fiscal 2003. This increase was primarily attributable to higher initial markups on merchandise purchases, as evidenced by the increase in average unit retail prices. Warehouse expense as a percentage of sales decreased from 2.7% in fiscal 2002 to 2.5% in fiscal 2003. This decrease in warehouse expense was partially offset by increases in store occupancy, from 12.1% of net sales in fiscal 2002 to 12.8% of net sales in fiscal 2003. The increase in store occupancy is the result of the higher cost of renting our newer stores.

*Operating Expenses.* For fiscal 2003, operating expenses increased \$33.9 million from \$141.0 million in fiscal 2002 to \$174.9 million in fiscal 2003. Operating expenses represented 21.9% of net sales in fiscal 2002 and 22.1% of net sales in fiscal 2003. Operating expenses for fiscal 2003 include \$5.1 million in pre-opening costs compared to \$2.9 million in the prior fiscal year. Pre-opening costs are expensed as incurred and therefore do not necessarily reflect expenses for the stores opened in a given fiscal year. Included in operating expenses is the related operating cost associated with operating the leased shoe departments, excluding occupancy. The new DSW stores and leased shoe departments added \$6.7 million in expenses compared to fiscal 2002, excluding pre-opening expenses.

*Operating Profit.* Operating profit was \$28.1 million in fiscal 2003 compared to \$17.8 million in fiscal 2002, and increased as a percentage of net sales from 2.7% in fiscal 2002 to 3.5% in fiscal 2003. Operating profit was positively affected by the full year of operations for our DSW stores and leased shoe departments opened in fiscal 2002.

*Interest Expense.* Interest expense, net of interest income, decreased \$1.2 million to \$2.7 million in fiscal 2003 from \$3.9 million in fiscal 2002, due primarily to the write-off in fiscal 2002 of unamortized debt issuance costs and a decrease in the average weighted borrowing rate, offset in part by an increase in average weighted borrowings. Interest expense includes the amortization of debt issuance costs of \$0.5 million in each of fiscal 2003 and fiscal 2002.

*Income Taxes.* Our effective tax rate for fiscal 2003 was 41.5%, compared to 42.0% for fiscal 2002. The decrease in the effective tax rate was primarily due to the decrease in non-deductible expenses for tax purposes.

**Table of Contents****Quarterly Results*****Quarterly Operations Data***

The following tables set forth unaudited quarterly condensed consolidated statements of operations data, expressed in thousands of dollars. This quarterly information is unaudited, but has been prepared on the same basis as the annual consolidated financial statements included elsewhere in this prospectus and, in the opinion of our management, reflects all adjustments necessary for a fair representation of the information for the periods presented. This quarterly condensed statement of income data should be read in conjunction with our audited consolidated financial statements and the related notes included elsewhere in this prospectus. Operation results for any quarter are not necessarily indicative of results for any future period or for the full fiscal year.

**Quarter Ended  
(Dollars in thousands)**

	FY 2004			FY 2005	
	5/1/04	7/31/04	10/30/04	1/29/05	4/30/05
Net sales	\$ 232,559	\$ 234,403	\$ 262,444	\$ 231,683	\$ 281,806
Cost of sales	(164,972)	(167,464)	(184,991)	(173,451)	(199,008)
Gross profit	67,587	66,939	77,453	58,232	82,798
Operating expenses	(53,782)	(51,305)	(60,664)	(48,351)	(67,745)
Operating profit	13,805	15,634	16,789	9,881	15,053
Interest expense	(726)	(745)	(989)	(274)	(3,521)
Earnings before income taxes	13,079	14,889	15,800	9,607	11,532
Income tax (provision) benefit	(5,263)	(5,992)	(6,358)	(807)	(4,552)
Net income	\$ 7,816	\$ 8,897	\$ 9,442	\$ 8,800	\$ 6,980
Comparable store sales change	11.0%	3.0%	0.8%	5.8%	4.4%

**Quarter Ended  
(Dollars in thousands)**

	FY 2003			
	5/3/03	8/2/03	11/1/03	1/31/04
Net sales	\$ 186,715	\$ 197,327	\$ 221,421	\$ 185,885
Cost of sales	(144,718)	(145,607)	(161,523)	(136,573)
Gross profit	41,997	51,720	59,898	49,312
Operating expenses	(42,363)	(42,904)	(47,466)	(42,141)
Operating profit (loss)	(366)	8,816	12,432	7,171

Interest expense	(924)	(627)	(634)	(554)
Earnings (loss) before income taxes	(1,290)	8,189	11,798	6,617
Income tax (provision) benefit	535	(3,395)	(4,890)	(2,757)
Net income (loss)	\$ (755)	\$ 4,794	\$ 6,908	\$ 3,860
Comparable store sales change	(3.5%)	4.8%	12.0%	11.6%

## Liquidity and Capital Resources

### *Overview*

Our primary ongoing cash requirements are for seasonal and new store inventory purchases, capital expenditures in connection with our expansion, the remodeling of existing stores and infrastructure growth. We have historically funded our expenditures with cash flows from operations and borrowings under the Value

**Table of Contents**

City credit facilities to which we have been a party, as described below. Our working capital and inventory levels typically build seasonally. We believe that we will be able to continue to fund our operating requirements and the expansion of our business pursuant to our growth strategy in the future with cash flows from operations and borrowings under the new DSW secured revolving credit facility we are entering into in connection with the separation of the DSW business from Retail Ventures, although we can give no assurance in this regard.

***The DSW Separation***

On or about the date of the consummation of this offering, Retail Ventures expects to amend or terminate the existing credit facilities and other debt obligations of Value City and its other affiliates, including certain facilities under which DSW has rights and obligations as a co-borrower and co-guarantor. For further description of these facilities and our new secured revolving credit facility, see Description of Indebtedness.

*The Value City Revolving Credit Facility.* Until the amendment and restatement of this revolving credit agreement, we will continue to be a co-borrower under a Loan and Security Agreement, as amended, entered into with National City Business Credit, Inc., or National City, as administrative agent, and the other parties named therein, originally entered into in June 2002. We, Value City and other Retail Ventures affiliates are currently named as co-borrowers, and Retail Ventures is a co-guarantor. The maturity date of the facility is June 11, 2006. This revolving credit agreement allows DSW and the other Value City affiliates named as co-borrowers to draw on a \$425 million revolving credit facility, subject to applicable borrowing base restrictions. All the capital stock of DSW and DSWSW is pledged to National City, as administrative agent, in favor of the revolving credit facility lenders. We, Retail Ventures and the other co-borrowers and guarantors named therein are jointly and severally liable for all liabilities incurred under the agreement. We have reflected our direct obligations under this revolving credit facility as they relate to borrowings secured by our assets in our historical financial statements included elsewhere in this prospectus. For additional information regarding this revolving credit facility, see Financing Activities.

Under the Value City revolving credit facility, the borrowing base formula applicable to DSW has been based on the value of our inventory and receivables. Primary security for this revolving credit facility is provided in part by a first priority lien on all of the inventory and accounts receivable of DSW and the other co-borrowers thereunder, as well as certain intercompany notes and payment intangibles. Subject to the provisions of an intercreditor agreement, this revolving credit facility also has the substantial equivalent of a second priority perfected security interest in all the first priority collateral securing the Value City aggregate \$100 million term loans and the Value City \$75 million convertible loan, including all of the capital stock of DSW and DSWSW. We are a co-borrower under this revolving credit facility, and will remain obligated thereunder until the amendment and restatement of this revolving credit agreement described below. Interest on borrowings under this revolving credit facility is calculated at the bank's base rate plus 0.0% to 0.5%, or at the LIBOR rate plus 2.00% to 2.75%, depending upon the level of average excess availability that DSW and the other co-borrowers maintain.

At April 30, 2005 and January 29, 2005, \$225.0 million and \$108.5 million was available, respectively, under this revolving credit facility. Direct borrowings by us aggregated \$40.0 million and \$55.0 million as of April 30, 2005 and January 29, 2005, respectively, while \$8.1 million and \$14.9 million letters of credit were issued and outstanding as of April 30, 2005 and January 29, 2005, respectively.

On or about the date of the consummation of this offering, Retail Ventures and its affiliates will amend and restate the revolving credit agreement, and we will be released from our obligations thereunder. In addition, National City will release its liens on the shares of our capital stock held by Retail Ventures and the capital stock of DSWSW held by us. Leasehold mortgages granted by DSW and DSWSW in 2002 to secure obligations under the revolving credit agreement, as well as the Value City term loan facility and subordinated convertible loan facility, will also be released.

*Our New Secured Revolving Credit Facility.* Simultaneously with the amendment and restatement of the Value City revolving credit facility, DSW expects to enter into a new \$150 million secured revolving credit

**Table of Contents**

facility with a term of five years. Under this facility, we expect that we and our subsidiary, DSWSW, will be named as co-borrowers. This new DSW facility is expected to have borrowing base restrictions and will provide for borrowings at variable interest rates based on LIBOR, the prime rate and the Federal Funds effective rate, plus a margin. Our obligations under our new secured revolving credit facility will be secured by a lien on substantially all of our and our subsidiary's personal property and a pledge of our shares of DSWSW. In addition, our new secured revolving credit facility will contain usual and customary restrictive covenants relating to our management and the operation of our business. These covenants will, among other things, restrict our ability to grant liens on our assets, incur additional indebtedness, open or close stores, pay cash dividends and redeem our stock, enter into transactions with affiliates and merge or consolidate with another entity. In addition, if at any time we utilize over 90% of our borrowing capacity under this facility, we must comply with a fixed charge coverage ratio test set forth in the facility documents.

*The Value City Term Loan Facility.* Until the amendment of this term loan agreement, we will continue to be a co-borrower under a Financing Agreement, as amended, among Cerberus, as agent, and other parties named therein, originally entered into in June 2002. Under the terms of this term loan agreement, Cerberus and SSC each provided to us, Value City and other Retail Ventures affiliates a separate \$50 million three-year term loan comprised of two tranches. Retail Ventures is named as a co-guarantor. In July 2004, the maturity date of these loans was extended until June 11, 2006. In connection with the second tranche of these loans, Retail Ventures issued to each of Cerberus and SSC warrants to purchase 1,477,396 common shares of Retail Ventures at a purchase price of \$4.50 per share, subject to adjustment. In September 2002, Back Bay bought from each of Cerberus and SSC a \$1.5 million interest in each of the tranches of their term loans for an aggregate \$6.0 million interest, and Back Bay received from each of Cerberus and SSC a corresponding portion of the warrants to purchase Retail Ventures common shares originally issued in connection with the second tranche of their term loans. All the capital stock of DSW and DSWSW is pledged to Cerberus, as agent, in favor of SSC, Cerberus and Back Bay. As a co-borrower, we are jointly and severally liable for the performance and payment of obligations under this financing agreement; however, this indebtedness has not been reflected in our historical financial statements included elsewhere in this prospectus as it is recorded on the books of Retail Ventures.

On or about the date of the consummation of this offering, we expect to be released from our obligations as a co-borrower pursuant to the amendment of this term loan agreement. We have been advised by Retail Ventures that Value City expects to repay all the term loan indebtedness on or about the date of the consummation of this offering. In connection with the amendment of this term loan agreement, Retail Ventures has agreed to amend the outstanding warrants to provide SSC, Cerberus and Back Bay the right, from time to time, in whole or in part, to (i) acquire Retail Ventures common shares at the then current conversion price (subject to the existing anti-dilution provisions), (ii) acquire from Retail Ventures Class A Common Shares of DSW at an exercise price per share equal to the price of shares sold to the public in this offering (subject to anti-dilution provisions similar to those in the existing warrants), or (iii) acquire a combination thereof.

Given an exercise price per share of \$19.00, SSC and Cerberus would each receive 328,915 Class A Common Shares, and Back Bay would receive 41,989 Class A Common Shares, if they exercised those warrants in full exclusively for DSW Common Shares. These warrants expire in June 2012. Although Retail Ventures does not intend or plan to undertake a spin-off of Common Shares to Retail Ventures shareholders, in the event that Retail Ventures effects a spin-off of its DSW Common Shares to its shareholders in the future, the holders of outstanding unexercised warrants will receive the same number of DSW Common Shares that they would have received had they exercised their warrants in full for Retail Ventures common shares immediately prior to the record date of the spin-off, without regard to any limitation on exercise contained in the warrants. Following the completion of any such spin-off, the warrants will be exercisable solely for Retail Ventures common shares.

Prior to the consummation of this offering, we will enter into an exchange agreement with Retail Ventures whereby, upon the request of Retail Ventures, we will be required to exchange some or all of the Class B Common Shares held by Retail Ventures for Class A Common Shares. SSC and Cerberus (and any party to whom either of them transfers at least 15% of their interest in registrable DSW Common Shares)





**Table of Contents**

have the right to require that we register for resale in specified circumstances the Class A Common Shares issued to them upon exercise of their warrants, and each of these entities and Back Bay will be entitled to participate in the registrations initiated by the other entities. Our failure to perform our obligations under the registration rights agreement relating to these shares would result in an event of default under the Value City senior subordinated convertible loan facility, as amended. See *Certain Relationships and Related Party Transactions* *Relationships Between our Company and Retail Ventures* *Agreements Relating to our Separation from Retail Ventures* *Exchange Agreement* and *Shares Eligible for Future Sale* *Registration Rights*.

*The Value City Senior Subordinated Convertible Loan Facility.* Until the amendment and restatement of this convertible loan agreement, we will continue to be a co-guarantor under an Amended and Restated Senior Subordinated Convertible Loan Agreement, as amended, entered into with Cerberus, as agent and lender, SSC, as lender, and the other parties named therein, originally entered into in June 2002. Under this agreement, SSC initially provided a \$75 million loan, now held equally by SSC and Cerberus, to Value City, as borrower, which is convertible at the option of the lenders into common shares of Retail Ventures at an initial conversion price of \$4.50 per share. All the capital stock of DSW and DSWSW is pledged to Cerberus, as agent, in favor of Cerberus and SSC. Retail Ventures is a co-guarantor under this convertible loan agreement, and the maturity date of this convertible loan is June 10, 2009. This indebtedness has not been reflected in our historical financial statements included elsewhere in this prospectus as it is recorded on the books of Retail Ventures. This indebtedness originated as a \$75 million loan made to Value City by an institutional lender in March 2000, which was assigned to SSC in December 2000.

On or about the date of the consummation of this offering, we expect to be released from our obligations as a co-guarantor pursuant to the amendment and restatement of this agreement. We have been advised by Retail Ventures that Value City expects to repay \$25.0 million of this facility on or about the date of the consummation of this offering. The \$75 million convertible loan will be converted into a non-convertible loan, and the capital stock of DSW held by Retail Ventures will continue to secure the amended loan facility. In addition, in connection with the amendment and restatement of this convertible loan agreement, Retail Ventures has agreed to issue to SSC and Cerberus convertible warrants which will be exercisable from time to time until the later of June 11, 2007 and the repayment in full of Value City's obligations under the amended and restated loan agreement.

Under the convertible warrants, SSC and Cerberus will have the right, from time to time, in whole or in part, to (i) acquire Retail Ventures common shares at the conversion price referred to in the convertible loan (subject to existing anti-dilution provisions), (ii) acquire from Retail Ventures Class A Common Shares of DSW at an exercise price per share equal to the price of the shares sold to the public in this offering (subject to anti-dilution provisions similar to those in the existing warrants) or (iii) acquire a combination thereof. Although Retail Ventures does not intend or plan to undertake a spin-off of Common Shares to Retail Ventures shareholders, in the event that Retail Ventures effects a spin-off of its DSW Common Shares to its shareholders in the future, the holders of outstanding unexercised warrants will receive the same number of DSW Common Shares that they would have received had they exercised their warrants in full for Retail Ventures common shares immediately prior to the record date of the spin-off, without regard to any limitation on exercise contained in the warrants. Following the completion of any such spin-off, the warrants will be exercisable solely for Retail Ventures common shares.

SSC and Cerberus may acquire, upon exercise of the warrants in full, an aggregate number of Class A Common Shares of DSW from Retail Ventures which, at the price of shares sold in this offering, have a value equal to \$75 million. Given an exercise price per share of \$19.00, SSC and Cerberus would each receive 1,973,684 Class A Common Shares if they exercised these warrants exclusively for DSW Common Shares.

Prior to the consummation of this offering, we will enter into an exchange agreement with Retail Ventures whereby, upon the request of Retail Ventures, we will be required to exchange some or all of the Class B Common Shares held by Retail Ventures for Class A Common Shares. SSC and Cerberus (and any party to whom either of them transfers at least 15% of their interest in registrable DSW Common Shares) have the right to require that we register for resale in specified circumstances the Class A Common Shares

**Table of Contents**

issued to them upon exercise of their warrants. Our failure to perform our obligations under the registration rights agreement relating to these shares would result in an event of default under the Value City senior subordinated convertible loan facility, as amended. See *Certain Relationships and Related Party Transactions Relationships Between our Company and Retail Ventures Agreements Relating to our Separation from Retail Ventures Exchange Agreement and Shares Eligible for Future Sales Registration Rights*.

*Value City Intercompany Note.* The capital stock of DSW held by Retail Ventures will continue to secure the \$240 million Value City intercompany note made payable by Retail Ventures to Value City, which was executed and delivered on January 1, 2005 in connection with the transfer of all the capital stock of DSW and Filene's Basement by Value City to Retail Ventures on that date. The lien granted to Value City on the DSW capital stock held by Retail Ventures will be released upon written notice that warrants held by Cerberus, SSC and Back Bay are to be exercised in exchange for DSW capital stock held by Retail Ventures and to be delivered by Retail Ventures upon the exercise of such warrants. The lien will also be released upon repayment of the note in full.

*Cross-Corporate Guarantees.* We have entered into cross-corporate guarantees with various financing institutions pursuant to which we, Retail Ventures, Filene's Basement and Value City, jointly and severally, guarantee payment obligations owed to these entities under factoring arrangements they have entered into with vendors who may provide merchandise to some or all of Retail Ventures' subsidiaries. We may be released from any prospective liability under the guarantees at any time. Upon release, our potential liability would be limited to the then outstanding amount under the canceled guarantee. We will terminate these cross-corporate guarantees on or about the date of the consummation of this offering. The outstanding balance of our potential liability as of May 30, 2005 was \$36.2 million, and we do not expect this amount to change significantly prior to the consummation of this offering. After the guarantees are cancelled, the outstanding balance will decrease to zero over a period of approximately 90 days as payments are made in the ordinary course of business.

***Operating Activities***

For the thirteen week period ended April 30, 2005, our net cash provided by operations was \$26.1 million, compared to \$2.2 million for the thirteen week period ended May 1, 2004. Net working capital increased \$27.8 million to \$151.7 million at April 30, 2005 from \$123.9 million at May 1, 2004, primarily due to increased investing with respect to new DSW stores and new leased shoe departments opened in fiscal 2005. Current assets divided by current liabilities at those dates were 2.2 and 2.6, respectively.

Net cash provided by operating activities during the thirteen week period ended April 30, 2005 reflects several causes, primarily the increase in accounts payable of \$9.9 million, a reduction in the advances to affiliates of \$24.3 million and the increase in accrued expenses of \$6.8 million, partially offset by the increase in inventory of \$20.1 million.

Net cash provided by operations in fiscal 2004 was \$15.7 million, compared to \$45.1 million for fiscal 2003. Net working capital increased \$35.7 million to \$138.9 million at January 29, 2005 from \$103.2 million at January 31, 2004. Current assets divided by current liabilities at those dates were 2.3 and 2.4, respectively.

The \$15.7 million net cash provided by operations during fiscal 2004 reflects several causes. Net cash was used to increase inventory by \$58.0 million, increase deferred income taxes by \$7.8 million and increase advances to affiliates by \$22.2 million. Net cash was provided by operations, an increase in accrued expenses of \$15.0 million and an increase in accounts payable of \$19.9 million.

Net cash provided by operating activities totaled \$45.1 million in fiscal 2003 while operating activities used \$30.8 million in fiscal 2002. The net cash change reflects several causes, primarily the increase in inventory of \$8.9 million, the decrease in accounts payable of \$9.0 million and the decrease in advances to affiliates of \$20.6 million, which were funded from operations.

**Table of Contents**

We operate all our stores, warehouses and corporate office space from leased facilities. Lease obligations are accounted for either as operating leases or as capital leases. We disclose in the notes to the financial statements included elsewhere in this prospectus the minimum payments due under operating or capital leases.

***Investing Activities***

For the thirteen week period ended April 30, 2005, our cash used in investing activities amounted to \$5.6 million compared to \$7.3 million for the corresponding period of fiscal 2004. For the thirteen week period ended April 30, 2005, and in each fiscal year from fiscal 2002 through fiscal 2004, our cash used in investing activities consisted of capital expenditures. Cash used for capital expenditures was \$34.3 million, \$22.3 million and \$23.1 million for fiscal 2004, fiscal 2003 and fiscal 2002, respectively. Capital expenditures were related primarily to new stores.

Our future capital expenditures will depend primarily on the number of new stores we open, the number of existing stores we remodel and the timing of these expenditures. In fiscal 2004, we opened 31 new DSW stores and closed one DSW store. We plan to open approximately 30 stores per year in each fiscal year from fiscal 2005 through fiscal 2009. During fiscal 2004, the average investment required to open a typical new DSW store was approximately \$1.7 million. Of this amount, gross inventory typically accounted for \$880,000, fixtures and leasehold improvements typically accounted for \$600,000 (prior to tenant allowances) and pre-opening advertising and other pre-opening expenses typically accounted for \$250,000. We plan to finance investment in new stores with cash flows from operating activities and by drawing from our new \$150 million secured revolving credit facility when necessary.

***Financing Activities***

For the thirteen week period ended April 30, 2005, our net cash used in financing activities was \$15.1 million, compared to \$9.9 million provided by financing activities for the corresponding period in fiscal 2004. In fiscal 2004, our net cash provided by financing activities was \$19.9 million compared to net cash used by financing activities of \$19.2 million in fiscal 2003. The primary source of financing funds is the Value City revolving credit facility.

Net cash used by financing activities was \$19.2 million in fiscal 2003 and was primarily attributable to the net decrease in borrowing under the Value City revolving credit facility of \$19.0 million. Net cash provided by financing activities in fiscal 2002 was \$52.4 million. The primary source of financing funds was the net increase in the Value City revolving credit facility of \$54.0 million, which was partially offset by debt issuance costs of \$1.4 million. For a discussion of the terms of the Value City revolving credit facility and the expected \$150 million secured revolving credit facility of DSW, see The DSW Separation.

***Contractual and Operating Lease Obligations***

We have the following minimum commitments under contractual obligations, as defined by the SEC. A purchase obligation is defined as an agreement to purchase goods or services that is enforceable and legally binding on us and that specifies all significant terms, including: fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions; and the approximate timing of the transaction. Other long-term liabilities are defined as long-term liabilities that are reflected on our balance sheet in accordance with GAAP. Based on this definition, the tables below include only those contracts which include fixed or minimum obligations. It does not include normal purchases, which are made in the ordinary course of business.

**Table of Contents**

The following table provides aggregated information about contractual obligations and other long-term liabilities as of January 29, 2005:

**Contractual Obligations**

	Payments due by period					No Expiration Date
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years	
(dollars in thousands)						
Long-term debt <sup>(1)</sup>	\$ 55,000		\$ 55,000			
Operating lease obligations <sup>(2)</sup>	786,611	\$ 81,496	167,184	\$ 160,170	\$ 377,761	
Construction commitments <sup>(3)</sup>	1,035	1,035				
Purchase obligations <sup>(4)</sup>	3,160	1,794	1,246	120		
<b>Total</b>	<b>\$ 845,806</b>	<b>\$ 84,325</b>	<b>\$ 223,430</b>	<b>\$ 160,290</b>	<b>\$ 377,761</b>	

(1) On or about the date of this offering, we expect to be released from our obligations under the Value City revolving credit facility, the Value City term loan facility and the Value City senior subordinated convertible loan facility. Simultaneously, we expect to enter into a new \$150 million secured revolving credit facility.

(2) Our operating leases require us to pay for common area maintenance costs and real estate taxes. In fiscal 2004, these common area maintenance costs and real estate taxes represented 25.6% of our required lease payments. These costs and taxes vary year by year and are based almost entirely on actual costs incurred and taxes paid incurred by the landlord. As such, they are not included in the lease obligations presented above.

(3) Construction commitments include capital items to be purchased for projects that were under construction, or for which a lease had been signed, as of January 29, 2005.

(4) Many of our purchase obligations are cancelable by us without payment or penalty, and we have excluded such obligations, along with all associate employment and intercompany obligations.

We had outstanding letters of credit that totaled approximately \$14.9 million at January 29, 2005 and \$8.1 million at April 30, 2005. If certain conditions are met under these arrangements, we would be required to satisfy the obligations in cash. Due to the nature of these arrangements and based on historical experience, we do not expect to make any significant payment outside of terms set forth in these arrangements.

As of April 30, 2005, we have entered into various construction commitments, including capital items to be purchased for projects that were under construction, or for which a lease has been signed. Our obligations under these commitments aggregated to approximately \$0.3 million as of April 30, 2005. In addition, we have signed lease agreements for new store locations with annual rent of approximately \$9.3 million. In connection with the new lease agreements, we will receive approximately \$7.6 million of tenant allowances, which will reimburse us for expenditures at these locations.

In March 2005, we incurred intercompany indebtedness to fund a \$165.0 million dividend to Retail Ventures. The indebtedness is evidenced by a note which is scheduled to mature in March 2020 and bears interest at a rate equal to

LIBOR plus 850 basis points per year. Interest is payable quarterly in arrears commencing on June 30, 2005. Our obligations under the note are guaranteed by our subsidiary. We expect to exercise our right to prepay the note with the net proceeds of this offering.

In May 2005, we incurred intercompany indebtedness to fund a \$25.0 million dividend to Retail Ventures. The indebtedness is evidenced by a note which is scheduled to mature in May 2020 and bears interest at a rate equal to LIBOR plus 950 basis points per year. Interest is payable quarterly in arrears commencing on June 30, 2005. Our obligations under the note are guaranteed by our subsidiary. We expect to exercise our right to prepay the note with the net proceeds of this offering.

**Recent Accounting Pronouncements**

In January 2003, the FASB issued Financial Interpretation No. 46, *Consolidation of Variable Interest Entities* ( FIN 46 ), which requires the consolidation of certain entities considered to be variable interest

**Table of Contents**

entities ( VIEs ). An entity is considered to be a VIE when it has equity investors who do not have a controlling financial interest, or its capital is insufficient to permit it to finance its activities without additional subordinated financial support. Consolidation of a VIE by an investor is required when it is determined that the investor will absorb a majority of the VIE s expected losses or residual returns if they occur. FIN 46 provides several exceptions to these rules, relating to qualifying special purpose entities ( QSPEs ) subject to the requirements of SFAS No. 140. Upon its original issuance, FIN 46 required that VIEs created after January 31, 2003 would be consolidated immediately, while VIEs created prior to February 1, 2003 were to be consolidated as of July 1, 2003.

In October 2003, the FASB deferred the effective date for consolidation of VIEs created prior to February 1, 2003 to December 31, 2003 for calendar year-end companies, with earlier application encouraged.

In December 2003, the FASB published a revision to FIN 46 ( FIN 46R ) to clarify some of the provisions of the original interpretation and to exempt certain entities from its requirements. FIN 46R provides special effective date provisions to enterprises that fully or partially applied FIN 46 prior to the issuance of the revised interpretation. In particular, entities that have already adopted FIN 46 are not required to adopt FIN 46R until the quarterly reporting period ended May 1, 2004. Adoption of the required sections of FIN 46, as modified and interpreted, including the provisions of FIN 46R, did not have any effect on our financial statements or disclosures.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances), many of which were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003 and for pre-existing instruments as of the beginning of the first interim period beginning after June 15, 2003. Initial adoption of this accounting pronouncement did not have a material impact on our financial statements.

The FASB s Emerging Issues Task Force ( EITF ) Issue No. 02-16, *Accounting By A Customer (Including A Reseller) For Cash Consideration Received From A Vendor*, addressed the accounting treatment for vendor allowances. The adoption of EITF Issue No. 02-16 in 2003 did not have a material impact on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) ( SFAS No. 123R ), *Share-Based Payment*. This statement revised SFAS No. 123, *Accounting for Stock-Based Compensation*, and requires companies to expense the value of employee stock options and similar awards. The effective date of this standard is interim and annual periods beginning after June 15, 2005. No stock options or similar awards have been granted by the Company as of fiscal years 2004 and 2003. Thus, SFAS No. 123R has had no impact on us. However, any future stock options and similar awards would need to be valued and expensed in accordance with SFAS No. 123R.

In April 2005, the SEC delayed the compliance date for SFAS 123R until the beginning of our fiscal year 2006.

**Off-Balance Sheet Arrangements**

It is not our intention to participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as special purpose entities or variable interest entities, which would facilitate off-balance sheet arrangements or other limited purposes. We have not entered into any off-balance sheet arrangements, as that term is described by the SEC, as of April 30, 2005.

**Quantitative and Qualitative Disclosures About Market Risk**

We have been exposed to market risk from changes in interest rates, which may adversely affect our financial condition, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, we manage exposures through our regular operating and financing activities and, when deemed

**Table of Contents**

appropriate, through the use of derivative financial instruments. We do not use financial instruments for trading or other speculative purposes and are not party to any leveraged financial instruments.

We are exposed to interest rate risk primarily through our borrowings under the Value City revolving credit facility. At April 30, 2005, our direct borrowings under this facility aggregated \$40.0 million. Our new secured revolving credit facility will permit debt commitments up to \$150 million, includes a letter of credit facility, extends for a term of five years, and will provide for borrowings at variable interest rates. We have historically used interest rate swap agreements to effectively establish long-term fixed rates on borrowings under the Value City revolving credit facility, thus reducing a portion of our interest rate risk. These swap agreements, which are designated as cash flow hedges, involve the receipt of variable rate amounts in exchange for fixed rate interest payments over the life of the agreements. At April 30, 2005, we had no outstanding swap agreements.

A hypothetical 100 basis point increase in the interest rate of the debt outstanding under the Value City revolving credit facility for the thirteen week period ended April 30, 2005, net of income taxes, would have had an approximate \$0.1 million impact on our results of operations for such period.

**Inflation**

Our results of our operations and financial condition are presented based upon historical cost. While it is difficult to accurately measure the impact of inflation because of the nature of the estimates required, management believes that the effect of inflation, if any, on our results of operations and financial condition has been minor; however, there can be no assurance that the business will not be affected by inflation in the future.

**Table of Contents****BUSINESS****Company Overview**

DSW is a leading U.S. specialty branded footwear retailer operating 177 shoe stores in 32 states as of April 30, 2005. We offer a wide selection of brand name and designer dress, casual and athletic footwear for women and men. Our typical customers are brand-, quality- and style-conscious shoppers who have a passion for footwear and accessories. Our core focus is to create a distinctive store experience that satisfies both the rational and emotional shopping needs of our customers by offering them a vast, exciting selection of in-season styles combined with the convenience and value they desire. We believe this combination of selection, convenience and value differentiates us from our competitors and appeals to consumers from a broad range of socioeconomic and demographic backgrounds.

Since its inception, DSW has evolved into a distinctive, consumer-friendly retail concept that allows customers to personalize their shopping experience by offering a sea of shoes that are accessible, easy-to-shop, and fulfill a broad range of style and fashion desires. We cater to customers who take pleasure in the thrill of the hunt for the perfect shoe and value the shopping experience itself as an enjoyable pastime. Typical DSW stores are approximately 25,000 square feet, with over 85% of total square footage used as selling space. Over 30,000 pairs of shoes in more than 2,000 styles are displayed on the selling floor of most of our stores, compared to a significantly smaller product offering at typical department stores. Our stores feature self-service fixtures that allow customers to view, touch, and try on the product without relying on salespeople to check availability. Our locations have clear signage, and well-trained sales associates are available to assist customers as desired. New footwear merchandise is organized by style on the main floor, and clearance goods are organized by size in the rear of the store. Accessories and impulse items are featured at the front. The store layout allows customers who do not have time for relaxed browsing to swiftly identify the shoe styles they are seeking and shop in a targeted, time-efficient manner.

Our goal is to further strengthen our position as a leading specialty branded footwear retailer in the United States. In fiscal 2004, we generated \$961.1 million in net sales and \$56.1 million in operating profit. During the same period, we sold over 23.7 million pairs of shoes. Over the five-fiscal-year period ended January 29, 2005, we have grown our DSW store base, net sales and operating profit at compound annual rates of 24.3%, 31.3% and 48.9%, respectively. See Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and the notes thereto.

**Corporate History**

We were incorporated on January 20, 1969 and opened our first DSW store in Dublin, Ohio in July 1991. In 1998, Value City Department Stores, Inc., which subsequently became a wholly-owned subsidiary of Retail Ventures, Inc., purchased DSW and affiliated shoe businesses from SSC and Nacht Management, Inc. In December 2004, Retail Ventures carried out a corporate reorganization whereby Value City Department Stores, Inc., a wholly-owned subsidiary of Retail Ventures, merged with and into Value City, another wholly-owned subsidiary of Retail Ventures. In turn, Value City transferred all the issued and outstanding shares of DSW to Retail Ventures in exchange for a promissory note. In February 2005, we changed our name from Shonac Corporation to DSW Inc. Since our change in ownership in 1998, we have accelerated our profitable expansion by investing in new stores, merchandise development, technology and our people to support further growth and enhance our performance.

**Competitive Strengths**

We believe that our leading market position is driven by our competitive strengths—the breadth of our branded product offerings, our distinctive and convenient store layout, the value proposition offered to our customers and our demonstrated ability to deliver profitable growth on a consistent basis. Over the past few years, we have broadened our merchandise assortment, honed our retail operating model and continued our dedication to providing first-rate quality products at attractive prices. We believe that we will continue to improve our ability to leverage these competitive strengths and to attract and retain talented managers and merchandisers.



**Table of Contents*****The Breadth of Our Product Offerings***

Our goal is to excite our customers with a sea of shoes that fulfill a broad range of style and fashion needs. We believe that our typical store offers the largest selection of brand name and designer merchandise of any footwear retailer or typical department store in the nation. We carry primarily in-season footwear found in specialty and department stores and branded make-ups (shoes made exclusively for a retailer), with selection at each store geared toward the particular demographics of the location. A typical DSW store carries approximately 30,000 pairs of shoes in over 2,000 styles compared to a significantly smaller product offering at typical department stores. We also offer a complementary selection of handbags, hosiery and other accessories which appeal to our brand- and fashion-conscious customers.

Our strategy is designed to ensure that a broad and consistent selection of merchandise is available at all times. We keep merchandise fresh by receiving new shipments at least weekly and by trying to ensure that new items are on the selling floor within 24 hours of delivery. Our goal is to provide our customers with the benefits of what we refer to as trip assurance offering a wide selection of in-season branded merchandise every day that increases our customers likelihood of finding the right shoe at the right price each time they visit our stores. The continual turnover of new merchandise encourages customers to visit often and see the new styles that arrive each week.

We continually strive to improve the quality and breadth of our vendor relationships. We primarily purchase in-season merchandise directly from more than 300 domestic and foreign vendors. Our buyers have established strong, mutually beneficial relationships with vendors that view DSW as a significant distribution channel for their branded offerings. Our suppliers consider us to be an attractive retail channel due to both the scale and geographic reach of our store base and our willingness to buy merchandise across a broad selection of styles. The quality of our vendor relationships allows us to secure an extensive assortment of in-season merchandise and distinguishes us from other shoe retailers.

***Our Distinctive and Convenient Store Layout***

We provide our customers with the highest level of convenience based on our belief that customers should be empowered to control and personalize their shopping experiences. Our store layout and visual merchandising techniques provide the most convenient shopping process, regardless of the type of shoe-buying experience our customers desire on a particular trip.

*Thrill of the Hunt.* We cater to the passionate shoe enthusiast and indulge customers who love to shop. Customers take pleasure in the thrill of the hunt as they scan our wide product offering in search of the products that best suit their needs. All our merchandise is displayed on the selling floor with self-service fixtures to enable customers to view and touch the merchandise. We believe this self-service aspect provides our customers with maximum convenience as they are able to browse and try on the merchandise without feeling rushed or pressured into making a decision too quickly. Therefore, customers are able to shop at their own pace as they savor the thrill and enjoyment of indulging their passion for shoes. Although all DSW stores are designed for self-service shopping, sales associates are available to help customers locate merchandise and to assist as needed.

*Easy Shopping Experience.* DSW also caters to shoppers who are time-constrained and come to our stores knowing exactly what they want. Our wide selection ensures that they are more likely to find styles and sizes they are seeking at DSW than at other shoe retailers, thereby minimizing the risk of leaving empty-handed. The stores are also creatively designed for an efficient shopping experience. Our self-service concept empowers our customers to shop quickly and easily because they do not have to rely on a salesperson to check for sizes and styles. Typical DSW stores are approximately 25,000 square feet, with over 85% of total square footage used as selling space. We organize most of our stores on a single level, which allows customers to view the entire store and product offering as they enter and move quickly to the area where their desired styles are located. Interiors are well-lit, with informative signage, and spacious aisles allow ease of movement throughout the store. We display shoes in a logical manner that groups together similar styles such as dress, casual, seasonal and athletic merchandise. Clearance shoes are grouped by size and displayed on racks in the rear of the store. Of the 177 DSW stores open as of April 30, 2005, 145 are either freestanding

**Table of Contents**

or located in shopping centers, which provide customers with direct access to parking, and the remainder are in shopping malls or downtown locations. For added convenience, we provide a centralized check-out, which aids customers in quickly locating the cashier for efficient processing.

***The Value Proposition Offered to Our Customers***

Through our buying organization, we are able to provide our customers with high-quality, in-season fashions at prices that we believe are competitive with the typical sale price found at specialty retailers and department stores. We employ a consistent pricing strategy that typically provides our customers with the same price on our merchandise from the day it is received until it goes into our planned clearance rotation. Our pricing strategy differentiates us from our competitors who usually price and promote merchandise at discounts available only for limited time periods. We find that customers appreciate having the power to shop for value when it is most convenient for them, rather than waiting for a department store or specialty retailer to have a sale event. For easy comparison by our customers, we prominently display our price and the corresponding vendor's suggested retail price for each pair of shoes.

Our graduated, self-liquidating clearance process automatically moves shoes to large clearance racks located in the rear of the store when only a few pairs remain. Because this system also applies to our fastest-moving merchandise, some of our shoppers benefit from steep price reductions on our most popular items. We have also successfully tested extreme clearance, a system that is productive in high-traffic locations and incorporates greater price reductions on clearance merchandise. This system provides more floor space for new merchandise at a faster rate.

We believe that customers value our pricing strategy as it provides them with what we refer to as value assurance knowing that no matter when our customers shop with us, they are typically assured of receiving our best value price on whatever merchandise they purchase. We believe our everyday value prices are competitive with the typical sale price found at most of our competitors. We use the tagline "The Shoes of the Moment. The Deal of a Lifetime." to convey this combination of selection and value to our customers. During fiscal 2004, the average ticket price for a pair of shoes (including clearance stock) in a DSW store was \$39.

In order to provide additional value to shoe enthusiasts and other regular customers, we developed a customer loyalty program called "Reward Your Style." This program offers additional savings to frequent shoppers and encourages repeat sales. We target market to "Reward Your Style" members throughout the year. We classify these members by frequency and use direct mail and on-line communication to stimulate further sales and traffic. As of January 29, 2005, over 5.5 million members enrolled in the "Reward Your Style" loyalty program had purchased merchandise in the previous two fiscal years, up from approximately 4.5 million members as of January 31, 2004. In fiscal 2004, approximately 60.1% of DSW store net sales were generated by shoppers in the loyalty program, and these shoppers spent an average of 19% more per purchase than customers who were not enrolled.

***Demonstrated Ability to Consistently Deliver Profitable Growth***

Since 1998, we have focused our operating model on selection, convenience and value. We believe that the profitable growth we have achieved in the past is attributable to our operating model and management's focus on store-level profitability and economic payback.

Over the five fiscal years ended January 29, 2005, our net sales and operating profit have grown at compound annual growth rates of 31.3% and 48.9%, respectively. In addition, for all our annual new store classes since 1996, we have achieved positive operating cash flow within two years of opening. We intend to continue to focus on net sales, operating profit and cash flow per annual new store class as we pursue our growth strategy.

**Table of Contents****Growth Strategy**

We plan to continue to strengthen our position as a leading specialty branded footwear retailer by pursuing the following three primary strategies for growth in sales and profitability—expanding our store base, driving sales through enhanced merchandising and leveraging our operating model. For additional information regarding our growth strategy, see Management's Discussion and Analysis of Financial Condition and Results of Operation—Overview Expansion Strategy.

***Expanding Our Store Base***

We believe our specialty retail concept has broad national appeal and provides substantial opportunity for new store expansion. Over the five-fiscal-year period ended January 29, 2005, we have rapidly expanded our store base by opening 115 DSW stores, including 30 new stores in fiscal 2004 (net of one store closing in the same period). We plan to open approximately 30 stores in each fiscal year from fiscal 2005 through fiscal 2009 and believe that opening stores at this rate will not compromise our new store economics. As of April 30, 2005, we have opened seven new stores in fiscal 2005 and have signed leases for an additional 22 stores and one store relocation. We plan to open stores both in markets in which we currently operate and in new markets.

Based on an internal planning model created in fiscal 2003, we believe that we have the long-term potential to operate over 400 stores in the United States, including the 177 stores existing as of April 30, 2005. Our internal supportable store analysis model is used to evaluate potential new DSW store growth opportunities in both existing and new markets based on demographic characteristics, current penetration levels, market-specific real estate assessments and a variety of subjective adjustments. We may not prepare our internal model on the same basis, or using similar assumptions, as may be used by other participants in the retail industry or other third parties, and the projections of our model may therefore not be comparable to projections of the models of such other parties. We periodically evaluate and revise our model based on a number of factors, including our financial condition, general economic conditions in the United States, customer demographics, the penetration of zip codes proximate to existing stores, the competitive environment and the public's awareness of our brand. Because of these numerous variables, our supportable store projections are subject to change, and the total number of potential stores is periodically revised as a result of these changes. No assurance can be given as to whether or when we will achieve the market penetration targets generated by our model.

*Site selection.* In general, our evaluation of potential new stores focuses on store size, configuration, location and lease terms. We target high-traffic real estate locations, with new stores sized as appropriate to fit market potential. An ideal DSW store is either freestanding on the peripheral road of a mall, in a power strip center, in a shopping center or in a high traffic urban shopping zone. We target not only locations with high traffic and visibility, but also locations near other large format, category leading retailers, such as Bed Bath & Beyond, Barnes & Noble and Staples, and we insist on favorable lease terms. We intend, over time, to cluster our stores in strategic metropolitan areas to enhance name recognition, lower average per store advertising costs and achieve economies of scale in management and distribution.

*New store model.* After we approve a site, we negotiate lease terms and begin planning the store layout and design. We typically devote between four and six weeks from the time we take possession of a store to prepare for its opening. During fiscal 2004 the average investment required to open a new DSW store was approximately \$1.7 million per store. Of this amount, in fiscal 2004, gross inventory typically accounted for approximately \$880,000, fixtures and leasehold improvements typically accounted for approximately \$600,000 (prior to tenant allowances) and pre-opening advertising and other pre-opening expenses typically accounted for approximately \$250,000. All our stores are leased or subleased.

***Driving Sales Through Enhanced Merchandising***

We intend to increase the number of customer transactions and average transaction value by continually refining our merchandise mix. Our merchandising group constantly monitors current fashion trends as well as historical sales trends to identify popular styles and styles that may become popular in the upcoming season.

**Table of Contents**

We track store performance and sales trends on a weekly basis and have a flexible incremental buying process that enables us to order styles frequently throughout each season, in contrast to department stores, which typically make one large purchase at the beginning of the season.

*Expanding vendor relationships.* We have established strong vendor relationships that allow us to gain favorable access to high quality, brand name merchandise at attractive prices. These favorable relationships also allow us to take advantage of opportunistic in-season merchandise that may be offered to us from time to time. We intend to capitalize on the success of our existing vendor relationships as well as identify and develop new supply sources, in particular to enhance our offering of high-end designer brands.

*Increasing sales within existing merchandise categories.* In order to further increase sales within our existing women's, men's and athletic shoe categories, we aim to increase the quality and breadth of existing vendor offerings and to keep our product mix fresh and on target by continually testing new fashions and actively monitoring sell-through rates in our stores. Additionally, we employ marketing initiatives, including broad advertising campaigns, the Reward Your Style loyalty program and sales of gift cards to encourage repeat visits and attract new customers.

*Extending into new product categories.* While shoes are the main focus of DSW, we believe offering a complementary assortment of handbags, hosiery and other accessories is an important driver of profitable sales. We will continue to explore new, related product categories that we believe could enhance sales of footwear.

***Leveraging Our Operating Model***

As we grow our business and fill in markets to their full potential, we believe we will continue to improve our profitability by leveraging our cost structure, particularly in the areas of advertising, regional management, distribution and overhead functions. Additionally, we intend to continue investing in our infrastructure to improve our operating and financial performance. Most significantly, we believe continued investment in information systems will enhance our efficiency in areas such as merchandise planning and allocation, inventory management, distribution and point of sale functions, among others.

**Table of Contents**

**DSW Store Locations**

As of April 30, 2005, we operated 177 DSW stores in 32 states in the United States. The map below shows the approximate locations of our DSW stores as of April 30, 2005:

**Merchandising**

*Strategy*

DSW stores offer a wide selection of high quality, in-season and fashion-oriented footwear, handbags and accessories with everyday prices that we believe are competitive with the typical sale price found at specialty retailers and department stores. Our merchandising group continually monitors current fashion trends, as well as historical sales trends, to identify popular styles and those that may become popular in the upcoming season. We believe that our stores offer the largest selection of brand name and designer merchandise of any footwear retailer or typical department store in the nation. We primarily carry in-season footwear found in specialty and department stores and branded make-ups (shoes made exclusively for a retailer), with selection at each store geared towards the particular demographics of the location. A typical DSW store carries over 2,000 shoe styles, compared to a significantly smaller product offering at typical department stores. Our goal is to offer a wide selection of on-trend branded merchandise that greatly increases our customers' likelihood of finding the right shoe at the right price in one trip.

We believe our wide selection of merchandise from moderate-priced brands to higher-end designer goods contributes to a distinctive shopping experience for our customers. Particularly, our growing selection of high-end brands differentiates us from price-oriented retailers and builds strong customer loyalty. We purchase in-season designer and branded merchandise both on a planned and opportunistic basis.

In the main portion of each of our stores, the shoes are organized by style in order to highlight the breadth of our merchandise assortment. However, when only a few pairs of a style remain, we place those shoes on a clearance rack organized by size in the rear of the store and reduce their prices periodically. Our clearance approach has been successful in creating additional excitement and traffic in the store and in moving the remaining merchandise quickly. It also creates available floor space for incoming new styles and a wider selection of shoes.

*Merchandise Mix*

We separate our DSW merchandise into four total categories: women's dress and casual footwear; men's dress and casual footwear; athletic footwear; and accessories. While shoes are the main focus of DSW,

**Table of Contents**

we also offer a complementary assortment of handbags, hosiery and other accessories. The following table sets forth the approximate percentage of our sales attributable to each DSW merchandise category in fiscal 2004:

<b>Category</b>	<b>Percent of Net Sales</b>
Women's	62%
Men's	18%
Athletic	14%
Accessories and Other	6%

***Buying, Planning and Allocation***

As of April 30, 2005, our merchandising group consists of a President Chief Merchandising Officer, or President CMO, two Vice President General Merchandising Managers, a Vice President Planning and Allocation, a corporate merchandise manager, two divisional merchandise managers, and three senior buyers. For each major product category, there is a buyer, an assistant buyer and a merchandiser, whose responsibility is allocation. We begin the buying process for our DSW stores in February for the following fall merchandise and in June for the following spring merchandise. Once our buyers determine the styles and merchandise mix for an upcoming season, they focus on purchasing the required quantities at the lowest cost and the highest quality available, as well as within the most advantageous flow or timetable.

Our planning and allocation group serves as strategic partner to, and exercises financial control over, the buying team. Each buyer's purchasing plan is reviewed on a seasonal and yearly basis by the President Chief Merchandising Officer and Vice President Planning and Allocation. Quarterly updates based on seasonal trends are incorporated into the buying plan. We believe this organizational scheme helps maximize our buying opportunities while maintaining appropriate organizational and financial control. Since October 2003, all functional areas within planning and allocation have been supported by a software package that integrates financial analysis into the planning and allocation process. While this software is already yielding positive results, we believe that continued use of this software will yield additional improvements in our planning and allocation functions.

Merchandise planning at the category level, for pre-season planning and in-season adjustments, is developed through strong relationships with our buying organization. Channel planning at the store level tailors the assortment of merchandise by store based on each store's customer demographics and balances the merchandise mix by factoring in volume and space management objectives. Allocation management, which directs the flow of merchandise from our distribution center to the individual stores, allows us to quickly respond and adjust assortments based on trend, store and style specific sales patterns. Our allocation decisions are based not only on quantity and assortment, but also include consideration of price, vendor, color and other style characteristics. We believe that this approach to planning and allocation allows us to optimize our ability to deliver the right merchandise to the right store at the right time, thereby increasing sales and reducing the need for markdowns.

***Vendor Relationships***

We believe we have good relationships with our vendors. We purchase merchandise directly from more than 300 domestic and foreign vendors as of April 30, 2005. Our vendors include suppliers who either manufacture their own merchandise or supply merchandise manufactured by others, or both. Most of DSW's domestic vendors import a large portion of their merchandise from abroad. We have implemented quality control programs under which our DSW buyers and store managers inspect incoming merchandise for fit, color and material, as well as for overall quality of manufacturing. We do not generally experience material difficulties with merchandise manufactured overseas. As the number of DSW locations increases and our sales volumes grow, we believe there will continue to be adequate sources available to acquire a sufficient supply of quality goods in a timely manner and on satisfactory economic terms. After giving effect to consolidation

## **Table of Contents**

among our vendors, during fiscal 2004, merchandise supplied by our three top vendors accounted for approximately 19% of our net sales.

We believe that many vendors view us as a significant distribution channel for their branded offerings and appreciate our uncomplicated purchasing program. Our vendor relationships result in greater access to high quality, in-season merchandise at attractive prices.

### **Marketing and Advertising**

#### ***Strategy***

Our marketing strategy for DSW focuses on communicating the selection, convenience and value offered by DSW through the use of the slogan *The Shoes of the Moment. The Deal of a Lifetime.* We utilize television, radio and print media advertising as well as in-store promotions. In fiscal 2004, we spent \$39.3 million, or 4.1% of our net sales on advertising, excluding costs to promote each new store opening, which are included in pre-opening expenses.

#### ***Reward Your Style***

In early 1998, we introduced the *Reward Your Style* customer loyalty program at DSW. The *Reward Your Style* program seeks to motivate members to shop at DSW by offering them a \$25 reward certificate for every \$250 they spend. In addition to customer rewards, the program regularly communicates with customers through direct mail, e-mail and the DSW website. Messages include fashion updates, new arrivals and other shopping information. As of January 29, 2005, over 5.5 million members enrolled in the *Reward Your Style* program had purchased merchandise in the previous two fiscal years and, in fiscal 2004, 60.1% of DSW store net sales were generated by shoppers in the loyalty program. We believe that this program has successfully increased the shopping frequency and average transaction size of our customers.

While the program develops customer loyalty, it also provides us with valuable market intelligence and purchasing information regarding our most frequent customers. We carefully analyze the members' transaction activity and use this information to directly advertise, to encourage repeat shopping and to communicate with our targeted customers. By understanding the characteristics of our best DSW customers, we are able to identify other existing customers in lower spending groups with similar profiles and target communications and advertisements to increase the attractiveness of our offerings to them, resulting in increases in their spending level.

#### ***Gift Card Program***

We implemented a gift card program in November 2003. We use this program to generate additional sales by reaching new customers and increasing awareness of the DSW concept. During the November and December holiday season of 2004, we sold approximately 96,000 gift cards with an aggregate value of approximately \$4.5 million.

### **Staffing and Operations**

At DSW, store associates receive training to maximize the customer shopping experience in our self-service environment. Training components consist of customer service, maintaining neat, clean and orderly store conditions for ease of shopping, efficient checkout process and friendly service. We also maintain a store management training program to develop the skills of management personnel and to provide an ongoing talent pool for future store expansion. We prefer to fill store management and field supervisor positions through internal promotions.

As of April 30, 2005, our stores are organized into the West, Central and East geographic regions, composed of 13, 7 and 14 districts, respectively. Each region is supported by a Regional Vice President or Director, who supervises senior district, district and area managers headquartered in the respective region, district or area. The Regional Vice Presidents and Directors spend the majority of their time in their stores to ensure adherence to merchandising, operational and personnel standards. The typical staff for a DSW store

**Table of Contents**

consists of a store manager and two assistant managers who supervise 15 to 25 full-and part-time hourly associates. Each store manager reports directly to one of 32 district or area managers, each of whom in turn reports to one of three Regional Vice Presidents or Regional Directors, who in turn report to the Senior Vice President of Store Operations. Our DSW store managers are responsible on a day-to-day basis for customer relations, personnel hiring and scheduling, and all other operational matters arising in the stores. Our store managers are an important source of information concerning local market conditions, trends and customer preferences. We provide compensation bonuses to our store managers which are largely based on store profitability and inventory control.

**Distribution**

DSW's distribution center is located in an approximately 707,000 square foot facility in Columbus, Ohio. The design of the distribution center facilitates the prompt delivery of priority purchases and fast-selling footwear to stores so we can take full advantage of each selling season. This distribution center facility uses a warehouse management system, upgraded in 2003, and material handling equipment, including conveyor systems, to separate and collate shipments to our stores. We use a cross dock conveyor system which enhances the movement of merchandise through the distribution facility using vendor advance shipment notifications, or ASNs. Although we believe that our receiving and distribution process and infrastructure will support our anticipated growth in 2005, we may need to increase our distribution capacity in 2006 to accommodate our expanding retail store base.

Most of our 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 11 pool locations located throughout the country and then on to our stores. Over time, we expect to increase the amount of merchandise that bypasses the distribution center on initial allocations.

**Management Information and Control Systems**

We believe a high level of automation is essential to maintaining and improving our competitive position and executing our expansion strategy. We rely upon computer systems to provide information for all areas of our business, including merchandise planning and allocation, inventory control, distribution, warehouse operations, financial planning, store billing, point of sale and automated payroll and accounting. We focus on leveraging our technology infrastructure and systems whenever appropriate to simplify our processes and increase our efficiency. Most of the technical infrastructure for our stores and corporate headquarters has been replaced or upgraded in the last two years, and most of the technical infrastructure for our distribution center has been replaced or upgraded in the last three years.

In order to promote our continued growth, we have undertaken several major initiatives to build upon the merchandise management system and warehouse management systems that support DSW. An electronic data interchange, or EDI, project is underway to utilize product UPC barcodes and electronic exchange of purchase orders, advance shipment notifications and invoices with our top vendors. As of April 30, 2005, approximately 80% of our footwear product is processed using UPC bar codes, which has reduced processing costs and improved flow of goods through the distribution center to the stores. EDI purchase orders and ASNs were piloted with key vendors in early 2004. They accounted for approximately 20% of the volume of our shipments as of the end of fiscal 2004, and we expect they will be approximately 50% by the end of fiscal 2005. This will speed the flow of goods from the vendor to DSW stores, as well as reduce the amount of inventory needed in our warehouse. Additionally, new merchandise planning and merchandise allocation systems were implemented in 2003 to improve inventory productivity and store assortments and reduce supply chain cycle time.

We utilize point of sale, or POS, registers with full scanning capabilities to increase speed and accuracy at customer checkouts and facilitate inventory restocking. In 2003, a wireless POS system was implemented in all DSW stores. This enables us to complete new store openings more efficiently and simply. In addition, in October 2004, we launched an application that provides us with the ability to look up a customer's Reward Your Style number at POS registers. We anticipate that in fiscal 2005, the POS system will be



**Table of Contents**

further upgraded with debit card terminals and signature capture. We also expect to continually enhance system security.

Program administration, operations and analysis for the Reward Your Style program was brought in-house on February 1, 2005. Prior to this time, these functions were contracted out to a third party. We use enterprise data warehouse and customer relationship management software to manage the program. We expect this will allow us to support, expand and integrate Reward Your Style with the POS system to improve the customer experience while reducing costs.

Effective as of the date of consummation of this offering, information technology support will be provided to us as a shared service under the shared services agreement by Retail Ventures information technology department for a period that ends at the end of fiscal 2007 and will extend automatically unless terminated by one of the parties.

**Industry Overview and Competition**

According to NPD Fashionworld®, a market research company, for the twelve months ended January 2005, the total U.S. footwear market generated sales of \$39.0 billion. Women's footwear accounted for \$19.1 billion in sales, representing 49.0% of the market, while men's footwear generated \$14.7 billion, representing 37.6% of the total market. According to NPD Fashionworld®, for the twelve months ended January 2005, DSW captured 2.2% of the total adult footwear market. In addition, DSW accounted for 2.8% of the total women's market, including 4.3% of the dress and 3.7% of the dress casual categories. In both the women's dress and women's dress casual categories, DSW ranked fourth in the industry and third and second, respectively, among branded shoe retailers. In men's, DSW has achieved a 1.4% share of the overall market, including a 3.2% share in dress casual. In the men's dress casual category, DSW is ranked third overall, and second among branded shoe retailers.

Based on our unique retail format and the high quality, in-season selection of our shoe merchandise, we believe that DSW provides a distinct shoe-shopping destination for our customers. We view our primary competitors to be department stores. According to NPD Fashionworld®, for the twelve months ended January 2005, department stores represented 12.5% of the footwear market based on dollar volume, increasing from 12.4% for the same period a year ago. DSW also competes with mall-based company stores, national chains, independent shoe retailers, single-brand specialty retailers and brand-oriented discounters.

We believe that customers prefer our wide selection of on-trend merchandise compared to product offerings of typical traditional department stores, mall-based company stores, national chains, single-brand specialty retailers and independent shoe retailers because those retailers generally offer a more limited selection at higher average prices and in a less convenient format than we do. In addition, we also believe that we will successfully compete against competitors who have attempted to duplicate our format because they typically offer assortments with fewer recognizable brands and more styles from prior seasons.

Although our prices are value-oriented, our core customer is not the low-price shoe buyer. Therefore, we do not view non-brand-oriented discount retailers as our prime competitors. These non-brand-oriented discount retailers may offer footwear at lower price points; however, they generally offer lower quality, private label shoes. In contrast, we serve customers that are typically brand-, quality- and style-conscious shoppers. As such, we believe they prefer our value offerings to those of the non-brand oriented discount stores. In addition, we believe we will increase our market share as discount shoppers realize that they can buy higher quality brands and more fashionable shoes in our stores clearance sections for prices only slightly higher than what they are willing to spend at a discount store.

**Leased Shoe Department Businesses**

We have operated leased shoe departments for Filene's Basement, a wholly-owned subsidiary of Retail Ventures, since its acquisition by Retail Ventures in March 2000. Effective as of January 30, 2005, we updated and reaffirmed our contractual arrangement with Filene's Basement. Under the new agreement, we own the merchandise, record sales of merchandise net of returns and sales tax and provide supervisory

## **Table of Contents**

assistance in all covered locations. We pay a percentage of net sales as rent. Filene's Basement provides the fixtures and sales associates. As of April 30, 2005, we operated leased shoe departments in 25 Filene's Basement locations.

We also operate leased shoe departments for three non-affiliated retailers. We entered into supply agreements to merchandise the shoe departments in Stein Mart, Gordmans and Frugal Fannie's stores as of July 2002, June 2004 and September 2003, respectively. We own the merchandise, record sales of merchandise net of returns and sales tax, provide fixtures and provide supervisory assistance in these covered locations. Stein Mart, Gordmans and Frugal Fannie's provide the sales associates. We pay a percentage of net sales as rent. As of April 30, 2005, we supplied merchandise to 154 Stein Mart stores, 51 Gordmans stores and one Frugal Fannie's store.

### **Intellectual Property**

We have registered a number of trademarks and service marks in the United States and internationally, including DSW®, DSW Shoe Warehouse® and Reward Your Style®. The renewal dates for these U.S. trademarks are April 25, 2015, May 23, 2015, and June 22, 2009, respectively.

We believe that our trademarks and service marks, especially those related to the DSW concept, have significant value and are important to building our name recognition. We aggressively protect our patented fixture designs, as well as our packaging, store design elements, marketing slogans and graphics. To protect our brand identity, we have also protected the DSW trademark in several foreign countries.

### **Properties**

All DSW stores, our principal executive office and all our distribution, warehouse and office facilities are leased or subleased. As of April 30, 2005, we leased or subleased 15 DSW stores and our main warehouse facility from entities affiliated with SSC. The remaining DSW stores are leased from unrelated entities. Most of the DSW store leases provide for a minimum annual rent plus a percentage of gross sales over specified breakpoints. Most of our leases are for a fixed term with three to five four- or five-year renewal terms exercisable at our option.

Our warehouse and distribution facility, located in an approximately 707,000 square foot facility in Columbus, Ohio, is adequate for our current needs. The lease expires in December 2016 and has three renewal options with terms of five years each. We believe that this facility, with some modifications and additional equipment on an as-needed basis, will be adequate for our foreseeable demands in 2005; however, we may need to increase our distribution capacity in 2006 to accommodate our expanding retail store base. Because our ability to expand our warehouse facilities at our current site is limited, we may need to acquire and construct additional facilities in other geographic locations to accommodate our planned expansion. Our principal executive office is also located on the site of our main warehouse and distribution facility in Columbus, Ohio.

### **Associates**

As of April 30, 2005, we employed approximately 4,800 associates. None of our associates is covered by any collective bargaining agreement.

We offer competitive wages, comprehensive medical and dental insurance, vision care, company-paid and supplemental life insurance programs, associate-paid long-term and short-term disability insurance and a 401(k) plan to our full-time associates and some of our part-time associates.

We have not experienced any work stoppages, and we consider our relations with our associates to be good.

**Table of Contents**

**Legal Proceedings**

We are involved in various legal proceedings that are incidental to the conduct of our business, including, but not limited to employment discrimination claims. In the opinion of management, the amount of any liability with respect to these proceedings, either individually or in the aggregate, will not be material.

As of the date of this prospectus, we are defending against a claim in the State of California alleging improper classification of managerial employees. The action, *Adams v. DSW Shoe Warehouse, Inc., et al.*, was brought as a class action in September 2004 in the Superior Court for the State of California, Los Angeles County. The plaintiff, one of our former California assistant store managers, has alleged violations of the California Labor Code and the Business and Professions Code. The plaintiff has alleged that we improperly classify our assistant store managers as exempt employees not entitled to overtime pay or strictly scheduled rest and meal periods. This plaintiff is seeking back pay for overtime allegedly not paid, rest and meal period compensation, interest, statutory penalties, costs, attorney's fees, and injunctions against such business practices in the future on behalf of a purported class, which has not yet been certified. We are vigorously defending this action, and we do not believe that this proceeding will have a material adverse effect on our business, financial condition or results of operations.

On March 8, 2005, we announced that we had learned of the theft of credit card and other purchase information. On April 18, 2005, we issued the findings from our investigation into the theft. The theft took place primarily over two weeks and covered all customers who made purchases at 108 DSW stores, primarily during a three-month period from mid-November 2004 to mid-February 2005. Transaction information involving approximately 1.4 million credit cards was obtained. For each card, the stolen information included credit card or debit card numbers, name and transaction amount. In addition, data from transactions involving approximately 96,000 checks were stolen. In these cases, checking account numbers and driver's license numbers were obtained.

We have contacted and are cooperating with federal law enforcement and other authorities with regard to this matter. In addition, we are working with a leading computer security firm to minimize the risk of any further data theft. To mitigate potential negative effects on our business and financial performance, we have been working with credit card companies and issuers and trying to contact as many of our affected customers as possible. On June 6, 2005, the Ohio Attorney General brought an action against us in the Court of Common Pleas in Franklin County, Ohio (*State of Ohio v. DSW Inc.*) seeking to require us to notify all customers affected by the theft who have not thus far been notified by us. There can be no assurance that there will not be additional proceedings or claims brought against us in the future.

As of April 30, 2005, we estimate that the potential exposures for losses related to this theft range from approximately \$6.5 million to approximately \$9.5 million. Because of many factors, including the early development of information regarding the theft and recoverability under insurance policies, there is no amount in the estimated range that represents a better estimate than any other amount in the range. Therefore, in accordance with Financial Accounting Standard No. 5, *Accounting for Contingencies*, we have accrued a charge to operations in the first quarter of fiscal 2005 equal to the low end of the range set forth above, or \$6.5 million. As the situation develops and more information becomes available to us, the amount of the reserve may increase or decrease accordingly. The amount of any such change may be material.

**Table of Contents****MANAGEMENT****Directors and Executive Officers**

The following table sets forth certain information about our directors, director nominees and executive officers, together with their positions and ages:

<b>Name</b>	<b>Age</b>	<b>Position With Us</b>
Jay L. Schottenstein		Chief Executive Officer and Chairman of the Board of
	50	Directors
Deborah L. Ferrée	51	President and Chief Merchandising Officer
Peter Z. Horvath	47	Executive Vice President and Chief Operating Officer
Julia A. Davis		Executive Vice President, General Counsel and
	44	Secretary
Derek Ungless	56	Executive Vice President and Chief Marketing Officer
Douglas J. Probst		Senior Vice President, Chief Financial Officer and
	41	Treasurer
Steven E. Miller	46	Senior Vice President and Controller
David J. Disque	54	Senior Vice President, Store Operations
Kathleen C. Maurer	45	Vice President, Human Resources
Timothy McDougall		Vice President, Real Estate, Store Planning and
	46	Construction
James A. McGrady	54	Director and Vice President
Heywood Wilansky	57	Director
Carolee Friedlander	63	Director Nominee
Philip B. Miller	66	Director Nominee
James D. Robbins	58	Director Nominee
Harvey L. Sonnenberg	63	Director Nominee
Allan J. Tanenbaum	58	Director Nominee

Each of our executive officers holds office until his or her successor is elected or appointed and qualified or until his or her resignation or removal, if earlier. The persons listed below will serve as directors or officers of DSW as of the consummation of this offering. Each director listed below holds office until his successor is duly elected or appointed and qualified or until his earlier death, retirement, disqualification, resignation or removal. We expect to replace Mr. McGrady in his capacity as director prior to the consummation of this offering.

**Jay L. Schottenstein** will serve as our Chief Executive Officer and Chairman of the Board of Directors. He was appointed as our Chief Executive Officer in March 2005. Mr. Schottenstein became a director of DSW in March 2005. He has been Chairman of the Board of Directors of Retail Ventures, American Eagle Outfitters, Inc. and SSC since March 1992 and was Chief Executive Officer of Retail Ventures from April 1991 to July 1997 and from July 1999 to December 2000. Mr. Schottenstein served as Vice Chairman of SSC from 1986 until March 1992 and as a director of SSC since 1982. He served in various executive capacities at SSC since 1976. Mr. Schottenstein is also a director of American Eagle Outfitters, Inc., which is a company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, or the Exchange Act.

**Deborah L. Ferrée** will serve as our President and Chief Merchandising Officer. Ms. Ferrée joined us in November 1997. She has served as President and Chief Merchandising Officer since November 2004. From March 2002 until November 2004, she served as Executive Vice President and Chief Merchandising Officer. Prior to that, she served as Senior Vice President of Merchandising beginning in September 2000, and Vice

**Table of Contents**

President of Merchandising beginning in October 1997. Prior to joining us, Ms. Ferrée worked in the retail industry for more than 30 years in various positions, including serving as Divisional Merchandising Manager of Shoes, Accessories and Intimate Apparel for Harris Department Store, women's buyer for Ross Stores and Divisional Merchandise Manager of the May Company.

**Peter Z. Horvath** will serve as our Executive Vice President and Chief Operating Officer, a position he has held since January 2005. He has extensive retail experience, having spent nineteen years with the Limited Brands business. He has held numerous finance function roles within various divisions of Limited Brands, most recently serving as Senior Vice President of Merchandise Planning and Allocation for the entire Limited Brands enterprise from April 2002 to August 2004. From February 1997 to April 2002, he served as Chief Financial Officer for multiple apparel divisions of Limited Brands. From 1985 to February 1997, Mr. Horvath held various positions with Limited Brands, including Vice President Controller of Express, Inc. and Director of Financial Reporting for Limited Stores.

**Julia A. Davis** will serve as our Executive Vice President, General Counsel and Secretary. Since January 2003, Ms. Davis has been and will continue to be after consummation of this offering Executive Vice President, General Counsel and Assistant Secretary of Retail Ventures as well. She has been our Executive Vice President and General Counsel since January 2003 and was a director of DSW from December 2004 to March 2005. Prior to joining Retail Ventures, she was a partner in the Columbus office of Vorys, Sater, Seymour and Pease LLP for 10 years. Ms. Davis has over 17 years of experience in private legal practice primarily representing and advising national and regional retail companies in a variety of employment matters.

**Derek Ungless** will serve as our Executive Vice President and Chief Marketing Officer, a position he has held since June 2005. From April 2002 to May 2005, he was Executive Vice President of Marketing for Express, Inc., part of Limited Brands. Mr. Ungless was Senior Vice President and Head of Global Brand Design of the Estee Lauder Companies Inc. from September 2000 until November 2001 and was Executive Vice President and Creative Director of Brooks Brothers from October 1997 until September 2000. Mr. Ungless has over twelve years of experience working in the retail industry.

**Douglas J. Probst** will serve as our Senior Vice President, Chief Financial Officer and Treasurer. Mr. Probst joined DSW in mid-March 2005. From April 1990 to February 2005, he held various positions with TOO Inc., a company spun-off from The Limited, Inc., including Vice President of Finance and Controller from May 2004 to February 2005, Vice President Finance from October 2003 to May 2004 and Vice President Financial Analysis and Store Control from December 1999 to October 2003. From August 1986 to March 1990, he was in the practice of public accounting with Peat Marwick. Mr. Probst is a certified public accountant.

**Steven E. Miller** will serve as our Senior Vice President and Controller. Since May 2003, he has been and will continue to be after consummation of this offering Senior Vice President and Controller of Retail Ventures as well. He has been Vice President and Controller of DSW since May 2002 and held those positions with Retail Ventures from September 2000 to May 2003. Prior to that time, Mr. Miller served as Chief Financial Officer of Spitzer Management, Inc. beginning in 1998. From 1993 to 1998, Mr. Miller held various positions with Big Lots, Inc., including Director, Assistant Treasurer and Assistant Controller. Mr. Miller is a certified public accountant.

**David J. Disque** will serve as our Senior Vice President, Store Operations. Mr. Disque joined us in November 1998 as Vice President, DSW Store Operations and served in that capacity until March 2004. Mr. Disque was Vice President Store Operational Support for Value City Department Stores, Inc. from May 1998 to October 1998. He held several positions at Hills Department Stores from March 1993 to April 1998, including Vice President, Merchandise Presentation and Regional Vice President, Store Operations. Prior to that, he spent over 21 years with Marshall's and Federated Department Stores.

**Kathleen C. Maurer** will serve as our Vice President, Human Resources. From March 2004 until the consummation of this offering, Ms. Maurer has served as Vice President, Human Resources of Retail Ventures. Prior to that, she served as Chief Administrative Officer and Vice President, Human Resources of Real Living, Inc. from February 2002 to March 2004. From April 1996 to February 2002, Ms. Maurer held various positions at TOO, Inc., a company spun off from The Limited, Inc., including Vice President, Human



**Table of Contents**

Resources, Senior Vice President, Human Resources and Executive Human Resources Consultant. Ms. Maurer has over 22 years of human resources experience within the retail sector, including 17 years at The Limited, Inc. and its affiliates.

**Timothy McDougall** will serve as our Vice President, Real Estate, Store Planning & Construction. From March 2004, Mr. McDougall has served as Retail Ventures Vice President of Real Estate, Chief Development Officer. From November 1995 to March 2004, he was a partner in Greenwood Realty, a retail development and consulting firm. Prior to joining Greenwood Realty in 1995, Mr. McDougall held various positions with the consumer products division of Gulf and Western Industries, New York.

**James A. McGrady** serves as a director and as a Vice President of DSW. Mr. McGrady has also served as Chief Financial Officer, Treasurer and Secretary of Retail Ventures since July 2000. He was our Executive Vice President, Chief Financial Officer, Treasurer and Secretary from December 2002 to March 2005 and has been a director of DSW since December 2002. From July 2000 to December 2002, he served as Chief Financial Officer of Value City Department Stores. Prior to July 2000, Mr. McGrady served as Vice President and Treasurer of Big Lots, Inc. beginning in 1986. From 1979 through 1986, Mr. McGrady was in the practice of public accounting with KPMG Main Hurdman. Prior to consummation of this offering, we expect to appoint another individual to replace Mr. McGrady as a director.

**Heywood Wilansky** will serve as a director of DSW. He was appointed to the board of directors in March 2005. Mr. Wilansky has been the President and Chief Executive Officer of Retail Ventures since November 2004. Before joining Retail Ventures, he served as President and Chief Executive Officer of Filene's Basement, a subsidiary of Retail Ventures, from February 2003 to November 2004. Mr. Wilansky was a professor of marketing at the University of Maryland business school from August 2002 to February 2003. From August 2000 to January 2003, he was President and Chief Executive Officer of Strategic Management Resources, LLC. From August 1995 to July 2000, he was President and Chief Executive Officer of Bon Ton Stores.

**Carolee Friedlander** will serve as a director of DSW. We expect that she will be appointed to the board of directors in June 2005. Ms. Friedlander serves as a founding partner of Circle Financial Group, a membership organization that provides wealth management services, and has held that position since August 2004. From July 2001 to August 2004, Ms. Friedlander served as Senior Vice President of Retail Brand Alliance, Inc., and as President and Chief Executive Officer of Carolee Designs, Inc., a subsidiary of Retail Brand Alliance. Prior to that, Ms. Friedlander served as President and Chief Executive Officer of Carolee Designs, a fashion accessory company she founded in 1973 and sold to Retail Brand Alliance in July 2001.

**Philip B. Miller** will serve as a director of DSW. We expect that he will be appointed to the board of directors in June 2005. Mr. Miller is the President of Philip B. Miller Associates, a consulting firm, and the Operating Director of Tri-Artisan Capital Partners, a privately held merchant bank, and has held those positions since July 2001. Mr. Miller has served as a director of Kenneth Cole Productions, Inc. since May 2000. Kenneth Cole Productions, Inc. has a class of securities registered pursuant to Section 12 of the Exchange Act. Mr. Miller served as Chairman and Chief Executive Officer of Saks Fifth Avenue, Inc. from 1993 until January 2000 and continued as Chairman of that company until July 2001. From 1983 to 1990, Mr. Miller served as Chairman and Chief Executive Officer of Marshall Fields, Inc.

**James D. Robbins** will serve as a director of DSW. We expect that he will be appointed to the board of directors in June 2005. Mr. Robbins currently holds directorships in Dollar General Corporation and Huntington Preferred Capital, Inc., positions that he has held since March 2002 and November 2001, respectively. Mr. Robbins also serves as chairman of the audit committees of both of these companies. Both Dollar General Corporation and Huntington Preferred Capital, Inc., have a class of securities registered pursuant to Section 12 of the Exchange Act. From 1993 until his retirement in June 2001, Mr. Robbins served as Managing Partner of the Columbus, Ohio office of PricewaterhouseCoopers LLP. Mr. Robbins is a certified public accountant.

**Harvey L. Sonnenberg** will serve as a director of DSW. We expect that he will be appointed to the board of directors in June 2005. Since August 2001, he has been and will continue to be a director of Retail





**Table of Contents**

Ventures after consummation of this offering. Retail Ventures has a class of securities registered pursuant to Section 12 of the Exchange Act. Mr. Sonnenberg has been a partner in the public accounting and consulting firm, Weiser & Co., LLP, since November 1994. Mr. Sonnenberg is active in a number of professional organizations, including the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants, and has long been involved in rendering professional services to the retail and apparel industry. Mr. Sonnenberg is a certified public accountant.

**Allan J. Tanenbaum** will serve as a director of DSW. We expect that he will be appointed to the board of directors in June 2005. Mr. Tanenbaum currently serves as Senior Vice President, General Counsel and Corporate Secretary for AFC Enterprises, Inc., a franchisor and operator of quick-service restaurants, and has held those positions since February 2001. From June 1996 to February 2001, Mr. Tanenbaum was a shareholder in Cohen Pollock Merlin Axelrod & Tanenbaum, P.C., an Atlanta, Georgia law firm, where he represented corporate clients in connection with mergers and acquisitions and other commercial transactions.

**Board Composition**

Our amended and restated code of regulations will authorize seven directors to serve on the board of directors, or board. As of May 2005, the following individuals serve on the board of directors: Mr. Schottenstein, Mr. Wilansky and Mr. McGrady. Upon the consummation of this offering, we expect the board to consist of Messrs. Schottenstein, Wilansky, Miller, Robbins, Sonnenberg and Tanenbaum and Ms. Friedlander.

Pursuant to our amended and restated code of regulations, when the authorized number of directors is six or more, but less than nine, the directors will be divided into two classes, designated as Class I and Class II. The members of each class will serve for a staggered, two-year term, except that Class I directors in the initial term immediately following this offering will serve for one year. Each director will be elected to serve until the election of the director's successor at an annual meeting of shareholders for the election of directors for the year in which the director's term expires or at a special meeting called for that purpose. As of the date of this prospectus, we do not anticipate increasing or decreasing the authorized number of directors.

*Class I Directors.* Messrs. Wilansky, Sonnenberg, Tanenbaum and Ms. Friedlander, whose terms will expire at the 2006 annual meeting of shareholders; and

*Class II Directors.* Messrs. Schottenstein, Miller, and Robbins, whose terms will expire at the 2007 annual meeting of shareholders.

We believe, and expect our board to determine, that a majority of our directors will be independent as defined under the NYSE rules.

**Committees of the Board of Directors**

We will establish an audit committee, nominating and corporate governance committee and compensation committee of our board. We intend to comply with all applicable NYSE rules relating to committee composition and committee charter requirements. We will not utilize the controlled company or IPO phase-in exemptions available to us under the NYSE rules.

*Audit Committee.* The audit committee will assist the board in fulfilling its oversight responsibility relating to our financial statements and the financial reporting process, compliance with legal and regulatory requirements, the qualifications and independence of our independent public accountants, our system of internal controls, the internal audit function, our code of ethical conduct, retaining and, if appropriate, terminating the independent public accountants and approving audit and non-audit services to be performed by the independent public accountants.

We expect the audit committee to be chaired by Mr. Robbins and to consist of Messrs. Miller and Tanenbaum. We also expect our board to determine that all three members of this committee are independent directors as defined under the NYSE rules and under Section 10A-3 of the Securities

**Table of Contents**

Exchange Act. We also expect our board to determine that Mr. Robbins is an audit committee financial expert as such term is defined by the SEC under Item 401(h) of Regulation S-K.

*Nominating and Corporate Governance Committee.* The nominating and corporate governance committee's functions will include assisting the board in determining the desired qualifications of directors, identifying potential individuals meeting those qualification criteria, proposing to the board a slate of nominees for election by the shareholders and reviewing candidates nominated by shareholders. In addition, the nominating and corporate governance committee will review the Corporate Governance Principles, make recommendations to the board with respect to other corporate governance principles applicable to us, oversee the annual evaluation of the board and management and review management and board succession plans.

We expect the nominations and corporate governance committee to be chaired by Mr. Tanenbaum and to consist of Ms. Friedlander and Mr. Robbins. We also expect our board to determine that all three members of this committee are independent directors as defined under the NYSE rules.

*Compensation Committee.* The compensation committee's functions will include evaluating the Chief Executive Officer's performance, setting the Chief Executive Officer's annual compensation; reviewing and approving the compensation packages of our other executive officers; making recommendations to the board with respect to our incentive compensation, retirement and other benefit plans; making administrative and compensation decisions under such plans; and recommending to the board the compensation for non-employee board members.

We expect the compensation committee to be chaired by Mr. Miller and to consist of Mr. Robbins and Ms. Friedlander. We also expect our board to determine that all three members at this committee are independent directors as defined under the NYSE rules.

**Compensation Committee Insider Participation**

Compensation decisions during fiscal 2004 pertaining to our executive officers' compensation (other than for our named executive officers) were made by the former Chief Executive Officer of Retail Ventures, John C. Rossler, and the former Chief Operating Officer of Retail Ventures, Edwin J. Kozlowski. Compensation decisions regarding Deborah L. Ferrée, Peter Z. Horvath, and Douglas J. Probst were made by Jay L. Schottenstein as Chairman of Retail Ventures. Mr. Schottenstein became the Chief Executive Officer and Chairman of the Board of Directors of DSW in March 2005.

**Compensation of Directors**

We will pay an annual retainer to our non-employee directors (other than employees of our affiliates), or the compensated directors. The annual retainer will consist of \$50,000 in cash and a grant of a number of stock units with a value equal to \$50,000, determined by using the fair market value of a DSW Class A Common Share at the date of grant. For the current year, on the last day of the fiscal quarter during which this offering is completed, each compensated director will be granted 3,100 stock units under the DSW 2005 Equity Plan. See *The DSW Incentive Plans* *The DSW 2005 Equity Plan* for a discussion of the DSW 2005 Equity Plan. Each compensated director may elect to receive their cash retainer and committee chairperson fees in the form of stock units. The stock units will be fully vested on the date of grant, but will not be distributable to the compensated director until the compensated director leaves the board (for any reason). When the compensated director leaves the board, the stock units owed to the compensated director will be settled in DSW Class A Common Shares (with cash for any fractional shares), unless the compensated director's award agreement provides for a cash settlement. The stock units will be settled in a lump sum transfer, and the compensated director may not defer settlement or spread the settlement over a longer period of time.

Compensated directors will have no voting rights in respect of the stock units, but they will have the power to vote the DSW Class A Common Shares received upon settlement of the award. In general, compensated directors will not have dividend rights in the stock units until settlement, but an award agreement may provide for equivalent rights. If such equivalent rights are granted, the compensated director

**Table of Contents**

will be credited with the same dividend that would be issued if the stock unit was a DSW Class A Common Share. The amounts associated with the dividend equivalent rights will not be distributed until the compensated director's stock unit award is settled at the time that the compensated director leaves the board. We will be entitled to a tax deduction when the award is settled, and the compensated director will be taxed on the then fair market value of the award.

Directors will not receive any additional compensation for attending board meetings or board committee meetings. However, the chairmen of the audit committee, nominating and corporate governance committee and compensation committee will each receive an additional \$10,000, \$5,000 and \$7,500 in cash or stock units (as they may elect), respectively. All members of our board of directors will be reimbursed for reasonable costs and expenses incurred in attending meetings of our board of directors and its committees.

**Codes of Conduct**

We have adopted a code of ethics that applies to all our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and an additional code of ethics that applies to senior financial officers. These codes of ethics have been designated as the Code of Conduct and the Code of Ethics for Senior Financial Officers, respectively. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding any amendment to, or waiver from, any applicable provision (related to elements listed under Item 406(b) of Regulation S-K) of the Code of Conduct or the Code of Ethics for Senior Financial Officers that applies to our directors, principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions by posting such information on our website.

**Executive Compensation**

The following summary compensation table sets forth information concerning the cash and non-cash compensation for services rendered to DSW earned during fiscal 2004 by, awarded to or paid to our Chief Executive Officer, our former Chief Executive Officer, each of the next four most highly compensated executive officers and one executive officer who would have been one of the four most highly compensated but for the fact that he was no longer serving as an executive officer at the end of fiscal 2004. We refer to these officers as our named executive officers in other parts of this prospectus. Even though Mr. Probst was not employed by us during fiscal 2004, we have included him on this table as we expect him to be one of our most highly compensated executive officers following the consummation of this offering and to be eligible to participate in many of the same plans and programs as our other named executive officers. For purposes of the summary compensation table, we have listed the portion of each named executive officer's compensation allocable to services rendered to DSW. This allocation is based on the net sales of the DSW segment of the business of Retail Ventures for fiscal 2004 as compared to the total net sales of Retail Ventures and its subsidiaries for such year. After the consummation of this offering, Ms. Ferrée, Mr. Horvath and Mr. Probst will continue to be paid by us. Prior to and after consummation of this offering, Ms. Davis and Mr. McGrady will be paid by Retail Ventures, and a portion of the related expense will be allocated to DSW.

**Table of Contents****Summary Compensation Table**

Name and Principal Position <sup>(1)</sup>	Fiscal Year	Annual Compensation			Long Term Compensation		
		Salary (\$)	Bonus (\$) <sup>(3)</sup>	Other Annual Compensation (\$) <sup>(4)</sup>	Awards	Payouts	
					Stock Options (\$)	Restricted Stock (\$)	All Other Compensation (\$) <sup>(6)</sup>
Jay L. Schottenstein <sup>(7)</sup> Chief Executive Officer and Chairman of the Board	2004	\$ 84,950 <sup>(2)</sup>					
Deborah L. Ferrée <sup>(8)</sup> President & Chief Merchandising Officer	2004	\$ 553,083	\$ 710,938	\$ 12,038		\$ 345,000	\$ 8,037
Peter Z. Horvath <sup>(9)</sup> Chief Operating Officer	2004	\$ 28,846					
Douglas J. Probst <sup>(10)</sup> Chief Financial Officer	2004						
James A. McGrady <sup>(11)</sup> Chief Financial Officer, Treasurer and Secretary of Retail Ventures	2004	\$ 147,421	\$ 96,225				\$ 2,865
Julia A. Davis <sup>(11)</sup> General Counsel of DSW and Retail Ventures	2004	\$ 93,607	\$ 80,376				\$ 2,392
John C. Rossler <sup>(12)</sup> Former Chief Executive Officer and President of Retail Ventures	2004	\$ 255,686	\$ 92,746	\$ 5,169		\$ 279,979	\$ 250,580
Edwin J. Kozłowski <sup>(12)</sup> Former Chief Operating Officer of Retail Ventures	2004	\$ 182,621	\$ 66,198	\$ 27,440		\$ 69,560	\$ 188,299

(1) In fiscal 2004, Ms. Ferrée, Mr. McGrady and Ms. Davis were the three most highly compensated officers who were still employed with us or Retail Ventures as of the end of fiscal 2004. None of our other executive officers received compensation for services rendered to DSW in an amount greater than \$100,000 in fiscal 2004.

(2) Includes amounts paid in respect of fiscal 2004 to Mr. Schottenstein as compensation for his role as Chairman of the Board of Directors of Retail Ventures, allocable to DSW. As of the date of his appointment as Chief Executive Officer, Mr. Schottenstein does not have a formal written employment agreement with DSW.

(3) Includes amounts paid in respect of fiscal 2004 under the Value City Department Stores, Inc. 2003 Incentive Plan. In connection with the offering, we expect that our board will adopt and Retail Ventures, as sole shareholder, will

approve the DSW Inc. 2005 Cash Incentive Plan. We expect that some of our named executive officers will participate in that plan.

- (4) SEC rules do not require the reporting of perquisites and other personal benefits to the extent that the aggregate amount of such compensation is the lesser of either \$50,000 or 10% of the total annual salary and bonus reported for each named executive officer. For Ms. Ferrée and Mr. Rossler, the amounts reported related to legal expenses. For Mr. Kozlowski, the amounts reported include allocated amounts of \$22,271 relating primarily to personal benefits and \$5,169 in allocated legal expenses. For Messrs. Rossler and Kozlowski, the amounts allocable to DSW were determined as described in footnote (11) below.
- (5) In July 2002, the compensation committee of the board of directors of Retail Ventures recommended and the Board of Directors approved the establishment of a value creation program, pursuant to which cash payments were made to certain participants including Messrs. Rossler and Kozlowski and Ms. Ferrée. Mr. Rossler was awarded \$805,000 in fiscal 2004, pursuant to the program, subject to a risk of forfeiture on termination of employment, \$279,979 of which was allocable to DSW during fiscal 2004. Mr. Kozlowski was awarded \$200,000 in fiscal 2004, pursuant to the program, subject to a risk of forfeiture on termination of employment, \$69,560 of which was allocable to DSW during fiscal 2004. Ms. Ferrée was awarded an aggregate of \$690,000 pursuant to the program, subject to a risk of forfeiture on termination of employment, \$345,000 of which was paid during fiscal 2004. All obligations under the value creation program have been satisfied as of February 1, 2004, upon payment of the last installment.

**Table of Contents**

- (6) The amounts shown in this column for each named executive officer consist of contributions or other allocations to Retail Ventures 401(k) Plan and Associate Stock Purchase Plan for the named executive officer, as follows:

**401(K) Plan and Associate Stock Purchase Plan**

Name	401(K) Plan	Stock Purchase Plan
Jay L. Schottenstein	\$ 0	\$ 0
Deborah L. Ferrée	\$ 7,850	\$ 187
Peter Z. Horvath	\$ 0	\$ 0
Douglas J. Probst	\$ 0	\$ 0
James A. McGrady	\$ 2,865	\$ 0
Julia A. Davis	\$ 2,392	\$ 0
John C. Rossler	\$ 2,484	\$ 0
Edwin J. Kozlowski	\$ 2,741	\$ 0

As to Mr. Rossler, the amount listed in the Summary Compensation Table also includes \$248,096 in severance payments allocable to DSW that were accrued in fiscal 2004. Retail Ventures also paid premiums in the amount of \$700 for a life insurance policy for Mr. Rossler pursuant to which Mr. Rossler would have received the benefit of any cash surrender value. The policy was terminated in May 20, 2004. As to Mr. Kozlowski, the amount listed in the Summary Compensation Table also includes \$185,558 in severance payments allocable to DSW that were accrued in fiscal 2004, which includes the allocable cash value of an automobile awarded to Mr. Kozlowski as part of his severance. The portion of these amounts allocable to DSW was determined as described in footnote (11) below.

- (7) Mr. Schottenstein became Chief Executive Officer and Chairman of the Board of Directors of DSW in March 2005. We do not expect to enter into an employment agreement with Mr. Schottenstein. His annual salary is \$250,000.
- (8) Ms. Ferrée entered into a new employment agreement effective as of November 2004. Her new annual salary is \$700,000.
- (9) Mr. Horvath entered into a new employment agreement effective as of January 3, 2005. His annual salary is \$500,000.
- (10) Mr. Probst entered into a new employment agreement effective as of March 14, 2005. His annual salary is \$350,000.
- (11) The information in the table represents the portion of Mr. McGrady's and Ms. Davis' compensation allocable to DSW. This allocation is based on the net sales of DSW segment of the business of Retail Ventures for 2004 as compared with the total net sales of Retail Ventures and its subsidiaries for such year.
- (12) The employment of Messrs. Rossler and Kozlowski was terminated by the board of directors of Retail Ventures as of November 3, 2004. The information in the table represents portions of their respective compensation allocable to DSW. The portion allocable to DSW was determined as described in footnote (11) above.

**Aggregated Option/ SAR Exercises for Common Shares of Retail Ventures in Last Fiscal Year and Fiscal Year-End Option/ SAR Values**

The following table sets forth information for each of the named executive officers regarding the number of shares subject to both exercisable and unexercisable stock options in respect of Retail Ventures common shares, as well as

the value of unexercisable in-the-money options, as of the end of fiscal 2004, based on the closing price of Retail Venture common shares on that date (\$6.61 per share). No named executive officer held options or stock appreciation rights, or SARs, in respect of our common shares.

Named Executive Officers	Number of Shares Acquired upon Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs At Fiscal Year End	Value of Unexercised In-the-Money Options/SARs At Fiscal Year End <sup>(1)</sup>
			Exercisable/Unexercisable	Exercisable/Unexercisable
Jay L. Schottenstein			50,000/	/
Deborah L. Ferrée			227,600/324,400	457,440/684,060
Peter Z. Horvath			/	/
Douglas J. Probst			/	/
James A. McGrady			243,000/332,000	462,150/687,900
Julia A. Davis			8,000/32,000	39,840/159,360
John C. Rossler			2,445,000/	5,137,950/
Edwin J. Kozlowski			1,720,000/	3,629,200/

(1) Represents the total gain which would be realized if all in-the-money options held at year end were exercised, determined by multiplying the number of shares underlying the options by the difference in the per share option exercise price and the per share fair market value at year end of \$6.61. An option is in-the-money if the fair market value of the underlying shares exceeds the exercise price of the option.

**Table of Contents****Employee Incentive Plans*****The Retail Ventures Incentive Plans***

Some of our employees (including our named executive officers) and non-employee directors have participated in or have been eligible to participate and, after the offering, will continue to be eligible to participate in equity incentive plans sponsored by Retail Ventures which provided them an opportunity to earn incentive cash compensation and to receive equity-based compensation related to the common shares of Retail Ventures. These plans include the Amended and Restated Retail Ventures, Inc. 1991 Stock Option Plan, or the Retail Ventures 1991 Option Plan, the Retail Ventures, Inc. Amended and Restated 2000 Stock Incentive Plan, or the Retail Ventures 2000 Stock Incentive Plan, and the Value City Department Stores, Inc. 2003 Incentive Compensation Plan, or the Retail Ventures 2003 Incentive Plan and the Retail Ventures, Inc. Employee Stock Purchase Plan, or the Retail Ventures ESPP, which was terminated as of May 27, 2005. All of these plans are collectively referred to as the Retail Ventures Plans. After the offering, some of our officers and employees may also participate in the Retail Venture Plans, other than the Retail Ventures ESPP.

After the offering, awards previously issued under the Retail Ventures Plans will remain outstanding and will continue to be earned or exercisable under their terms.

All of the Retail Ventures Plans (other than the Retail Ventures ESPP) are administered by the Retail Ventures board of directors, or a committee comprised of independent board members who are outside directors within the meaning of Section 162(m) of the Code. The Retail Ventures ESPP was administered by a committee comprised of several Retail Ventures employees.

Subject to the terms of each plan, the administrator of each Retail Ventures Plan decides who may participate, when awards are granted, the number and types of awards granted and the terms and conditions that must be met to earn the award, including the period over which a cash award is earned and the period over which an equity award may be earned and exercised or settled. The plan administrator also determines the exercise price of the stock options and stock appreciation rights granted under any Retail Ventures Plans.

Subject to shareholder approval in certain instances, the Retail Ventures board of directors may amend, suspend or terminate the Retail Ventures Plans at any time, provided that no such amendment, suspension or termination may adversely affect any award previously granted to a participant without their consent.

Awards granted under the Retail Ventures Plans are generally not transferable by the participant except by will or the laws of descent and distribution, and options are exercisable, during the lifetime of the participant, only by the participant or his guardian or legal representative, unless otherwise permitted by the plan administrator.

With the exception of the Retail Ventures ESPP, the Retail Ventures Plans are intended to permit the payment of performance-based compensation within the meaning of Section 162(m) of the Code, which generally limits the deduction that Retail Ventures may take for compensation paid in excess of \$1,000,000 to certain of its covered officers in any one calendar year. Under Section 162(m) of the Code, compensation that is qualified performance-based compensation within the meaning of Section 162(m) of the Code, will not be subject to this limitation if certain requirements are met. Any payments that are intended to be deductible as qualified performance-based compensation under Section 162(m) of the Code must be based on one or more of the performance measures listed in the Retail Ventures Plans as previously approved by the shareholders of Retail Ventures and which otherwise satisfy requirements applicable to qualified performance-based compensation under Section 162(m) of the Code.

***The Retail Ventures 1991 Option Plan***

The Retail Ventures 1991 Option Plan expired in 2001, although some awards granted before that date remain outstanding and may yet be exercised.

The Retail Ventures 1991 Option Plan authorizes the committee administering the plan to grant incentive stock options (within the meaning of Section 422 of the Code) to employees and to grant nonstatutory stock options and tax offset awards to employees and consultants. A tax offset award is a cash payment intended to reimburse an employee or a consultant for a portion of the income taxes incurred when exercising a nonstatutory stock option or selling an incentive stock option at a time that generates ordinary income taxes.





**Table of Contents**

The Retail Ventures 1991 Plan provides that (i) all options held by a participant who retires (i.e., terminates after reaching age 60 or completing 30 years of service) will become exercisable and may be exercised anytime within 30 days after retirement or, if shorter, the date the option would expire under its terms, (ii) all options held by a participant who terminates because of death or disability (as defined in the Retail Ventures 1991 Option Plan) will become exercisable and may be exercised anytime within one year after termination because of disability or, if shorter, the date the option would expire under its terms, and (iii) all exercisable options held by a participant who terminates (or is terminated) for any other reason (other than for cause as defined in the Retail Ventures 1991 Plan) may be exercised anytime within 30 days after termination or, if shorter, the date the option would expire under its terms and all options that are not exercisable at termination will be forfeited. All options (whether or not then exercisable) held by a participant who is terminated for cause (as defined in the Retail Ventures 1991 Plan) are forfeited and may not be exercised at any time.

In the event of a change in control of Retail Ventures (as defined in the Retail Ventures 1991 Plan) all options that are outstanding on the date of the change in control will become exercisable for a period of 30 days ending on the date of the change in control and will expire on the date of the change in control if they are not exercised before that date.

***The Retail Ventures 2000 Stock Incentive Plan***

The Retail Ventures 2000 Stock Incentive Plan authorizes the committee administering the plan to grant incentive stock options (within the meaning of Section 422 of the Code) to employees and nonstatutory stock options, stock appreciation rights, restricted stock, performance units and performance shares to employees, consultants and directors.

The Retail Ventures 2000 Stock Incentive Plan provides that (i) all options and stock appreciation rights held by a participant who terminates employment after qualifying for retirement under a tax-qualified retirement plan or terminates because of death or disability (as defined in the Retail Ventures 2000 Stock Incentive Plan), may be exercised anytime within one year (three months in the case of incentive stock options held by an employee who is retiring) after termination because of retirement, death or disability or, if shorter, the date the option would expire under its terms; and (ii) all options and stock appreciation rights held by a participant who terminates (or is terminated) for any other reason, may not be exercised after termination unless the committee specifically provides for a post-termination exercise period which may not be longer than three months. The effect of terminations of employment on restricted stock, performance units or performance shares is specified in individual award agreements.

In the event of a change in control of Retail Ventures (as defined in the Retail Ventures 2000 Stock Incentive Plan) all options that are outstanding on the date of the change in control will become exercisable immediately. No similar plan provision is available for other types of awards granted under the Retail Ventures 2000 Stock Incentive Plan, although individual award agreements may provide for the exercisability of other types of awards if there is a change in control. As of the date of this prospectus, none of our named executive officers has any such acceleration provisions in their award agreements.

***The Retail Ventures 2003 Incentive Plan***

The Retail Ventures 2003 Incentive Plan is designed to provide additional incentive cash compensation to officers of Retail Ventures if pre-established performance criteria specified in the plan are met. The maximum annual incentive compensation that any covered officer may earn under the Retail Ventures 2003 Incentive Plan is \$4,000,000.

A covered officer who terminates employment with Retail Ventures and all related entities for any reason other than death or disability before the end of a performance period will forfeit any right to receive incentive compensation for the performance period. However, a covered officer who terminates his or her employment with Retail Ventures and all related entities because of death or disability (as defined in the Retail Ventures 2003 Incentive Plan) will receive a prorated amount under the Retail Ventures 2003 Incentive Plan, but only if applicable performance goals are actually achieved as of the end of that performance period. The amount paid in these circumstances is the incentive compensation the deceased or disabled employee would have

**Table of Contents**

received at the end of the performance period multiplied by a fraction, the numerator of which is the number of days between the beginning of the performance period and the date employment terminated and the denominator of which is the total number of days included in the performance period.

***The Retail Ventures ESPP***

The Retail Ventures ESPP was a broad based employee share purchase plan through which employees were able to purchase Retail Ventures shares through a weekly payroll deduction. Retail Ventures matched 15% of each authorized payroll deduction. The Retail Ventures ESPP was terminated effective May 27, 2005. Participants are always fully vested in shares purchased through the Retail Ventures ESPP and may sell them at any time.

**The DSW Incentive Plans**

In connection with the offering, we expect that our board of directors will adopt and our shareholders will approve the DSW Inc. 2005 Equity Incentive Plan, or the DSW 2005 Equity Plan, and the DSW Inc. 2005 Cash Incentive Compensation Plan, or the DSW 2005 Cash Plan, to enable us to attract, retain and reward outstanding employees, directors and consultants through cash incentives and/or equity-based compensatory awards, including incentive stock options (within the meaning of Section 422 of the Code), non-qualified stock options, performance shares, performance units, restricted stock, restricted stock units, stock appreciation rights and stock units. The DSW 2005 Equity Plan and the DSW 2005 Cash Plan are collectively referred to as the DSW Plans. Immediately following the pricing of but prior to the consummation of this offering, we expect to have granted stock options to employees and consultants to purchase up to 900,000 registered Class A Common Shares at an exercise price per share equal to the initial public offering price per share and up to 100,000 restricted Class A Common, will have been issued to employees at a price per share equal to the initial public offering price per share. These awards remain subject to approval by the DSW board of directors prior to the consummation of this offering.

After the offering, some of our officers, including those who also simultaneously hold positions with Retail Ventures, may participate in both the Retail Ventures Plans described above and in the DSW Plans. Also, some Retail Ventures employees providing services to DSW may be eligible to participate in the DSW Plans.

The DSW Plans will be administered by the compensation committee of our board of directors with respect to awards granted to consultants and employees after the offering and by the entire board with respect to awards granted to employees and consultants before the offering and to non-employee directors before and after the offering. The compensation committee is comprised of at least two members who satisfy the independence requirements of current NYSE listing standards, are outside directors within the meaning of Section 162(m) of the Code, and are non-employee directors within the meaning of Rule 16b-3 under the Exchange Act.

Awards granted under the DSW Plans are generally not transferable by the participant except by will or the laws of descent and distribution, and each award is exercisable, during the lifetime of the participant, only by the participant or his guardian or legal representative, unless permitted by the committee.

The DSW Plans are intended to permit us to deliver performance-based compensation within the meaning of Section 162(m) of the Code, which generally limits the deduction that we may take for compensation paid in excess of \$1,000,000 to certain of our executive officers in any one calendar year. Under Section 162(m) of the Code, compensation that is qualified performance-based compensation within the meaning of Section 162(m) of the Code, will not be subject to this limitation if certain requirements are met. Any awards that are intended to be deductible as qualified performance-based compensation under Section 162(m) of the Code must be based on one or more of the performance measures listed in the DSW Plans and otherwise satisfy the requirements applicable to qualified performance-based compensation under Section 162(m) of the Code.

In the event of a change in control of DSW all awards will vest or become exercisable and generally will be settled for cash. However, the value of any acceleration of vesting will, if appropriate, be reduced to avoid any golden parachute penalties under Sections 280G or 4999 of the Code unless otherwise provided in an award agreement or another written agreement (such as an employment agreement) between DSW and an

**Table of Contents**

affected employee. Generally, a change in control is defined in the DSW Plans to include (i) a change in a majority of DSW's directors during any 12-month period, (ii) with some exceptions (including exceptions for acquisitions by Retail Ventures, SSC, trusts established for members of the Schottenstein family and Cerberus Partners Ltd.), the acquisition by any person (or a group of persons acting together) of more than 30% of DSW's outstanding voting securities and sufficient voting power to elect a majority of DSW's board, (iii) a merger or business combination affecting DSW and after which DSW shareholders hold less than 50% of the surviving entity's voting power, (iv) a complete dissolution or liquidation of DSW and (v) any other transaction that the DSW board decides will have at least as material an effect on DSW as any of the transactions specified above.

Our board or the compensation committee of the board may terminate, suspend or amend the DSW Plans at any time without shareholder approval, except to the extent necessary to satisfy applicable law or listing requirements. However, generally no amendment may adversely affect any rights of a participant under an outstanding award without their consent. Unless terminated sooner, the DSW 2005 Equity Plan will terminate automatically ten years from the date of its implementation.

***The DSW 2005 Equity Plan***

The DSW 2005 Equity Plan authorizes 4,600,000 shares of our common shares to be issued under the plan, all of which may be issued through the exercise of incentive stock options. The DSW 2005 Equity Plan also provides that any shares subject to an unfulfilled award (e.g., a forfeited option or an award settled for cash in an amount that is less than the award's fair market value less any exercise price) may be subject to a subsequent award under the plan.

The DSW 2005 Equity Plan provides that our employees may receive incentive stock options, our employees and consultants may receive nonstatutory stock options, restricted stock, restricted stock units, performance shares and performance units and stock appreciation rights and that our compensated directors may receive nonstatutory options, restricted stock, restricted stock units or stock unit awards. The DSW 2005 Equity Plan also permits compensated directors to elect to receive the cash portion of their annual retainer and other director fees in the form of stock units. Each stock unit represents the right to receive the fair market value of one of our Common Shares. Our compensated directors also will automatically receive 50% of their fees in the form of stock units which will be immediately vested but will be settled in Class A Common Shares only when they leave the board. On the last day of the fiscal quarter during which this offering is completed, each compensated director will receive 3,100 stock units. On the date of each annual meeting of shareholders held for the purpose of electing directors beginning with the 2006 annual meeting of shareholders, each compensated director serving after such annual meeting will automatically receive a grant of a number of stock units determined by dividing \$50,000 by the fair market value of our Class A Common Shares on the grant date.

The DSW 2005 Equity Plan allows the compensation committee, in its discretion, to issue stock options to purchase shares of DSW under the DSW 2005 Equity Plan in substitution for stock options to purchase shares of Retail Ventures previously granted to our employees under the Retail Ventures 1991 Option Plan and/or the Retail Ventures 2000 Stock Incentive Plan. The aggregate value and general features of these substitute options are determined in accordance with Section 424 of the Code and the regulations thereunder.

The maximum number of our shares underlying options that may be issued annually to any executive officer is 500,000 and the maximum number of whole-share grants (such as restricted stock and performance shares) is 100,000.

The DSW 2005 Equity Plan limits participants' ability to exercise awards they hold when they terminate employment. Under these rules (and unless the award agreement specifies otherwise), (i) all options, restricted stock, restricted stock units, stock units and stock appreciation rights that are affiliated with or issued in tandem with an option held by an employee or a compensated director who retires (i.e., in the case of employees, after reaching age 65 and completing five years of service or, in the case of compensated directors, after completing one full term as a compensated director after reaching age 65) becomes disabled as defined in the 2005 Equity Plan or dies will become exercisable and may be exercised anytime within one year (three months in the case of incentive stock options held by an employee who is retiring) after termination because of retirement, disability or death or, if shorter, the date the award would expire under its



**Table of Contents**

terms (ii) all options, restricted stock, restricted stock units, stock units and stock appreciation rights that are affiliated with or issued in tandem with an option held by a consultant who becomes disabled (as defined in the DSW 2005 Equity Plan) or dies will become exercisable and may be exercised anytime within one year after termination because of disability or death or, if shorter, the date the award would expire under its terms and (iii) all exercisable awards held by a participant whose employment terminates for any other reason (other than for cause as defined in the DSW 2005 Equity Plan) may be exercised anytime within 90 days after termination or, if shorter, the date the award would expire under its terms and all awards that are not exercisable at termination will be forfeited. The effect of termination on performance shares, performance units and stock appreciation rights that are not affiliated with or issued in tandem with an option will be specified in the award agreement. All awards (whether or not then exercisable) held by a participant who is terminated for cause (as defined in the DSW 2005 Equity Plan) are immediately forfeited and may not be exercised at any time.

Subject to applicable legal requirements, at any time prior to a change in control of DSW, the compensation committee is authorized to cancel any or all outstanding stock options and other awards granted under the DSW 2005 Equity Plan. Upon cancellation, we are obligated to pay the participants only with respect to those options and awards that are then exercisable. With respect to outstanding stock options that are exercisable when cancelled, we will pay the participant the difference between the fair market value of the common shares underlying the stock option and the exercise price of the stock option. With respect to other awards under the DSW 2005 Equity Plan which are exercisable when cancelled, we will pay the participant the fair market value of the common shares subject to the award.

Based on federal income tax laws currently in effect, we believe that we will not be entitled to a federal income tax deduction when an incentive stock option, nonstatutory stock option, restricted stock award, restricted stock unit award, performance stock award, performance stock unit award or stock unit award is granted and participants will not be required to include any amount in federal taxable income at that time. Except in the case of incentive stock options, we will be entitled to a federal income deduction in the year these awards are settled or exercised and participants will be required to recognize ordinary federal income taxes on the same amount in the same year. The amount of our federal income tax deduction (and the amount simultaneously taxable to the participant) will be the fair market value of the award when it is settled in the case of a restricted stock award, restricted stock unit award, performance stock award, performance stock unit award and stock unit award. In the case of nonstatutory stock options, the amount of our federal income tax deduction (and the amount simultaneously taxable to participants) will be the difference between the price a participant pays to exercise the nonstatutory stock option and the fair market value of the stock acquired when the option is exercised. Generally, upon exercise of an incentive stock option, we would not be entitled to any federal income tax deduction and the participant would not recognize income upon exercise. If the participant (i) does not dispose of the shares within two years after the date of the grant and one year after the transfer of shares upon exercise and (ii) is an employee of ours or of one of our subsidiaries from the date of the grant through and until three months before the exercise date, any gain from a subsequent sale of shares acquired through incentive stock options would be taxed to the participant as a long-term capital gain and we would not be entitled to a federal income tax deduction. However, if a participant does not satisfy the requirements of clauses (i) and (ii) above, we will be entitled to a federal income tax deduction equal to the difference between the price a participant paid to exercise the incentive stock option and the fair market value of the stock acquired when the option was exercised and the participant will be required to recognize ordinary income in the same amount.

***The DSW 2005 Cash Plan***

The DSW 2005 Cash Plan authorizes the compensation committee to designate employees (including executive officers and employees who are not executive officers) who may earn additional cash compensation under the DSW 2005 Cash Plan, to identify business-related performance goals that must be met over a performance period specified by the compensation committee as a condition of the payment of the incentive compensation and to specify the amount of the cash bonus to be paid if those performance goals are met. The performance goals that executive officers must achieve to earn a cash bonus are derived from criteria listed in the DSW 2005 Cash Plan. Employees who are not executive officers also may earn a cash bonus



**Table of Contents**

under the DSW 2005 Cash Plan, although their performance goals may be based on criteria not listed in the DSW 2005 Cash Plan. The compensation committee must establish performance goals as soon as administratively practicable before the beginning of the performance period but, in the case of executive officers, no later than 90 days after the beginning of the performance period or the expiration of 25% of the performance period, whichever is earliest.

At the end of each performance period, the compensation committee will ascertain whether each employee has or has not met applicable performance goals and certify those results to our board of directors along with a statement of the amount of any cash bonus earned. If an employee has not met applicable performance goals, he or she will not receive a cash bonus under the DSW 2005 Cash Plan for that performance period. If an employee has met applicable performance goals, DSW will pay the stipulated cash bonus as soon as administratively practicable but in no case later than two and one-half months after the end of our fiscal year during which the performance period ends or the calendar year during which the performance period ends, whichever is latest. The maximum annual bonus that any executive officer may earn under the DSW 2005 Cash Plan is \$3,000,000.

Unless otherwise provided in the award agreement, an employee who terminates employment for any reason other than death or disability before the end of a performance period will forfeit any right to receive a bonus during that performance period. However, unless otherwise provided in the award agreement, an employee who terminates employment because of death or disability (as defined in the DSW 2005 Cash Plan) will receive a prorated bonus under the DSW 2005 Cash Plan but only if applicable performance goals are actually achieved at the end of that performance period. The amount paid in these circumstances is the bonus the deceased or disabled employee would have received at the end of the performance period multiplied by a fraction, the numerator of which is the number of days between the beginning of the performance period and the date employment terminated and the denominator of which is the total number of days included in the performance period.

Based on federal income tax laws currently in effect, we believe that we will be entitled to a federal income tax deduction equal to the full amount paid from the DSW 2005 Cash Plan in the year it is paid and that employees receiving payments from the DSW 2005 Cash Plan will be required to recognize ordinary income in the same year.

**Benefit Plans**

After the completion of this offering, we will continue to participate in certain of the health and welfare benefit plans that are sponsored by Retail Ventures. Such plans include a health and medical plan, prescription drug plan, vision service plan, optional dental plan, life insurance plans, disability plans, and a cafeteria plan subject to Section 125 of the Code.

Our full-time employees who attain age twenty-one may contribute up to thirty percent of their compensation on a pre-tax basis to a profit sharing and 401(k) plan, subject to Internal Revenue Service limitations. Part-time employees may contribute to the plan after attaining age twenty-one and completing one year of service as defined in the plan. We match employee deferrals into the plan, 100% on the first 3% of eligible compensation deferred and 50% on the next 2% of eligible compensation deferred. Matching begins after one year of qualified service. Additionally, we may contribute a discretionary profit sharing amount to the plan each year. The plan offers participants a diverse choice of investment options and contains provisions for loans and hardship withdrawals.

**Employment Contracts, Termination of Employment and Change-in-Control Arrangements*****Employment Agreements***

We do not expect to enter into an employment agreement with Mr. Schottenstein, our Chief Executive Officer. Mr. Schottenstein was appointed on March 14, 2005, and his annual salary is \$250,000.

We have entered into an employment agreement with Ms. Ferrée, our President and Chief Merchandising Officer, which became effective on November 22, 2004. The agreement provides for an indefinite term (which terminates upon the executive's death, disability (as such term is defined in the agreement), voluntary termination by the executive or involuntary termination by us). Under the agreement, Ms. Ferrée will receive an annual base salary of \$700,000, which will be increased annually by a minimum of 2.5% over the previous year's base salary. Ms. Ferrée will also participate in our bonus (cash incentive) plans with a target





**Table of Contents**

bonus opportunity of 100% of base salary and a maximum annual bonus of 200% of base salary. The agreement also provides for Ms. Ferrée's participation in our employee pension or welfare benefit plans at a level commensurate with her title and position and provides an entitlement to an annual perquisite allowance from us of \$40,000.

If the employment of Ms. Ferrée is involuntarily terminated by us without cause, or if Ms. Ferrée terminates her employment with us for good reason, as such term is defined in her employment agreement, Ms. Ferrée will be entitled to receive payment of her base salary through the end of 2007 if such termination occurs prior to the end of the 2006 or for a 12 month period beginning on the date of termination if such termination occurs on or after January 1, 2007; up to 18 months reimbursement for the cost of health care continuation; a pro-rata portion of any cash incentive bonus for the year of termination and one year of accelerated vesting with respect to her outstanding stock options. The agreement with Ms. Ferrée also contains confidentiality and non-disparagement provisions effective through the term of the agreement, a non-competition provision effective through the longer of one year following termination of employment or the period of any salary continuation, and a non-solicitation provision effective through the longer of two years following termination of employment or the period of any salary continuation.

Mr. McGrady, the Executive Vice President, Chief Financial Officer and Secretary of Retail Ventures and Vice President and a director of DSW entered into an employment agreement with Retail Ventures effective June 21, 2000. The agreement has an initial term ending June 21, 2003, with automatic one-year extensions unless either party gives 60 calendar days notice of intent not to extend the agreement. The agreement originally provided for an annual salary of \$300,000 (which the Retail Ventures president, with the approval of the Chairman of Retail Ventures, may increase at his discretion) and a bonus of at least 40% of his base salary if board approved, predetermined, performance measures set annually are met. On March 30, 2005, Mr. McGrady's salary was increased to \$475,000, and he received a bonus of \$200,000 for fiscal 2004. The agreement also provides for Mr. McGrady's participation in the deferred compensation or other employee benefit plans, insurance plans, discount privileges, incentive plans and other employee welfare plans generally available to the executives of Retail Ventures. The agreement also provides for a vehicle allowance. If Mr. McGrady's employment is terminated by Retail Ventures without cause as defined in his agreement, and other than pursuant to Retail Ventures providing notice of its intent not to renew the agreement, then Mr. McGrady will be entitled to receive 12 months of base salary, 12 months of reimbursement for the cost of health care continuation and any cash incentive bonus declared but not paid. The agreement also contains confidentiality provisions effective through the term of the agreement, a non-competition provision effective through the longer of one year following termination of employment or the period of any salary continuation, and a non-solicitation provision effective through the longer of two years following termination of employment or the period of any salary continuation.

We have entered into an employment agreement with Mr. Horvath, our Executive Vice President and Chief Operating Officer, which became effective on January 3, 2005. The agreement provides for an indefinite term (which terminates upon Mr. Horvath's death, disability (as such term is defined in the agreement), voluntary termination by Mr. Horvath or involuntary termination by us). Under the agreement, Mr. Horvath will receive an annual base salary of \$500,000, which will be increased annually by a minimum of 2.5% over the previous year's base salary. In addition, Mr. Horvath received a signing bonus of \$75,000 upon entering into the agreement. Mr. Horvath will also participate in our bonus (cash incentive) plans with a target bonus opportunity of 100% of base salary and a maximum annual bonus of 200% of base salary. The agreement also provides for Mr. Horvath's participation in our employee pension or welfare benefit plans at a level commensurate with his title and position and provides an entitlement to an annual perquisite allowance from us of \$40,000.

If the employment of Mr. Horvath is involuntarily terminated by us without cause, or if Mr. Horvath terminates his employment with us for good reason, as such term is defined in his employment agreement, Mr. Horvath will be entitled to receive payment of his base salary through the end of 2008 if such termination occurs prior to the end of 2006 or for a 12 month period beginning on the date of termination if such termination occurs on or after January 1, 2007; up to 18 months reimbursement for the cost of health care continuation; a pro-rata portion of any cash incentive bonus for the year of termination and one year of



**Table of Contents**

accelerated vesting with respect to his outstanding stock options. The agreement with Mr. Horvath also contains confidentiality and non-disparagement provisions effective through the term of the agreement, a non-competition provision effective through the longer of one year following termination of employment or the period of any salary continuation, and a non-solicitation provision effective through the longer of two years following termination of employment or the period of any salary continuation.

We have entered into an employment agreement with Mr. Probst, our Senior Vice President, Chief Financial Officer and Treasurer, effective as of March 14, 2005. The agreement provides for an indefinite term (which terminates upon Mr. Probst's death, disability (as such term is defined in his employment agreement), voluntary termination by Mr. Probst or involuntary termination by us). The agreement provides for an annual salary of \$350,000 and a cash bonus of 80% of his base salary if board approved, predetermined performance measures set annually are met. For fiscal year 2005, Mr. Probst is guaranteed a cash bonus of 80% of his base salary. In addition, Mr. Probst received a signing bonus in the gross amount of \$40,000 upon entering into the agreement. If Mr. Probst voluntarily resigns from DSW in the first 12 months of his date of hire, he is required to repay the net amount of the bonus to us. The agreement also provides for Mr. Probst's participation in our employee pension or welfare benefit plans at a level commensurate with his title and position. The agreement also provides for a vehicle allowance and fuel card. If Mr. Probst's employment is terminated by us without cause or for good reason, in each case as defined in his agreement, then Mr. Probst will be entitled to 12 months of base salary, 12 months of reimbursement for the cost of health care continuation, a pro-rata portion of any cash incentive bonus for the year of termination, and one year of accelerated vesting with respect to his outstanding stock options. The agreement also contains confidentiality and non-disparagement provisions effective through the term of the agreement, a non-competition provision effective through the longer of one year following termination of employment or the period of any salary continuation, and a non-solicitation provision effective through the longer of two years following termination of employment or the period of any salary continuation.

Ms. Davis, Executive Vice President and General Counsel of DSW and Retail Ventures, who will also act as Secretary of DSW and Assistant Secretary of Retail Ventures, entered into an employment agreement with Retail Ventures effective as of April 29, 2004. The agreement provides for an indefinite term (which terminates upon the executive's death, disability (as such term is defined in her employment agreement), voluntary termination by Ms. Davis or involuntary termination by Retail Ventures). The agreement originally provided for an annual salary of \$260,000 and a cash bonus of 50% of her base salary if board approved, predetermined performance measures set annually are met. In addition, for each year Ms. Davis' annual salary is less than \$300,000, she will receive a minimum guaranteed bonus to raise her salary to \$300,000. On March 30, 2005, Ms. Davis' salary was increased to \$300,000 and she received a bonus of \$150,000 for fiscal 2004. The agreement also provides for Ms. Davis' participation in the employee pension or welfare benefit plans of Retail Ventures at a level commensurate with her title and position. The agreement also provides for a vehicle allowance and fuel card. If Ms. Davis's employment is terminated by Retail Ventures without cause as defined in her agreement, then Ms. Davis will be entitled to 12 months of base salary, 12 months of reimbursement for the cost of health care continuation, a pro-rata portion of any cash incentive bonus for the year of termination, and one year of accelerated vesting with respect to her outstanding stock options. The agreement also contains confidentiality and non-disparagement provisions effective through the term of the agreement, a non-competition provision effective through the longer of one year following termination of employment or the period of any salary continuation, and a non-solicitation provision effective through the longer of two years following termination of employment or the period of any salary continuation.

***Termination of Employment***

On November 3, 2004, the board of directors of Retail Ventures voted to terminate John C. Rossler, President and Chief Executive Officer of Retail Ventures, and Edwin J. Kozlowski, President and Chief Operating Officer of Retail Ventures, and to terminate their respective employment agreements without cause in accordance with the terms of the agreements. In connection with their terminations of employment, Messrs. Rossler and Kozlowski each entered into confidential settlement agreements and releases with Retail Ventures in March 2005.



**Table of Contents**

Mr. Rossler's employment agreement, dated effective as of February 3, 2002, provided for an annual salary of \$700,000 with annual increases of 2.5%. Pursuant to its terms, on termination without cause (as such term is defined in his employment agreement), Mr. Rossler became entitled to receive 12 months of his base salary plus reimbursement for his cost of maintaining continuing health care coverage for a period of up to 18 months following his termination. Mr. Rossler has a duty to mitigate these payments pursuant to the terms of his employment agreement. In addition, (i) Mr. Rossler is entitled to a pro rata incentive compensation payment based on the extent to which performance standards are met on the last day of the year in which he is terminated without cause; and (ii) subject to the terms of Retail Ventures' stock incentive plan and any applicable award agreement, (a) all stock options held by Mr. Rossler will be fully vested and exercisable, (b) all restrictions then imposed on any restricted stock (other than those imposed by any applicable state or federal statute) held by Mr. Rossler will lapse and be removed and the shares will be distributed to him, and (c) all performance stock options held by Mr. Rossler will be fully vested and exercisable. In consideration of the payments made and benefits provided to Mr. Rossler upon his termination of employment without cause, Mr. Rossler has agreed to non-competition and non-solicitation restrictions which remain in effect until the second anniversary of his termination of employment and to a standard confidentiality covenant. Pursuant to the settlement agreement with Mr. Rossler, the effective date of Mr. Rossler's termination of employment was January 14, 2005 and he will receive severance as described above through December 20, 2005. Mr. Rossler waived any claim to an incentive compensation payment for fiscal 2004. In addition, under the settlement agreement, Mr. Rossler agreed to release Retail Ventures from all claims relating to his employment.

Mr. Kozlowski's employment agreement, dated effective as of February 3, 2002, provided for an annual salary of \$500,000 with annual increases of 2.5%. Pursuant to its terms, on termination without cause (as such term is defined in his employment agreement), Mr. Kozlowski became entitled to receive 12 months of his base salary plus reimbursement for his cost of maintaining continuing health care coverage for a period of up to 18 months following his termination. Mr. Kozlowski has a duty to mitigate these payments pursuant to the terms of his employment agreement. In addition, (i) Mr. Kozlowski is entitled to a pro rata incentive compensation payment based on the extent to which performance standards are met on the last day of the year in which he is terminated without cause; and (ii) subject to the terms of Retail Ventures' stock incentive plan and any applicable award agreement, (a) all stock options held by Mr. Kozlowski will be fully vested and exercisable, (b) all restrictions then imposed on any restricted stock (other than those imposed by any applicable state or federal statute) held by Mr. Kozlowski will lapse and be removed and the shares will be distributed to him, and (c) all performance stock options held by Mr. Kozlowski will be fully vested and exercisable. In consideration of the payments made and benefits provided to Mr. Kozlowski upon his termination of employment without cause, Mr. Kozlowski has agreed to non-competition and non-solicitation restrictions which remain in effect until the second anniversary of his termination of employment and to a standard confidentiality covenant. Pursuant to the settlement agreement with Mr. Kozlowski, the effective date of Mr. Kozlowski's termination of employment was January 14, 2005 and he will receive severance as described above through December 7, 2005. Mr. Kozlowski waived any claim to an incentive compensation payment for the year 2004. Pursuant to the settlement agreement, Mr. Kozlowski will keep the automobile in his possession as of the date of the settlement agreement, with the cash value of the automobile being considered severance pay under the employment agreement, and he agreed to repay in full by April 15, 2005 the balance of the loan made to him by Retail Ventures to cover certain expenses related to personal benefits. This loan was repaid in full by Mr. Kozlowski in April 2005. In addition, under the settlement agreement, Mr. Kozlowski agreed to release Retail Ventures from all claims relating to his employment.

**Table of Contents**

**THE TRANSACTIONS**

On or about the date of the consummation of this offering, we intend to complete a series of related repayment and refinancing transactions, which include the following principal components:

We expect to be released from our obligations under the Value City revolving credit facilities, and we expect to enter into a new five-year secured revolving credit facility.

We expect to be released from our obligations under the Value City term loan and senior subordinated convertible loan facilities.

We expect to repay \$190.0 million of intercompany indebtedness incurred to fund dividends to Retail Ventures.

**Our New Secured Revolving Credit Facility**

On or about the date of the consummation of this offering, Retail Ventures will refinance the existing Value City credit facilities, and we expect to be released from our obligations as a co-borrower or co-guarantor thereunder. Simultaneously, we expect to enter into a new \$150 million secured revolving credit facility with a term of the five years. Under this new facility, we expect that we and our subsidiary, DSWSW, will be named as co-borrowers. This new facility is expected to have borrowing base restrictions and will provide for borrowings at variable interest rates based on LIBOR, the prime rate and the Federal Funds effective rate, plus a margin. Our obligations under our new secured revolving credit facility will be secured by a lien on substantially all our and our subsidiary's personal property and a pledge of our shares of DSWSW. In addition, our new secured revolving credit facility will contain usual and customary restrictive covenants relating to our management and the operation of our business. These covenants will, among other things, restrict our ability to grant liens on our assets, incur additional indebtedness, open or close stores, pay cash dividends and redeem our stock, enter into transactions with affiliates and merge or consolidate with another entity. In addition, if at any time we utilize over 90% of our borrowing capacity under this facility, we must comply with a fixed charge coverage ratio test set forth in the facility documents. See Description of Indebtedness.

**Repayment of Intercompany Debt**

With the net proceeds of this offering, we expect to repay \$190.0 million of intercompany indebtedness incurred to fund dividends to Retail Ventures. See Use of Proceeds. Immediately following this offering, no intercompany indebtedness will remain outstanding.

**Table of Contents****CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS****General**

Prior to this offering, we were operated as a direct wholly-owned subsidiary of Retail Ventures. Immediately following this offering, Retail Ventures will continue to own approximately 66.2% of our Common Shares and will control 94.0% of the combined voting power of our Common Shares. If the underwriters' option to purchase additional shares is exercised in full, immediately following this offering, Retail Ventures will own 63.0% of our Common Shares and will control 93.2% of the combined voting power of our Common Shares. Retail Ventures will continue to have the power acting alone to approve any action requiring a vote of the majority of our voting shares and to elect all our directors.

As of April 30, 2005, SSC owned approximately 48.2% on a fully diluted basis of the outstanding common shares of Retail Ventures and, as a result, exercised significant power acting alone to approve any action requiring a vote of the majority of the voting shares of Retail Ventures and to elect all of Retail Ventures' directors. As of April 30, 2005, Jay Schottenstein, the Chairman of Retail Ventures, beneficially owned approximately 78.4% of the common shares of SSC. For fiscal 2002, fiscal 2003 and fiscal 2004, we paid approximately \$14.9 million, \$5.7 million and \$10.3 million, respectively, in total fees and expenses to SSC. See Leases and Subleases, Corporate Services Agreement with SSC, and Notes, Credit Agreements and Guarantees.

In the ordinary course of business, we have entered into a number of agreements with Retail Ventures, Value City and SSC and their affiliates relating to our business and our relationship with these companies, the material terms of which are described below. We believe that each of the agreements entered into with these entities is on terms at least as favorable to us as could be obtained in an arm's length transaction with an unaffiliated third party. We do not expect to enter into any additional contracts or other transactions with Retail Ventures or any of our directors, officers or other affiliates other than those specified below. However, in the future, in accordance with Ohio law, any contract, action or other transaction between or affecting us and one of our directors or officers or between or affecting us and any entity in which one or more of our directors or officers is a director, trustee or officer or has a financial or personal interest, will either be approved by the shareholders, a majority of the disinterested members of our board or a committee of our board that authorizes such contracts, action or other transactions or must be fair to us as of the time our directors, a committee of our directors or our shareholders approve the contract, action or transaction. In addition, any transactions with directors, officers or other affiliates will be subject to requirements of the Sarbanes-Oxley Act and other SEC rules and regulations.

**Relationships Between Our Company And Retail Ventures*****Historical Relationship With Retail Ventures***

We have been a wholly-owned subsidiary of Value City Department Stores, Inc. or Retail Ventures since 1998. As a result, in the ordinary course of our business, we have received various services provided by Value City and Retail Ventures, including import administration, risk management, information technology, tax, financial services, shared benefits administration and payroll, and will maintain insurance for us and for our directors, officers and employees as well as other corporate services. Retail Ventures has also provided us with the services of a number of its executives and employees. Our historical financial statements include allocations to us by Retail Ventures of its costs related to these services. These cost allocations have been determined on a basis that we and Retail Ventures consider to be reasonable reflections of the use of services provided or the benefit received by us. These allocations totaled \$0.1 million in fiscal 2002, \$24.4 million in fiscal 2003 and \$29.5 million in fiscal 2004.

For additional information about our relationship with Retail Ventures, see Note 2 to our consolidated financial statements included elsewhere in this prospectus.



**Table of Contents*****Retail Ventures as our Controlling Shareholder***

Immediately prior to this offering, Retail Ventures will be our sole shareholder. Upon completion of this offering, Retail Ventures will continue to own approximately 66.2% (or approximately 63.0% if the underwriters exercise their option to purchase additional shares in full) of the outstanding shares of our Common Shares. For as long as Retail Ventures continues to control more than 50% of the combined voting power of our Common Shares, Retail Ventures will be able to direct the election of all the members of our board and exercise a controlling influence over our business and affairs, including any determinations with respect to mergers or other business combinations involving our company, the acquisition or disposition of assets by our company, the incurrence of indebtedness by our company, the issuance of any additional common shares or other equity securities, and the payment of dividends with respect to our common shares. Similarly, Retail Ventures will have the power to determine matters submitted to a vote of our shareholders without the consent of our other shareholders, will have the power to prevent a change in control of our company and will have the power to take other actions that might be favorable to Retail Ventures.

Retail Ventures has advised us that its current intent is to continue to hold all the Class B Common Shares owned by it following this offering, except to the extent necessary to satisfy obligations under warrants it has granted to certain of its lenders. All the Class B Common Shares of DSW held by Retail Ventures will continue to be subject to liens in favor of SSC, Cerberus and Value City. Retail Ventures will be subject to (a) contractual obligations with its lenders to retain ownership of at least 55% by value of the Common Shares of DSW for so long as the Value City convertible loan facility remains outstanding and (b) contractual obligations with its warrant holders to retain enough DSW Common Shares to be able to satisfy its obligations to deliver such shares to its warrant holders if the warrant holders elect to exercise their warrants in full for DSW Class A Common Shares. For purposes of determining Retail Ventures' ownership interest in DSW, DSW Common Shares transferred by Retail Ventures to the warrant holders upon exercise of their warrants will not be subtracted from Retail Ventures' ownership. In addition, Retail Ventures has agreed not to sell or otherwise dispose of any of our Class B Common Shares for a period of 180 days after the date of this prospectus without the prior written consent of Lehman Brothers Inc. See *Underwriting*. As a result, there can be no assurance concerning the period of time during which Retail Ventures will maintain its ownership of Class B Common Shares owned by it following this offering.

Beneficial ownership of at least 80% of the total voting power and value of the outstanding Common Shares is required in order for Retail Ventures to continue to include us in its consolidated group for federal income tax purposes, and beneficial ownership of at least 80% of the total voting power and 80% of each class of nonvoting capital stock is required in order for Retail Ventures to effect a tax-free spin-off of DSW or certain other tax-free transactions. As of the date of this prospectus, Retail Ventures does not intend or plan to undertake a spin-off of DSW or another tax-free transaction involving DSW. It is not expected that we will be included in Retail Ventures' consolidated group for U.S. federal income tax purposes following the offering and, as a result, there can be no assurance that our tax position will not be less favorable than it is at present.

For a further discussion of these risks, see *Risk Factors - Risks Relating to our Relationship with and Separation from Retail Ventures*.

***Agreements Between Us And Retail Ventures***

This section describes the material provisions of agreements between us and Retail Ventures relating to this offering and our relationship with Retail Ventures after this offering. The description of the agreements is not complete and, with respect to each material agreement, is qualified by reference to the terms of the agreement, each of which will be filed as an exhibit to the registration statement of which this prospectus is a part. We encourage you to read the full text of these material agreements. We have entered or will enter into these agreements with Retail Ventures in the context of our relationship as a wholly-owned subsidiary of Retail Ventures. The prices and other terms of these agreements may be less favorable to us than those we could have obtained in arm's-length negotiations with unaffiliated third parties for similar services or under similar agreements.

**Table of Contents**

***Agreements Relating to our Separation from Retail Ventures***

In connection with this offering, Retail Ventures and we will deliver agreements governing various interim and ongoing relationships between us. These agreements will include:

a master separation agreement;

a shared services agreement and other intercompany arrangements;

a tax separation agreement;

an exchange agreement; and

a footwear fixture agreement.

*Master Separation Agreement.* The master separation agreement contains key provisions relating to the separation of our business from Retail Ventures. The master separation agreement will require us to exchange information with Retail Ventures, follow certain accounting practices and resolve disputes with Retail Ventures in a particular manner. We also will agree to maintain the confidentiality of certain information and preserve available legal privileges. The separation agreement also will contain provisions relating to the allocation of the costs of our initial public offering, indemnification, non-solicitation of employees and employee benefit matters.

Under the master separation agreement, we have agreed to effect up to one demand registration per calendar year of our Common Shares, whether Class A or Class B, held by Retail Ventures, if requested by Retail Ventures. We have also granted Retail Ventures the right to include its Common Shares of DSW in an unlimited number of other registrations of such shares initiated by us or on behalf of our other shareholders.

*Shared Services Agreement and Other Intercompany Arrangements.* Many aspects of our business, which were fully managed and controlled by us without Retail Ventures involvement, will continue to operate as they did prior to this offering. We will continue to manage operations for critical functions such as merchandise buying, planning and allocation, distribution and store operations. Under the shared services agreement, which when signed will become effective as of January 30, 2005, we will provide services to several subsidiaries of Retail Ventures relating to planning and allocation support, distribution services and outbound transportation management, site research, lease negotiation store design and construction management. Retail Ventures will provide us with services relating to import administration, risk management, information technology, tax, logistics and inbound transportation management, legal services, financial services, shared benefits administration and payroll and will maintain insurance for us and for our directors, officers and employees.

We anticipate that the initial term of the shared services agreement will expire at the end of fiscal 2007 and will be extended automatically for additional one-year terms unless terminated by one of the parties. As of the date of this prospectus, we expect that Retail Ventures will provide us with several information technology services for a period longer than the initial term, and we expect that distribution services will be provided for a period shorter than the initial term. With respect to each of the other shared services, we cannot reasonably anticipate whether the services will be shared for a period shorter or longer than the initial term.

Prior to and following the consummation of this offering, DSW has had, and will continue to have, the option to use certain administrative and marketing services provided by third party vendors pursuant to contracts between those third party vendors and Retail Ventures. We expect to pay Retail Ventures for these services as expenses for these services are incurred. These services are provided to us by virtue of our status as Retail Ventures affiliate and are unrelated to those delineated in the shared services agreement.

Historically, DSW and Retail Ventures have used intercompany transactions in the conduct of their operations. Under this arrangement, Retail Ventures has acted as a central processing location for payments for the acquisition of merchandise, payroll, outside services, capital additions and expenses by controlling the payroll and accounts payable activities for all Retail Ventures subsidiaries, including DSW. DSW has transferred cash received from sales of merchandise to cash accounts controlled by Retail Ventures. The



**Table of Contents**

concentration of cash and the offsetting payments for merchandise, expenses, capital assets and accruals for future payments are accumulated on our balance sheet in advances to affiliates. The balance of advances to affiliates fluctuates based on DSW's activities with Retail Ventures.

After the consummation of this offering, DSW's intercompany activities will be limited to those arrangements set forth in the shared services agreement and the other agreements described in this prospectus. DSW will no longer concentrate its cash from the sale of merchandise into Retail Ventures' accounts but into its own DSW accounts. DSW will also pay for its own merchandise, expenses and capital additions from newly established disbursement accounts. Any intercompany payments will be made pursuant to the terms of the shared services agreement and the other agreements described in this prospectus.

*Tax Separation Agreement.* We have historically been included in Retail Ventures' consolidated group, or the Consolidated Group, for U.S. federal income tax purposes as well as in certain consolidated, combined or unitary groups which include Retail Ventures and/or certain of its subsidiaries, or a Combined Group, for state and local income tax purposes. We intend to enter into a tax separation agreement with Retail Ventures that will become effective upon consummation of this offering. Pursuant to the tax separation agreement, we and Retail Ventures generally will make payments to each other such that, with respect to tax returns for any taxable period in which we or any of our subsidiaries are included in the Consolidated Group or any Combined Group, the amount of taxes to be paid by us will be determined, subject to certain adjustments, as if we and each of our subsidiaries included in the Consolidated Group or Combined Group filed our own consolidated, combined or unitary tax return. Retail Ventures will prepare pro forma tax returns for us with respect to any tax return filed with respect to the Consolidated Group or any Combined Group in order to determine the amount of tax separation payments under the tax separation agreement. We will have the right to review and comment on such pro forma tax returns. We will be responsible for any taxes with respect to tax returns that include only us and our subsidiaries.

Retail Ventures will be exclusively responsible for preparing and filing any tax return with respect to the Consolidated Group or any Combined Group. We generally will be responsible for preparing and filing any tax returns that include only us and our subsidiaries. Retail Ventures has agreed to undertake to provide these services with respect to our separate tax returns. For the tax services to be provided to us by Retail Ventures, we will pay Retail Ventures a monthly fee equal to 50% of all costs associated with the maintenance and operation of Retail Ventures' tax department (including all overhead expenses). In addition, we will reimburse Retail Ventures for 50% of any third party fees and expenses generally incurred by Retail Ventures' tax department and 100% of any third party fees and expenses incurred by Retail Ventures' tax department solely in connection with the performance of the tax services to be provided to us.

Retail Ventures will be primarily responsible for controlling and contesting any audit or other tax proceeding with respect to the Consolidated Group or any Combined Group; provided, however, that, except in cases involving taxes relating to a spin-off, we will have the right to control decisions to resolve, settle or otherwise agree to any deficiency, claim or adjustment with respect to any item for which we are solely liable under the tax separation agreement. Pursuant to the tax separation agreement, we will have the right to control and contest any audit or tax proceeding that relates to any tax returns that include only us and our subsidiaries. We and Retail Ventures will have joint control over decisions to resolve, settle or otherwise agree to any deficiency, claim or adjustment for which we and Retail Ventures could be jointly liable, except in cases involving taxes relating to a spin-off. Disputes arising between the parties relating to matters covered by the tax separation agreement are subject to resolution through specific dispute resolution provisions.

We have been included in the Consolidated Group for periods in which Retail Ventures owned at least 80% of the total voting power and value of our outstanding stock. It is not expected that we will be included in the Consolidated Group following the offering. Each member of a consolidated group for U.S. federal income tax purposes is jointly and severally liable for the U.S. federal income tax liability of each other member of the consolidated group. Similarly, in some jurisdictions, each member of a consolidated, combined or unitary group for state, local or foreign income tax purposes is jointly and severally liable for the state, local or foreign income tax liability of each other member of the consolidated, combined or unitary group. Accordingly, although the tax separation agreement allocates tax liabilities



**Table of Contents**

between us and Retail Ventures, for any period in which we were included in the Consolidated Group or a Combined Group, we could be liable in the event that any income tax liability was incurred, but not discharged, by any other member of the Consolidated Group.

As of the date of this prospectus Retail Ventures does not intend or plan to undertake a spin-off of our stock to Retail Ventures stockholders. Nevertheless, we and Retail Ventures have agreed to set forth our respective rights, responsibilities and obligations with respect to any possible spin-off in the tax separation agreement. If Retail Ventures were to decide to pursue a possible spin-off, we have agreed to cooperate with Retail Ventures and to take any and all actions reasonably requested by Retail Ventures in connection with such a transaction. We have also agreed not to knowingly take or fail to take any actions that could reasonably be expected to preclude Retail Ventures ability to undertake a tax-free spin-off. In addition, we generally would be responsible for any taxes resulting from the failure of a spin-off to qualify as a tax-free transaction to the extent such taxes are attributable to, or result from, any action or failure to act by us or certain transactions in our stock (including transactions over which we would have no control, such as acquisitions of our stock and the exercise of warrants, options, exchange rights, conversion rights or similar arrangements with respect to our stock) following or preceding a spin-off. We would also be responsible for a percentage (based on the relative market capitalizations of us and Retail Ventures at the time of such spin-off) of such taxes to the extent such taxes are not otherwise attributable to us or Retail Ventures. Our agreements in connection with such spin-off matters last indefinitely. In addition, present and future majority-owned affiliates of DSW or Retail Ventures will be bound by our agreements, unless Retail Ventures or we, as applicable, consent to grant a release of an affiliate (such consent cannot be unreasonably withheld, conditioned or delayed), which may limit our ability to sell or otherwise dispose of such affiliates. Additionally, a minority interest participant(s) in a future joint venture, if any, would need to evaluate the effect of the tax separation agreement on such joint venture and such evaluation may negatively affect their decision whether to participate in such a joint venture. Furthermore, the tax separation agreement may negatively affect our ability to acquire a majority interest in a joint venture.

*Exchange Agreement.* We expect to enter into an exchange agreement with Retail Ventures which will become effective upon the consummation of this offering. In the event that Retail Ventures desires to exchange all or a portion of the Class B Common Shares held by it for Class A Common Shares, we will agree to issue to Retail Ventures an equal number of duly authorized, validly issued, fully paid and nonassessable Class A Common Shares in exchange for the Class B Common Shares of DSW held by Retail Ventures. Retail Ventures may make one or more requests for such exchange, covering all or a part of the Class B Common Shares that it holds.

*Footwear Fixture Agreement.* On or about the date of the consummation of this offering, we expect to enter into an agreement with Retail Ventures related to our patented footwear display fixtures. We will agree to sell Retail Ventures, upon its request, the fixtures covered by the patents at the cost associated with obtaining and delivering them. In addition, we will agree to pay Retail Ventures a percentage of any net profit we may receive should we ever market and sell the fixtures to third parties.

**Leases and Subleases**

*Office, warehouse and distribution facility.* We lease our 707,000 square foot corporate headquarters, warehouse and distribution facility in Columbus, Ohio from an affiliate of SSC, 4300 East Fifth Avenue LLC. The lease expires in December 2016 and has three renewal options with terms of five years each. The monthly rent is \$179,533, \$194,228 and \$208,922 during the first, second and third five-year periods of the initial term, respectively. The rent increases to \$220,416, \$235,090 and \$249,803 in the first, second and third renewal terms, respectively. On account of this agreement, we paid to the landlord approximately \$2.6 million in fiscal 2002, \$3.1 million in fiscal 2003 and \$3.4 million in fiscal 2004. See Business Properties.

**Table of Contents**

*DSW stores.* As of April 30, 2005, we leased or subleased 15 DSW stores from affiliates of SSC. We paid SSC or its affiliates approximately \$5.3 million for fiscal 2003 and approximately \$6.6 million for fiscal 2004 on account of the leases and subleases listed below:

<b>Store Location</b>	<b>Landlord</b>	<b>Expiration Date</b>	<b>Renewal Options</b>	<b>Annual Minimum Rent Payments as of January 29, 2005<sup>(1)</sup></b>
Glen Allen, Virginia	Jubilee Richmond, LLC	October 2015	Three, with terms of five years each.	\$ 423,028
Fairfax, Virginia	Jubilee Limited Partnership	November 2009	Two, with terms of 10 years each.	\$ 519,100
Clariton Boulevard (Pittsburgh, Pennsylvania)	SSC	December 2017	Three, with terms of five, five and two years, respectively.	\$ 338,789
Troy, Michigan	Jubilee Limited Partnership	February 2013	Two, with terms of five years each.	\$ 512,000
Springdale, Ohio	Jubilee Springdale, LLC	October 2016	Three, with terms of five years each.	\$ 568,000
Tampa, Florida <sup>(2)</sup>	JLPK Dale Mabry, LLC	November 2018	Three, with terms of five years each.	\$ 314,292
Denton, Texas	Jubilee Limited Partnership	February 2019	Three, with terms of five years each.	\$ 319,790
Richmond, Virginia (Midlothian)	JLP Richmond LLC	April 2019	Three, with terms of five years each.	\$ 420,000
Merrillville, Indiana <sup>(3)</sup>	Jubilee Limited Partnership	December 2017	Three, with terms of five years each.	\$ 360,000
Beavercreek, Ohio	Shoppes of Beavercreek, Ltd	September 2012	Three, with terms of five years each.	\$ 362,745
Chesapeake, Virginia	JLP Chesapeake, LLC	July 2011	Four, with terms of five years each.	\$ 402,325
Columbus, Ohio (Polaris)	SSC Polaris, LLC	October 2017	Four, with terms of five years each.	\$ 583,800
Cary, North Carolina	JLP Cary, LLC	February 2018	Three, with terms of five years each.	\$ 424,782
Madison, Tennessee	JLP Madison LLC	November 2017	Three, with terms of five years each.	\$ 252,992

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Cincinnati, Ohio <sup>(2)</sup> (Eastgate)	Eastgate Pavilion, Ltd.	October 2019	Three, with terms of five years each.	\$	331,941
Kalamazoo, Michigan <sup>(4)</sup> (Maple Hill Mall)	K&S Maple Hill Mall, L.P.		Three, with terms of five years each.	\$	303,604
South Bend, Indiana <sup>(4)</sup> (Erskine Village)	KSK Scottsdale Mall, L.P.		Three, with terms of five years each.	\$	325,000

(1) For each lease, we also (a) pay percentage rent equal to approximately 2% annually of gross sales that exceed specified breakpoints that increase as the minimum rent increases and (b) pay a portion of expenses related to maintenance, real estate taxes and insurance.

(2) These properties were sold to non-affiliated third parties in December 2004.

(3) DSW occupies these premises under a license agreement entered into with Value City. Value City is the tenant under the lease entered into with the landlord.

(4) These stores are expected to open in fiscal 2005, at which time the expiration date will be determined.



**Table of Contents****Corporate Services Agreement with SSC**

We receive services from SSC pursuant to a Corporate Services Agreement between Retail Ventures and its wholly-owned subsidiaries and SSC. The agreement set forth the costs of shared services, including specified legal, advertising, import, real estate and administrative services. As of April 30, 2005, the only services we receive pursuant to this agreement pertain to real estate services and the administration of our health insurance and benefit plans. For fiscal 2002, fiscal 2003 and fiscal 2004, our allocated portion of the amount Retail Ventures paid SSC or its affiliates was \$0.3 million, \$0.2 million and \$0.3 million, respectively, for such services. We expect to continue to receive these services following consummation of this offering pursuant to an amended corporate services agreement to which Schottenstein Management Company, or SMC, will also be party.

We also expect to enter into a side letter agreement relating to corporate services with SSC and SMC. Under the side letter agreement, we will agree to pay for any services provided by SSC or SMC to DSW through Retail Ventures in the event that Retail Ventures does not pay for those services.

Until July 2004, we were self-insured through our participation in a self-insurance program maintained by SSC. While we no longer participate in the program we continue to remain liable for liabilities incurred by us under the program. Under the program, SSC charged Retail Ventures amounts based, among other factors, on loss experience and its actual payroll and related costs for administering the program. For fiscal 2002, fiscal 2003 and fiscal 2004, our allocated portion of the amount Retail Ventures paid SSC was approximately \$3.0 million, \$0.2 million and an amount immaterial to the financial statements, respectively, for participation in the program.

Prior to and following the consummation of this offering, DSW has had, and will continue to have, the option to use corporate aircraft provided by a third party vendor pursuant to a contract between the third party vendor and SSC and a Retail Ventures affiliate. We expect to pay SSC for these services as expenses for these services are incurred. These services are made available to us by virtue of our status as an SSC affiliate.

**Agreement with Value City for Leased Shoe Departments**

Until December 28, 2004, we were party to a license agreement with Value City which gave us the exclusive right to supply footwear to leased shoe departments in specified Value City stores. Under this license, we agreed to pay to Value City a specified percentage of our annual gross sales from each of the Value City leased shoe departments. In addition, we paid some of Value City's expenses, including those related to advertising for the shoe departments and employee services for shoe department employees.

The managers and full- and part-time associates who staffed our departments in these Value City stores were employees of Value City. We reimbursed Value City for the payroll taxes, benefits and other expenses associated with those associates. We supplied our own merchandise and store fixtures, maintained our own insurance and were responsible for repairs and maintenance of our fixtures, merchandise and equipment.

We paid approximately \$35.3 million in total license fees and other expenses (including payroll and benefits) to Value City for fiscal 2002, approximately \$41.6 million for fiscal 2003 and approximately \$41.2 million for fiscal 2004. The historical and pro forma financial data included elsewhere in this prospectus does not give effect to transactions that have taken place pursuant to this agreement. As part of the reorganization that took place on December 28, 2004, this contract was terminated.

**Agreements with Filene's Basement for Leased Shoe Departments**

Until January 29, 2005, we were party to an agreement with Filene's Basement pursuant to which we had the exclusive right to operate leased shoe departments with approximately 20,000 square feet of selling space and approximately 3,000 feet of storage space in Filene's Basement stores. At the time this contract was terminated, this agreement pertained only to the two combination DSW/Filene's Basement stores. Under this agreement, we owned the merchandise, recorded sales of merchandise net of returns and sales tax and provided supervisory assistance in all covered locations. We pay a percentage of net sales as rent. We also paid certain taxes, insurance premiums and freight costs with respect to the merchandise. We paid

**Table of Contents**

approximately \$2.0 million in total fees and expenses to Filene's Basement for fiscal 2002, \$2.0 million for fiscal 2003 and \$2.1 million for fiscal 2004.

Until January 29, 2005, we were party to an agreement with Filene's Basement pursuant to which we had the exclusive right to operate leased shoe departments with approximately 1,000 square feet of selling space and 200 square feet of storage space in Filene's Basement stores. At the time this contract was terminated, we operated departments of this size in 22 Filene's Basement stores. Under this agreement, we owned the merchandise, recorded sales of merchandise net of returns and sales tax and provided supervisory assistance in all covered locations. We pay a percentage of net sales as rent. We also paid certain taxes, insurance premiums and freight costs with respect to the merchandise. We paid approximately \$3.1 million in total fees and expenses to Filene's Basement for fiscal 2002, \$3.8 million for fiscal 2003 and \$4.8 million for fiscal 2004.

Effective as of January 30, 2005, we updated and reaffirmed our contractual arrangement with Filene's Basement related to combination DSW/Filene's Basement stores. Under the new agreement, we have the exclusive right to operate leased shoe departments with 10,000 square feet or more of selling space in Filene's Basement stores. We own the merchandise, record sales of merchandise net of returns and sales tax, and receive a per-store license fee for use of our name on the stores. We pay a percentage of net sales as rent. The employees that supervise the shoe departments are employees of us who report directly to our supervisors. Filene's Basement provides the fixtures and sales associates. We also pay certain taxes, insurance premiums and freight costs with respect to the merchandise. As of April 30, 2005, this agreement pertained to only two combination DSW/Filene's Basement stores.

Effective as of January 30, 2005, we updated and reaffirmed our contractual arrangement with Filene's Basement related to the smaller leased shoe departments. Under the new agreement we have the exclusive right to operate leased shoe departments with less than 10,000 square feet of selling space in Filene's Basement stores. We own the merchandise, record sales net of returns and sales tax and provide supervisory assistance in all covered locations. We pay a percentage of net sales as rent. Filene's Basement provides the fixtures and sales associates. We also pay certain taxes, insurance premiums and freight costs with respect to the merchandise. As of April 30, 2005, we operated leased shoe departments in 23 of these Filene's Basement stores.

**Agreement with Filene's Basement for Atrium Space at our Union Square Store in Manhattan**

Effective as of January 30, 2005, we entered into a shared expenses agreement with Filene's Basement related to the shared atrium space connecting Filene's Basement's leased space at Union Square and our Union Square store leased space, and for other expenses related to our leased space, which are located in the same building in New York, New York. Under that agreement, we have agreed to share with Filene's Basement expenses related to the use and maintenance of the atrium space and to share other expenses related to the operation and maintenance of the Filene's Basement leased space and our leased space. We estimate that our share of these expenses will total approximately \$100,000 for fiscal 2005.

**Registration Rights Agreements**

Under the master separation agreement, we have agreed to effect up to one demand registration per calendar year of our Common Shares, whether Class A or Class B, held by Retail Ventures, if requested by Retail Ventures. We have also granted Retail Ventures the right to include its Common Shares of DSW in an unlimited number of other registrations of such shares initiated by us or on behalf of our other shareholders.

We will also enter into a registration rights agreement with Cerberus and SSC, under which we will agree to register in specified circumstances the Class A Common Shares issued to them upon exercise of their warrants and each of these entities and Back Bay will be entitled to participate in the registrations initiated by the other entities. Under this agreement, each of Cerberus (together with transferees of at least 15% of its interest in registrable DSW Common Shares) and SSC (together with transferees of at least 15% of its interest in registrable DSW Common Shares) may request up to five demand registrations with respect to the Class A Common Shares issued to them upon exercise of their warrants provided that no party may request more than two demand registrations, except that each of Cerberus and SSC may each request up to three

**Table of Contents**

demand registrations. The agreement will also grant Cerberus, SSC and Back Bay the right to include these Class A Common Shares in an unlimited number of other registrations of any of our securities initiated by us or on behalf of our other shareholders (other than a demand registration made under the agreement). Our failure to perform our obligations under this agreement would result in an event of default under the Value City subordinated convertible loan facility, as amended.

**Notes, Credit Agreements and Guarantees**

*The Value City Revolving Credit Facility.* Until the amendment and restatement of this revolving credit agreement, we will continue to be a co-borrower under a Loan and Security Agreement, as amended, entered into with National City, as administrative agent, and the other parties named therein, originally entered into in June 2002. The agreement allows us, Value City and the other Retail Ventures affiliates co-borrowers thereto, to draw on a \$425 million revolving credit facility, subject to applicable borrowing base restrictions. The maturity date of the facility is June 11, 2006. We, the other co-borrowers and the guarantors are jointly and severally liable for the liabilities incurred under the agreement. We expect our obligations under this agreement to be released on or about the date of the consummation of this offering in connection with the amendment and restatement of this revolving credit agreement. We have reflected our direct obligations under this revolving credit facility as they relate to borrowings secured by our assets in our historical financial statements included elsewhere in this prospectus. For additional information regarding this revolving credit facility, see Description of Indebtedness.

*The Value City Term Loan Facility.* Until the amendment of this term loan agreement, we will continue to be a co-borrower to a Financing Agreement, as amended, among Cerberus, as agent, and the other parties named as co-borrowers therein, originally entered into in June 2002. Under the terms of this term loan agreement, SSC and Cerberus each provided us, Value City and the other Retail Ventures affiliates named as co-borrowers with a separate \$50 million term loan comprised of two tranches with initial three-year terms. In July 2004, the maturity dates of these loans were extended until June 11, 2006. In connection with the second tranche of these term loans, Retail Ventures issued to each of Cerberus and SSC warrants to purchase 1,477,396 common shares of Retail Ventures at a purchase price of \$4.50 per share, subject to adjustment. In September 2002, Back Bay bought from each of Cerberus and SSC a \$1.5 million interest in each of the tranches of their term loans for an aggregate \$6.0 million interest, and Back Bay received from each of Cerberus and SSC a corresponding portion of the warrants to purchase Retail Ventures common shares originally issued in connection with the second tranche of their term loans. The term loans' stated rate of interest per annum through June 11, 2004 was 14% if paid in cash and 15% if the co-borrowers elected a paid-in-kind, or PIK, option. During the first two years of the term loans, the co-borrowers could elect to pay all interest in PIK. During the final two years of the term loans, the stated rate of interest is 15.0% if paid in cash or 15.5% if by PIK, and the PIK option is limited to 50% of the interest due. For fiscal 2002 and fiscal 2003, the co-borrowers elected to pay interest in cash. We expect our obligations under this term loan agreement to be released on or about the date of the consummation of this offering; however, this indebtedness has not been reflected in our historical financial statements included elsewhere in this prospectus as it is recorded on the books of Retail Ventures. For additional information regarding this term loan facility, see Description of Indebtedness.

In connection with the amendment of this term loan agreement, Retail Ventures has agreed to amend the outstanding warrants to provide SSC, Cerberus and Back Bay the right, from time to time, in whole or in part, to (i) acquire Retail Ventures common shares at the then current conversion price (subject to the existing anti-dilution) provisions, (ii) acquire from Retail Ventures Class A Common Shares of DSW at an exercise price per share equal to the price of shares sold to the public in this offering (subject to anti-dilution provisions similar to those in the existing warrants) or (iii) acquire a combination thereof.

Given an exercise price per share of \$19.00, SSC and Cerberus would each receive 328,915 Class A Common Shares, and Back Bay would receive 41,989 Class A Common Shares, if they exercised these warrants in full exclusively for DSW Common Shares. The warrants expire in June 2012. Although Retail Ventures does not intend or plan to undertake a spin-off of Common Shares to Retail Ventures shareholders, in the event that Retail Ventures effects a spin-off of its DSW Common Shares to its shareholders in the future, the holders of outstanding unexercised warrants will receive the same number of DSW Common



**Table of Contents**

Shares that they would have received had they exercised their warrants in full for Retail Ventures common shares immediately prior to the record date of the spin-off, without regard to any limitations on exercise in the warrants. Following the completion of any such spin-off, the warrants will be exercisable solely for Retail Ventures common shares.

Prior to the consummation of this offering, we will enter into an exchange agreement with Retail Ventures whereby, upon the request of Retail Ventures, we will be required to exchange some or all of the Class B Common Shares of DSW held by Retail Ventures for Class A Common Shares. See Relationships Between our Company and Retail Ventures Agreements Relating to our Separation from Retail Ventures Exchange Agreement.

*The Value City Senior Subordinated Convertible Loan Facility.* Until the amendment and restatement of this convertible loan agreement, we will continue to be a co-guarantor under the Amended and Restated Senior Subordinated Convertible Loan Agreement, entered into by Value City, as borrower, Cerberus, as agent and lender, SSC, as lender, and DSW and the other parties named as guarantors, originally entered into in June 2002. Under this convertible loan agreement, SSC initially provided a \$75 million term loan, now held equally by SSC and Cerberus, to Value City, convertible at the option of the lenders into common shares of Retail Ventures at an initial conversion price of \$4.50 per share. The maturity date of this convertible loan is June 10, 2009. We expect our obligations under this convertible loan agreement to be released on or about the date of the consummation of this offering in connection with the amendment and restatement of this convertible loan agreement; however, this indebtedness has not been reflected in our historical financial statements included elsewhere in this prospectus as it is recorded on the books of Retail Ventures. For additional information regarding this convertible loan facility, see Description of Indebtedness.

In connection with the amendment and restatement of this convertible loan agreement, the \$75 million convertible loan will be converted into a \$75 million non-convertible loan. In addition, Retail Ventures has agreed to issue to SSC and Cerberus convertible warrants which will be exercisable from time to time until the later of June 11, 2007 and the repayment in full of Value City's obligations under the amended and restated loan agreement. Under the convertible warrants, SSC and Cerberus will have the right, from time to time, in whole or in part, to (i) acquire Retail Ventures common shares at the conversion price referred to in the convertible loan (subject to existing antidilution provisions), (ii) acquire from Retail Ventures Class A Common Shares of DSW at an exercise price per share equal to the price of the shares to the public sold in this offering (subject to antidilution provisions similar to those in the existing warrants) or (iii) acquire a combination thereof. Although Retail Ventures does not intend or plan to undertake a spin-off of Common Shares to Retail Ventures shareholders, in the event that Retail Ventures effects a spin-off of its DSW Common Shares to its shareholders in the future, the holders of outstanding unexercised warrants will receive the same number of DSW Common Shares that they would have received had they exercised their warrants in full for Retail Ventures common shares immediately prior to the record date of the spin-off, without regard to any limitation on exercise contained in the warrants. Following the completion of any such spin-off, the warrants will be exercisable solely for Retail Ventures common shares.

SSC and Cerberus may acquire upon exercise of the warrants in full an aggregate number of Class A Common Shares of DSW from Retail Ventures which, at the price of shares sold in this offering, have a value equal to \$75 million. Given an exercise price per share of \$19.00, SSC and Cerberus would each receive 1,973,684 Class A Common Shares if they exercised these warrants exclusively for DSW Common Shares.

Prior to the consummation of this offering, we will enter into an exchange agreement with Retail Ventures whereby, upon the request of Retail Ventures, we will be required to exchange some or all of the Class B Common Shares held by Retail Ventures for Class A Common Shares. See Relationships Between our Company and Retail Ventures Agreements Relating to our Separation from Retail Ventures Exchange Agreement.

*Value City Intercompany Note.* The capital stock of DSW held by Retail Ventures will continue to secure the \$240 million Value City intercompany note made payable by Retail Ventures to Value City, which was executed and delivered on January 1, 2005 in connection with the transfer of all the capital stock of DSW and Filene's Basement by Value City to Retail Ventures on that date. The lien granted to Value City on

**Table of Contents**

the DSW capital stock held by Retail Ventures will be released upon written notice that warrants held by Cerberus, SSC and Back Bay are to be exercised in exchange for DSW capital stock held by Retail Ventures and to be delivered by Retail Ventures upon the exercise of such warrants. The lien will also be released upon repayment of the note in full.

*The \$165.0 Million Intercompany Note.* In March 2005, we incurred intercompany indebtedness to fund a \$165.0 million dividend to Retail Ventures. The indebtedness is evidenced by a note which is scheduled to mature in March 2020 and bears interest at a rate equal to LIBOR plus 850 basis points per year. Interest is payable quarterly in arrears commencing on June 30, 2005. Our obligations under the note are guaranteed by our subsidiary. We expect to exercise our right to prepay the note with the net proceeds of this offering.

*The \$25.0 Million Intercompany Note.* In May 2005, we incurred intercompany indebtedness to fund a \$25.0 million dividend to Retail Ventures. The indebtedness is evidenced by a note which is scheduled to mature in May 2020 and bears interest at a rate equal to LIBOR plus 950 basis points per year. Interest is payable quarterly in arrears commencing on June 30, 2005. Our obligations under the note are guaranteed by our subsidiary. We expect to exercise our right to prepay the note with the net proceeds of this offering.

*Cross-Corporate Guarantees.* We have entered into cross-corporate guarantees with various financing institutions pursuant to which we, Retail Ventures, Filene's Basement and Value City, jointly and severally, guarantee payment obligations owed to these entities under factoring arrangements they have entered into with vendors who may provide merchandise to some or all of Retail Ventures' subsidiaries. We may be released from any prospective liability under the guarantees at any time. Upon release, our potential liability would be limited to the then outstanding amount under the canceled guarantee. We will terminate these cross-corporate guarantees on or about the date of the consummation of this offering. The outstanding balance of our potential liability as of May 23, 2005 was \$38.3 million, and we do not expect this amount to change significantly between now and the time the guarantees are terminated. After the guarantees are cancelled, the outstanding balance will decrease to zero over a period of approximately 90 days as payments are made in the ordinary course of business.

*Union Square Store Guaranty by Retail Ventures.* In January 2004, we entered into a lease agreement with 40 East 14 Realty Associates, L.L.C., an unrelated third party, for our Union Square store in Manhattan, New York. In connection with the lease, Retail Ventures has agreed to guarantee payment of our rent and other expenses and charges and the performance of our other obligations. We estimate that the annual rent payment under the lease will total approximately \$1.25 million for fiscal 2005.

*Intercompany Accounts.* Historically, DSW and Retail Ventures have used intercompany transactions in the conduct of their operations. Under this arrangement, Retail Ventures has acted as a central processing location for payments for the acquisition of merchandise, payroll, outside services, capital additions and expenses by controlling the payroll and accounts payable activities for all Retail Ventures' subsidiaries, including DSW. DSW has transferred cash received from sales of merchandise to cash accounts controlled by Retail Ventures. The concentration of cash and the offsetting payments for merchandise, expenses, capital assets and accruals for future payments are accumulated on our balance sheet in advances to affiliates. The balance of advances to affiliates fluctuates based on DSW's activities with Retail Ventures.

After the consummation of this offering, DSW's intercompany activities will be limited to those arrangements set forth in the shared services agreement and the other agreements described in this prospectus. DSW will no longer concentrate its cash from the sale of merchandise into Retail Ventures' accounts but into its own DSW accounts. DSW will also pay for its own merchandise, expenses and capital additions from newly established disbursement accounts. Any intercompany payments will be made pursuant to the terms of the shared services agreement and other agreements described in this prospectus.

**Provisions of Our Amended Articles of Incorporation Governing Corporate Opportunities and Related Party Transactions**

After this offering, Retail Ventures will remain a substantial shareholder of DSW and SSC will remain a substantial shareholder of Retail Ventures. Retail Ventures and SSC are engaged in the same or similar



## **Table of Contents**

activities or lines of business as we are and have interests in the same areas of corporate opportunities. Summarized below are provisions in our amended articles of incorporation that will govern conflicts, corporate opportunities and related party transactions. These provisions will be substantially similar to those that currently apply to us through provisions of Retail Ventures' amended articles of incorporation.

*Conflicts/ Competition.* Retail Ventures and SSC have the right to engage in the same businesses as we do, to do business with our suppliers and customers and to employ any of our officers or employees.

*Corporate Opportunities.* In the event that Retail Ventures, SSC or any director or officer of either of them who is also one of our directors or officers learns about a potential transaction or business opportunity which we are financially able to undertake, which is in our line of business, which is of practical advantage to us and in which we have an interest or a reasonable expectancy, but which may also be appropriate for Retail Ventures or SSC, our amended articles of incorporation provide:

If Retail Ventures or SSC learns about a corporate opportunity, it does not have to tell us about it and it is not a breach of any fiduciary duty for it to pursue such corporate opportunity for itself or to direct it elsewhere.

If one of our directors or officers who is also a director or officer of Retail Ventures or SSC learns about a corporate opportunity, he or she shall not be liable to us or to our shareholders if Retail Ventures or SSC pursues the corporate opportunity for itself, directs it elsewhere or does not communicate information about the opportunity to us, if such director or officer acts in a manner consistent with the following policy:

If the corporate opportunity is offered to one of our officers who is also a director but not an officer of Retail Ventures or SSC, the corporate opportunity belongs to us unless it was expressly offered to the officer in writing solely in his or her capacity as a director of Retail Ventures or SSC, in which case it belongs to Retail Ventures or SSC, as the case may be.

If the corporate opportunity is offered to one of our directors who is not an officer of DSW, and who is also a director or officer of Retail Ventures or SSC, the corporate opportunity belongs to us only if it was expressly offered to the director in writing solely in his or her capacity as our director.

If the corporate opportunity is offered to one of our officers, whether or not such person is also a director, who is also an officer of Retail Ventures or SSC, it belongs to us only if it is expressly offered to the officer in writing solely in his or her capacity as our officer or director.

*Related Party Transactions.* We may, from time to time, enter into contracts or otherwise transact business with Retail Ventures, SSC, our directors, directors of Retail Ventures or SSC or organizations in which any of such directors has a financial interest. Such contracts and transactions are permitted if:

the relationship or interest is disclosed or is known to the board of directors or the committee approving the contract or transaction, and the board of directors or committee, in good faith reasonably justified by the facts, authorizes the contract or transaction by the affirmative vote of a majority of the directors who are not interested in the contract or transaction;

the relationship or interest is disclosed or is known to the shareholders, and the shareholders approve the contract or transaction by the affirmative vote of the holders of a majority of the voting power of the corporation held by persons not interested in the contract or transaction; or

the contract or transaction is fair at the time it is authorized or approved by the board of directors, a committee of the board of directors, or the shareholders.

## **Loans to Management**

In June 2001, we loaned Edwin J. Kozlowski, who was then serving as our President and Chief Operating Officer, \$412,758.00. In May 2003, Mr. Kozlowski repaid the balance of the loan. Interest had accrued at the prime rate set



from time to time by National City Bank, Columbus, Ohio.

**Table of Contents**

Mr. Kozlowski entered into an employment agreement with Retail Ventures, effective May 1, 2001, to serve as its Executive Vice President and Chief Operating Officer for a term ending April 30, 2004. Under the terms of the agreement, in July 2001, Retail Ventures loaned Mr. Kozlowski \$80,000 to cover expenses related to personal benefits. This loan was being forgiven at the rate of 10% for each 12 consecutive month period Mr. Kozlowski remained employed after the date the loan was made. The largest amount of the loan outstanding in fiscal 2004 was \$68,329. On November 3, 2004, the board of directors voted to terminate Mr. Kozlowski's employment. In April 2005, Mr. Kozlowski repaid the loan in full.

**Certain Employment Arrangements**

Mr. John Rossler is the former Chief Executive Officer and President of Retail Ventures. During his tenure, his son, Ryan Rossler, was employed as a buyer for the DSW business. During fiscal 2004, Mr. Ryan Rossler received salary and bonus totaling \$91,942 and other employment benefits, including 401(k) plan and associate stock purchase plan contributions by Retail Ventures and a cafeteria health care plan. His salary and benefits were consistent with those provided to other associates of DSW holding comparable positions.

**Table of Contents****PRINCIPAL SHAREHOLDERS****Beneficial Ownership of Our Common Shares**

As of the date of this prospectus, Retail Ventures owned all our outstanding common shares. The following table sets forth information regarding the beneficial ownership of our Class A Common Shares and Class B Common Shares upon completion of this offering by:

each person or entity who is known by us to beneficially own 5% or more of our outstanding Common Shares;

each of our directors;

each of our executive officers named in the Summary Compensation Table; and

all our directors and executive officers as a group.

Unless otherwise indicated below, each person or entity has an address in care of our principal executive offices at 4150 East 5<sup>th</sup> Avenue, Columbus, Ohio 43219. The table below does not give effect to the issuance of (i) employee stock options to purchase up to 900,000 registered Class A Common Shares at a price per share equal to the initial public offering price per share or (ii) up to 100,000 restricted Class A Common Shares and stock units to be issued at a price per share equal to the initial public offering price per share, which stock options, restricted shares and stock units we expect to issue immediately following the pricing of but prior to the consummation of this offering. These stock option, restricted share and stock units issuances remain subject to approval by the DSW board of directors prior to the consummation of this offering.

Name of Beneficial Owner	Number of Shares		Percentage of Shares		Percentage of Combined Voting Power of All Classes of Common Shares
	Beneficially Owned <sup>(1)</sup>		Beneficially Owned <sup>(1)(2)</sup>		
	Class A	Class B	Class A	Class B	
Retail Ventures, Inc. <sup>(3)(4)</sup>		27,702,667		100%	94.0%
Jay L. Schottenstein <sup>(5)(6)</sup>	2,734,336		16.3%		1.3%
Deborah L. Ferrée <sup>(7)</sup>					
Peter Z. Horvath					
Douglas J. Probst					
James A. McGrady <sup>(3)(8)</sup>					
Julia A. Davis <sup>(3)(9)</sup>					
Heywood Wilansky <sup>(3)(10)</sup>					
Carolee Friedlander					
Philip B. Miller					
James D. Robbins					
Harvey L. Sonnenberg					
Allan J. Tanenbaum					
	2,734,336		16.3%		1.3%

Schottenstein Stores Corporation

(6)(11)(12)

Stephen Feinberg <sup>(11)(13)(14)</sup>	2,734,336	16.3%	1.3%
All directors and executive officers as a group (12 persons)	2,734,336	16.3%	1.3%

(1) Except as otherwise set forth in the footnotes below, each beneficial owner has the sole power to vote and dispose of all ordinary shares held by that beneficial owner. Beneficial ownership is determined in accordance with Rule 13d-3 of the Exchange Act. Common shares issuable pursuant to options or warrants, to the extent such options or warrants are exercisable within 60 days, are treated as beneficially owned and outstanding for the purpose of computing the percentage ownership of the person holding the option or warrant, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) These numbers do not take into account any exercise of the underwriters' option to purchase additional shares.

(3) Address is 3241 Westerville Road, Columbus, Ohio 43224.

**Table of Contents**

- (4) Common shares of DSW held by Retail Ventures, Inc. are subject to a lien securing Retail Ventures' obligations under the amended convertible loan provided by Cerberus and SSC to Value City, as well as a lien securing the \$240 million intercompany note made payable to Retail Ventures by Value City.
- (5) As of the date of this prospectus, Mr. Schottenstein was the beneficial owner of approximately 78.4% of the outstanding common shares of SSC. As described in footnote 11 below, SSC will have the right to acquire Class A Common Shares of DSW from Retail Ventures after the consummation of this offering pursuant to certain warrant agreements. Mr. Schottenstein was also the sole beneficial owner of 144,000 Retail Ventures common shares and held 52,500 Retail Ventures common shares through Glosser Brothers Acquisition, Inc., or GBA, of which Mr. Schottenstein was Chairman of the Board, President, a director and a trustee or co-trustee of family trusts that own 100% of the stock of GBA. Mr. Schottenstein has voting and investment power as co-trustee of a family trust that owns 30,000 Retail Ventures common shares, and is one of five trustees of a foundation that owns 67,944 Retail Ventures common shares. Mr. Schottenstein also held options convertible into 50,000 Retail Ventures common shares. As of the date of this prospectus, SSC was the beneficial owner of approximately 48.2% of the outstanding common shares of Retail Ventures.
- (6) Address is 1800 Moler Road, Columbus, Ohio 43207.
- (7) As of the date of this prospectus, Ms. Ferrée held options convertible into 452,000 Retail Ventures common shares.
- (8) As of the date of this prospectus, Mr. McGrady was the beneficial owner of 6,000 Retail Ventures common shares, and held options convertible into 475,000 Retail Ventures common shares.
- (9) As of the date of the prospectus, Ms. Davis held options convertible into 40,000 Retail Ventures common shares.
- (10) As of the date of the prospectus, Mr. Wilansky held options convertible into 250,000 Retail Ventures common shares.
- (11) Each of Cerberus and SSC will have the right to acquire Class A Common Shares of DSW from Retail Ventures after the consummation of this offering pursuant to certain warrant agreements. As described in footnote 14 below, Stephen Feinberg exercises sole voting and investment authority over all of our securities owned by Cerberus, directly or indirectly. For further discussion of these warrant agreements, see Management's Discussion and Analysis of Financial Condition and Results of Operations—The DSW Separation, Certain Relationships and Related Party Transactions—Notes, Credit Agreements and Guarantees and Description of Indebtedness.
- (12) According to a Schedule 13D filed by SSC on September 26, 2003 relating to Retail Ventures, Jay L. Schottenstein has power to vote and dispose of shares of Schottenstein Stores Corporation held by various trusts.
- (13) The address for Stephen Feinberg is c/o Cerberus Partners L.P., 299 Park Avenue, New York, New York 10171.
- (14) Stephen Feinberg exercises sole voting and investment authority over all of our securities owned by Cerberus, directly or indirectly. Thus, pursuant to Rule 13d-3 under the Exchange Act, Mr. Feinberg is deemed to beneficially own 2,734,336 of our Common Shares issuable to Cerberus upon the exercise of its warrants exclusively for DSW Common Shares. Under the terms of the warrants, Cerberus may not exercise the warrants, to the extent such exercise would cause Cerberus, together with its affiliates, to beneficially own a number of Class A Common Shares which would exceed 9.99% of our then outstanding Common Shares following such exercise, excluding for purposes of such determination Class A Common Shares issuable upon exercise of the additional warrants which have not been exercised. The number of shares in the second column does not reflect this limitation.



**Table of Contents****DESCRIPTION OF INDEBTEDNESS****Retail Ventures Existing Credit Facilities**

On or about the date of the consummation of this offering, Retail Ventures expects to amend and restate or terminate the existing credit facilities of Value City and its other affiliates, including certain facilities under which DSW has rights and obligations as a co-borrower or co-guarantor. Retail Ventures is a co-guarantor of all of these credit facilities. When all of these existing Value City credit facilities are amended, refinanced or terminated and the offering has been completed, we expect to be released from our obligations as a co-borrower or co-guarantor under each of them. These existing facilities include:

*The Value City Revolving Credit Facility.* Until the amendment and restatement of this revolving credit agreement, we, Value City and other named Retail Ventures affiliates will continue to be co-borrowers under a Loan and Security Agreement, as amended, entered into with National City, as administrative agent, and the other parties named therein, originally entered into in June 2002. Retail Ventures is a guarantor of this revolving credit facility. The maturity date of this facility is June 11, 2006. This revolving credit agreement allows DSW, Value City and the other Retail Ventures affiliates named as co-borrowers to draw on a \$425 million revolving credit facility, subject to applicable borrowing base restrictions. All the capital stock of DSW and DSWSW is pledged to National City, as administrative agent, in favor of the revolving credit facility lenders. We, Retail Ventures and the other co-borrowers and guarantors named therein are jointly and severally liable for the liabilities incurred under the agreement. We have reflected our direct obligations under this revolving credit facility as they relate to borrowings secured by our assets in our historical financial statements included elsewhere in this prospectus.

On or about the date of the consummation of this offering, Retail Ventures and its affiliates will amend and restate this revolving credit agreement, and we will be released from our obligations thereafter. In addition, National City will release its liens on our capital stock held by Retail Ventures and the capital stock of DSWSW held by us. Leasehold mortgages granted by DSW and DSWSW in 2002 to secure obligations under the revolving credit agreement, as well as the Value City term loan facility and subordinated convertible loan facility, will also be released.

*The Value City Term Loan Facility.* Until the amendment of this term loan agreement, we, Value City and other Retail Ventures affiliates will continue to be co-borrowers under a Financing Agreement, as amended, among Cerberus, as agent, and other parties named therein, originally entered into in June 2002. Under the terms of this term loan agreement, Cerberus and SSC each provided to us, Value City and other Retail Ventures affiliates named as the co-borrowers a separate \$50 million three-year term loan comprised of two tranches. In July 2004, the maturity dates of these term loans were extended until June 11, 2006. In connection with the second tranche of these term loans, Value City issued to each of Cerberus and SSC warrants to purchase 1,477,396 common shares of Retail Ventures at a purchase price of \$4.50 per share, subject to adjustment. In September 2002, Back Bay bought from each of Cerberus and SSC a \$1.5 million interest in each of the tranches of their term loans for an aggregate \$6.0 million interest, and Back Bay received from each of Cerberus and SSC a corresponding portion of the warrants to purchase Retail Ventures common shares originally issued in connection with the second tranche of their term loans. All the capital stock of DSW and DSWSW is pledged to Cerberus, as agent, in favor of SSC, Cerberus and Back Bay. As a co-borrower, we are jointly and severally liable for the performance and payment of obligations under this term loan agreement; however, this indebtedness has not been reflected in our historical financial statements included elsewhere in this prospectus as it is recorded on the books of Retail Ventures.

On or about the date of the consummation of this offering, we expect to be released from our obligations as a co-borrower pursuant to the amendment of this term loan agreement. We have been advised by Retail Ventures that Value City expects to repay all the term loan indebtedness on or about the date of the consummation of this offering. In connection with the amendment of this term loan agreement, Retail Ventures has agreed to amend the outstanding warrants to provide SSC, Cerberus and Back Bay the right, from time to time, in whole or in part, to (i) acquire Retail Ventures common shares at the then current conversion price (subject to the existing anti-dilution provisions), (ii) acquire from Retail Ventures Class A

**Table of Contents**

Common Shares of DSW at an exercise price per share equal to the price of shares sold in this offering (subject to anti-dilution provisions similar to those in the existing warrants), or (iii) acquire a combination thereof.

Given an exercise price per share of \$19.00, SSC and Cerberus would each receive 328,915 Class A Common Shares, and Back Bay would receive 41,989 Class A Common Shares, if they exercised these warrants in full exclusively for DSW Common Shares. These warrants expire in June 2012. Although Retail Ventures does not intend or plan to undertake a spin-off of Common Shares to Retail Ventures shareholders, in the event that Retail Ventures effects a spin-off of its DSW Common Shares to its shareholders in the future, the holders of outstanding unexercised warrants would receive the same number of DSW Common Shares had they exercised their warrants in full for Retail Ventures common shares immediately prior to the record date of the spin-off, without regard to any limitation on exercise contained in the warrants. Following the completion of any such spin-off, the warrants will be exercisable solely for Retail Ventures common shares.

Prior to the consummation of this offering, we will enter into an exchange agreement with Retail Ventures whereby, upon the request of Retail Ventures, we will be required to exchange some or all of the Class B Common Shares held by Retail Ventures for Class A Common Shares. SSC and Cerberus (and any party to whom either of them transfers at least 15% of their interest in registrable DSW Common Shares) have the right to require that we register for resale in specified circumstances the Class A Common Shares issued to them upon exercise of their warrants, and each of these entities and Back Bay will be entitled to participate in the registrations initiated by the other entities. Our failure to perform our obligations under the registration rights agreement relating to these shares would result in an event of default under the Value City senior subordinated convertible loan facility, as amended. See *Certain Relationships and Related Party Transactions Relationships Between our Company and Retail Ventures Agreements Relating to our Separation from Retail Ventures Exchange Agreement and Shares Eligible for Future Sale Registration Rights*.

*The Value City Senior Subordinated Convertible Loan Facility.* Until the amendment and restatement of this convertible loan agreement, we will continue to be a co-guarantor under an Amended and Restated Senior Subordinated Convertible Loan Agreement, entered into by Value City with Cerberus, as agent and lender, SSC, as lender, and the other parties named therein, originally entered into in June 2002. Under the agreement, SSC initially provided a \$75 million loan, now held equally by SSC and Cerberus, to Value City, as borrower, which is convertible at the option of the lenders into common shares of Retail Ventures at an initial conversion price of \$4.50 per share. The maturity date of this convertible loan is June 10, 2009. This indebtedness has not been reflected in our historical financial statements included elsewhere in this prospectus as it is recorded on the books of Retail Ventures.

On or about the date of the consummation of this offering, we expect to be released from our obligations as co-guarantor pursuant to the amendment and restatement of this convertible loan agreement. We have been advised by Retail Ventures that Value City expects to repay \$25.0 million of this facility on or about the date of the consummation of this offering. The \$75 million convertible loan will be converted into a non-convertible loan, and the capital stock of DSW held by Retail Ventures will continue to secure the amended and restated loan facility. In addition, Retail Ventures has agreed to issue to SSC and Cerberus convertible warrants which will be exercisable from time to time until the later of June 11, 2007 and the repayment in full of Value City's obligations under the amended and restated loan agreement.

Under the convertible warrants, SSC and Cerberus will have the right, from time to time, in whole or in part, to (i) acquire Retail Ventures common shares at the conversion price referred to in the convertible loan (subject to existing antidilution provisions), (ii) acquire from Retail Ventures Class A Common Shares of DSW at an exercise price per share equal to the price equal to the price of the shares sold to the public in this offering (subject to antidilution provisions similar to those in the existing warrants) or (iii) acquire a combination thereof. Although Retail Ventures does not intend or plan to undertake a spin-off of Common Shares to Retail Ventures shareholders, in the event that Retail Ventures effects a spin-off of its DSW Common Shares to its shareholders in the future, the holders of outstanding unexercised warrants will receive the same number of DSW Common Shares that they would have received had they exercised their warrants in





**Table of Contents**

full for Retail Ventures common shares immediately prior to the record date of the spin-off, without regard to any limitation on exercise contained in the warrants. Following the completion of any such spin-off, the warrants will be exercisable solely for Retail Ventures common shares.

SSC and Cerberus may acquire, upon exercise of the warrants in full, an aggregate number of Class A Common Shares of DSW from Retail Ventures which, at the price of shares sold to the public in this offering, have a value equal to \$75 million. Given an exercise price per share of \$19.00, SSC and Cerberus would each receive 1,973,684 Class A Common Shares if they exercised these warrants exclusively for DSW Common Shares.

Prior to the consummation of this offering, we will enter into an exchange agreement with Retail Ventures whereby, upon the request of Retail Ventures, we will be required to exchange some or all of the Class B Common Shares from Retail Ventures for Class A Common Shares. SSC and Cerberus (and any party to whom either of them transfers at least 15% of their interest in registrable DSW Common Shares) have the right to require that we register for resale in specified circumstances the Class A Common Shares issued to them upon exercise of their warrants. See

Certain Relationships and Related Party Transactions Relationships Between our Company and Retail Ventures Agreements Relating to our Separation from Retail Ventures Exchange Agreement and Shares Eligible for Future Sale Registration Rights.

*Value City Intercompany Note.* The capital stock of DSW held by Retail Ventures will continue to secure the \$240 million Value City intercompany note made payable by Retail Ventures to Value City, which was executed and delivered on January 1, 2005 in connection with the transfer of all the capital stock of DSW and Filene's Basement by Value City to Retail Ventures on that date. The lien granted to Value City on the DSW capital stock held by Retail Ventures will be released upon written notice that warrants held by Cerberus, SSC and Back Bay are to be exercised in exchange for DSW capital stock held by Retail Ventures and to be delivered by Retail Ventures upon the exercise of such warrants. The lien will also be released upon repayment of the note in full.

**Our Existing Intercompany Indebtedness**

*The \$165.0 Million Intercompany Note.* In March 2005, we incurred intercompany indebtedness to fund a \$165.0 million dividend to Retail Ventures. The indebtedness is evidenced by a note which is scheduled to mature in March 2020 and bears interest at a rate equal to LIBOR plus 850 basis points per year. Interest is payable quarterly in arrears commencing on June 30, 2005. Our obligations under the note are guaranteed by our subsidiary. We expect to exercise our right to prepay the note with the net proceeds of this offering.

*The \$25.0 Million Intercompany Note.* In May 2005, we incurred intercompany indebtedness to fund a \$25.0 million dividend to Retail Ventures. The indebtedness is evidenced by a note which is scheduled to mature in May 2020 and bears interest at a rate equal to LIBOR plus 950 basis points per year. Interest is payable quarterly in arrears commencing on June 30, 2005. Our obligations under the note are guaranteed by our subsidiary. We expect to exercise our right to prepay the note with the net proceeds of this offering.

*Cross-Corporate Guarantees.* We have entered into cross-corporate guarantees with various financing institutions pursuant to which we, Retail Ventures, Filene's Basement and Value City, jointly and severally, guarantee payment obligations owed to these entities under factoring arrangements they have entered into with vendors who may provide merchandise to some or all of Retail Ventures' subsidiaries. We may be released from any prospective liability under the guarantees at any time. Upon release, our potential liability would be limited to the then outstanding amount under the canceled guarantee. We will terminate these cross-corporate guarantees on or about the date of the consummation of this offering. The outstanding balance of our potential liability as of May 23, 2005 was \$38.3 million, and we do not expect this amount to change significantly between now and the time the guarantees are terminated. After the guarantees are cancelled, the outstanding balance will decrease to zero over a period of approximately 90 days as payments are made in the ordinary course of business.

*Intercompany Accounts.* Historically, DSW and Retail Ventures have used intercompany transactions in the conduct of their operations. Under this arrangement, Retail Ventures has acted as a central processing location for payments for the acquisition of merchandise, payroll, outside services, capital additions and expenses by controlling the payroll and accounts payable activities for all Retail Ventures' subsidiaries,



**Table of Contents**

including DSW. DSW has transferred cash received from sales of merchandise to cash accounts controlled by Retail Ventures. The concentration of cash and the offsetting payments for merchandise, expenses, capital assets and accruals for future payments are accumulated on our balance sheet in advances to affiliates. The balance of advances to affiliates fluctuates based on DSW's activities with Retail Ventures.

After the consummation of this offering, DSW's intercompany activities will be limited to those arrangements set forth in the shared services agreement and the other agreements described in this prospectus. DSW will no longer concentrate its cash from the sale of merchandise into Retail Ventures' accounts but into its own DSW accounts. DSW will also pay for its own merchandise, expenses and capital additions from newly established disbursement accounts. Any intercompany payments will be made pursuant to the terms of the shared services agreement and other agreements described in this prospectus.

**Our New Secured Revolving Credit Facility**

Upon the consummation of this offering, Retail Ventures will amend and restate or terminate the existing Value City credit facilities, and we expect that we will be released from our obligations as co-borrower or co-guarantor thereunder. Simultaneously, we expect to enter into a new \$150 million secured revolving credit facility with a term of five years. Under this new facility, we expect that we and our subsidiary, DSWSW, will be named as co-borrowers. This new facility is expected to have borrowing base restrictions and will provide for borrowings at variable interest rates based on LIBOR, the prime rate and the Federal Funds effective rate, plus a margin. Our obligations under our new secured revolving credit facility will be guaranteed by our subsidiary and secured by a lien on substantially all our and our subsidiary's personal property and a pledge of our shares of DSWSW. In addition, the new secured revolving credit facility will contain usual and customary restrictive covenants relating to our management and the operation of our business. These covenants will, among other things, restrict our ability to operate our business, including, but not limited to, our ability to grant liens on our assets, incur additional indebtedness, open or close stores, pay cash dividends and redeem our stock, enter into transactions with affiliates and merge or consolidate with another entity. In addition, if at any time we utilize over 90% of our borrowing capacity under this facility, we must comply with a fixed charge coverage ratio test set forth in the facility documents.

**Table of Contents**

**DESCRIPTION OF CAPITAL STOCK**

Our amended articles of incorporation provide that we may issue up to 170,000,000 Class A Common Shares without par value, 100,000,000 Class B Common Shares and 100,000,000 shares of preferred stock, without par value. Upon completion of this offering, we will have 14,162,500 Class A Common Shares outstanding (16,271,875 shares if the underwriters' option to purchase additional shares is exercised in full), 27,702,667 Class B Common Shares, and no shares of preferred stock outstanding. The number of Class A Common Shares outstanding assumes the issuance of 100,000 restricted Class A Common Shares and stock units pursuant to the terms of DSW's equity incentive plan. We expect to issue these restricted shares and stock units immediately following the pricing of but prior to the consummation of this offering; however, the issuances remain subject to approval by the DSW board of directors prior to the consummation of this offering.

The following description of our capital stock does not purport to be complete and is subject to, and is qualified by, our amended articles of incorporation and amended and restated code of regulations, which will be filed as exhibits to the registration statement of which this prospectus is part.

**Common Shares**

Prior to the date of this prospectus, our articles of incorporation were amended to change the common shares of DSW into 27,702,667 Class B Common Shares. As of the date of this prospectus, and before giving effect to this offering, the 27,702,667 outstanding Class B Common Shares were owned by Retail Ventures, as our direct parent, and no Class A Common Shares were outstanding.

The holders of Class A Common Shares and Class B Common Shares generally have identical rights except that holders of Class A Common Shares are entitled to one vote per share on all matters to be voted on by the shareholders, while holders of Class B Common Shares are entitled to eight votes per share on all matters to be voted on by the shareholders, voting together with the holders of the Class A Common Shares as a single class. The holders of Common Shares are not entitled to cumulative voting rights. Generally, all matters to be voted on by shareholders must be approved by a majority (or, in the case of election of directors, by a plurality) of the votes entitled to be cast by all Class A Common Shares and Class B Common Shares present in person or represented by proxy, voting together as a single class, subject to any voting rights granted to holders of any preferred stock.

Holders of Common Shares have no preemptive rights, and the Common Shares are not subject to further calls or assessment by us. There are no redemptive or sinking fund provisions applicable to the Common Shares.

Holders of Class A Common Shares and Class B Common Shares will share in an equal amount per share in any dividend declared by the board of directors, subject to any preferential rights of any outstanding preferred stock. Dividends consisting of shares of Class A Common Shares and Class B Common Shares may be paid only as follows: (i) Class A Common Shares may be paid only to holders of Class A Common Shares and Class B Common Shares may be paid only to holders of Class B Common Shares and (ii) shares shall be paid proportionately with respect to each outstanding Class A Common Share and Class B Common Share.

Upon liquidation, dissolution or winding up of the affairs of DSW, our creditors and any holders of preferred stock will be paid before any distribution to holders of Common Shares. The holders of Common Shares would be entitled to receive a pro rata distribution of any excess amount. All outstanding Common Shares are, and the Class A Common Shares offered in this offering when issued and paid for will be, fully paid and nonassessable.

The rights, preferences and privileges of holders of Common Shares are subject to, and may be adversely affected by, the rights of holders of shares of any series of preferred stock which our board of directors may designate and issue in the future.

Our Class A Common Shares have been approved for listing on the NYSE under the symbol DSW.

**Table of Contents**

We expect to enter into an exchange agreement with Retail Ventures which will become effective upon the consummation of this offering. In the event that Retail Ventures desires to exchange all or a portion of the Class B Common Shares held by it for Class A Common Shares, we will agree to issue to Retail Ventures an equal number of duly authorized, validly issued, fully paid and nonassessable Class A Common Shares in exchange for the Class B Common Shares of DSW held by Retail Ventures. Retail Ventures may make one or more requests for such exchange, covering all or a part of the Class B Common Shares that it holds.

**Preferred Shares**

The board may fix by resolution the designations, preferences and relative, participating, optional or other rights and the qualifications, limitations or restrictions of our preferred shares, including the number of shares in any series, liquidation preferences, dividend rates, voting rights, conversion rights and redemption provisions. Terms selected could decrease the amount of earnings and assets available for distribution to holders of our Common Shares or adversely affect the rights and power, including voting rights, of the holders of our Common Shares without any further vote or action by the shareholders. Any series of preferred shares issued by the board could have priority over the Common Shares in terms of dividend or liquidation rights or both. The issuance of preferred shares, or the issuance of rights to purchase preferred shares, could have the effect of delaying, deferring or preventing a change of control of the company or an unsolicited acquisition proposal or of making the removal of management more difficult. Additionally, the issued of preferred shares may have the effect of decreasing the market price of our Common Shares, and may adversely affect the voting and other rights of the holders of Common Shares. There are currently no outstanding preferred shares. While we have no present intention to issue any preferred shares, any issuance could make it more difficult for a third party to acquire a majority of our outstanding voting shares.

**Provisions of Our Amended Articles of Incorporation Governing Corporate Opportunities and Related Party Transactions**

After this offering, Retail Ventures will remain a substantial shareholder of DSW and SSC will remain a substantial shareholder of Retail Ventures. Retail Ventures and SSC are engaged in the same or similar activities or lines of business as we are and have interests in the same areas of corporate opportunities. See **Certain Relationships and Related Party Transactions** Provisions of our Amended Articles of Incorporation Governing Corporate Opportunities and Related Party Transactions, for descriptions of the provisions in our amended articles of incorporation that will govern conflicts, corporate opportunities and related party transactions. These provisions will be substantially similar to those that currently apply to us through provisions of Retail Ventures' amended articles of incorporation.

**Anti-Takeover Effects of Certain Provisions of our Amended Articles of Incorporation, our Amended and Restated Code of Regulations and Ohio Law.**

Provisions of our amended articles of incorporation and amended and restated code of regulations and of the Ohio General Corporation Law summarized below may be deemed to have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders.

*No Cumulative Voting.* Where cumulative voting is permitted, each share is entitled to as many votes as there are directors to be elected and each shareholder may cast all of his or her votes for a single candidate or distribute such votes among two or more candidates. Cumulative voting makes it easier for a minority shareholder to elect a director. Our amended articles of incorporation expressly deny shareholders the right to cumulative voting.

*Supermajority Vote to Remove Directors.* DSW's amended and restated code of regulations provides that the shareholders may remove a director only by the vote of the holders of not less than three-fourths of the voting power of the corporation entitling them to elect directors in place of those to be removed. This provision, when coupled with the voting power of the Class B Common Shares held by Retail Ventures

**Table of Contents**

(94.1% following this offering), will preclude even a majority shareholder from removing incumbent directors and simultaneously gaining control of the board of directors by filling the vacancies.

*Classified Board.* DSW's amended and restated code of regulations provides for the board of directors to be divided into two classes of directors serving staggered two-year terms when the authorized number of directors is six or more, but less than nine. Because the amended and restated code of regulations will authorize seven directors, approximately one-half of the board of directors will be elected each year. This provision, when coupled with the vote required to remove directors, can preclude even a majority shareholder from gaining control of the board of directors in one election.

*Authorized But Unissued Shares.* Our authorized but unissued Common Shares and preferred shares are available for future issuance without shareholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. Our amended articles of incorporation authorize our board of directors to issue up to preferred shares and to determine the powers, preferences, privileges, rights, including voting rights, qualifications, limitations and restrictions on those shares, without any further vote or action by the shareholders. The existence of authorized but unissued Common Shares and preferred shares could have the effect of delaying, deterring or preventing an attempt to obtain control of DSW by means of a proxy contest, tender offer, merger or otherwise.

*Special Meeting of Shareholders.* Our amended and restated code of regulations provides that special meeting of our shareholders may be called only by:

the chairman of the board, the president, or in case of the president's death or disability, the vice president authorized to exercise the authority of the president;

the directors by action at a meeting, or a majority of the incumbent directors acting without a meeting; or

the holders of at least 50% of all shares outstanding and entitled to vote thereat.

*Actions by Written Consent.* Section 1701.54 of the Ohio General Corporation Law requires that an action by written consent of the shareholders in lieu of a meeting be unanimous, except that under Section 1701.11 of the Ohio General Corporation Law, the code of regulations may be amended by an action by written consent of holders of two-thirds of the voting power of the corporation or, if the articles of incorporation or code of regulations otherwise provide, such greater or lesser amount, but not less than a majority. Our amended and restated code of regulations provides that the code of regulations may be amended by an action by written consent of holders of a majority of our total voting power. Based on its ownership after the proposed offering, Retail Ventures will have enough shares to amend our amended and restated code of regulations. This provision coupled with Retail Ventures' ownership may have the effect of delaying, deferring or preventing a tender offer or takeover attempt that a shareholder might consider in its best interest.

*Advance Notice Requirements for Shareholder Proposals and Director Nominations.* Our amended and restated code of regulations provides that shareholders seeking to nominate candidates for election as directors at an annual or special meeting of shareholders must provide timely notice to us in writing. To be timely, a shareholder's notice must be received at our principal executive offices not less than 60 days nor more than 90 days prior to the first anniversary of the date of the previous year's annual meeting (or, if the date of the annual meeting is changed by more than 30 days from the anniversary date of the preceding year's annual meeting, or in the case of a special meeting, within ten days after we mail the notice of the date of the meeting or otherwise publicly disclose the date of the meeting.) The amended and restated code of regulations also prescribes the proper written form for a shareholder's notice. These provisions may preclude shareholders from making nominations for directors at an annual or special meeting.

*We Have Opted Out of the Ohio Control Share Acquisition Statute.* We have opted out of the application of the Ohio Control Share Acquisition Statute Section 1701.831 of the Ohio Revised Code, known as the Ohio Control Share Acquisition Statute. This statute provides that, unless a corporation's articles of

**Table of Contents**

incorporation or code of regulations provide that such section does not apply, notice and information filings, and special shareholder meeting and voting procedures, must occur prior to any person's acquisition of an issuer's shares that would entitle the acquirer to exercise or direct the voting power of the issuer in the election of directors within any of the following ranges:

one-fifth or more but less than one-third of the voting power;

one-third or more but less than a majority of the voting power; and

a majority or more of the voting power.

*We Have Opted Out of the Merger Moratorium Statute.* We have opted out of the application of Chapter 1704 of the Ohio Revised Code, known as the Merger Moratorium Statute. This statute prohibits certain transactions if they involve both the issuer and either a person who became the beneficial owner of 10% or more of the issuer's shares without the prior approval of its board of directors or anyone affiliated or associated with such person, unless a corporation's articles of incorporation or code of regulations provide that such statute does not apply. The prohibition imposed by Chapter 1704 is absolute for at least three years and continues indefinitely thereafter unless the transaction is approved by the holders of at least two-thirds of the voting power of the issuer or satisfies statutory conditions relating to the fairness of the consideration to be received by the shareholders.

**Transfer Agent and Registrar**

The transfer agent and registrar for our Class A Common Shares is National City Bank. The telephone number of National City Bank is 1-800-622-6757.



**Table of Contents****SHARES ELIGIBLE FOR FUTURE SALE**

Prior to this offering, there has been no public market for our Class A Common Shares, and we cannot predict the effect, if any, that market sales of shares or availability of any shares for sale will have on the market price of our Class A Common Shares prevailing from time to time. Sales of substantial amounts of Common Shares (including shares issued on the exercise of options, warrants or convertible securities, if any) or the perception that such sales could occur, could adversely affect the market price of our Class A Common Shares and our ability to raise additional capital through a future sale of securities.

Upon completion of this offering, we will have 14,162,500 shares of our Class A Common Shares outstanding (irrespective of whether the underwriters exercise their over-allotment option). We will also have 27,702,667 shares of our Class B Common Shares outstanding. The number of Class A Common Shares outstanding assumes the issuance of 100,000 restricted Class A Common Shares and stock units pursuant to the terms of DSW's equity incentive plan. We expect to issue these restricted shares immediately following the pricing of but prior to the consummation of this offering; however, the issuances remain subject to approval by the DSW board of directors prior to the consummation of this offering. The 14,062,500 (or 16,171,875 if the underwriters' option to purchase additional shares is exercised in full) Class A Common Shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act unless such shares are purchased by affiliates as that term is defined in Rule 144 under the Securities Act. Subject to certain contractual restrictions, holders of restricted shares will be entitled to sell those shares in the public securities markets if they qualify for an exemption from registration under Rule 144 or any other applicable exemption under the Securities Act. Subject to the lock-up agreements described below and the provisions of Rules 144, 144(k) and 701, additional shares will be available for sale as set forth below.

**Lock-Up Agreements**

We, each of our executive officers and directors, Retail Ventures, SSC, Cerberus and Back Bay have agreed not to sell or transfer any Common Shares or securities convertible into or exercise or exchangeable for our Common Shares for a period of 180 days after the date of this prospectus without first obtaining the written consent of Lehman Brothers Inc. on behalf of the underwriters, except that Cerberus may transfer the warrants issued by Retail Ventures and held by Cerberus as of the effective date of the offering to up to four transferees, provided that any transferee or transferees of Cerberus also agree, for the duration of the lock-up period, that any further transfer shall be made on the terms set forth in the lock-up agreement, and provided further that neither Cerberus nor its direct or indirect transferees may transfer any DSW Common Shares underlying the warrants for the remainder of the lock-up period. In addition, persons purchasing more than 1,000 Class A Common Shares in the directed share program described in Underwriting will be subject to a 25-day lock-up period.

**Registration Rights**

Under the master separation agreement, we have agreed to effect up to one demand registration per calendar year of our Common Shares, whether Class A or Class B, held by Retail Ventures, if requested by Retail Ventures. We have also granted Retail Ventures the right to include its Common Shares of DSW in an unlimited number of other registrations of such shares initiated by us or on behalf of our other shareholders.

We will enter into a registration rights agreement with Cerberus and SSC under which we will agree to register in specified circumstances the Class A Common Shares issued to them upon exercise of their warrants, and each of these entities and Back Bay will be entitled to participate in the registrations initiated by the other entities. Under this agreement, each of Cerberus (together with transferees of at least 15% of its interest in registrable DSW Common Shares) and SSC (together with transferees of at least 15% of its interest in registrable DSW Common Shares) may request up to five demand registrations with respect to the Class A Common Shares issued to them upon exercise of their warrants, provided that no party may request more than two demand registrations, except that each of Cerberus and SSC may request up to three demand registrations. The agreement will also grant Cerberus, SSC and Back Bay the right to include these Class A

**Table of Contents**

Common Shares in an unlimited number of other registrations of any of our securities initiated by us or on behalf of our other shareholders (other than a demand registration made under the agreement). Our failure to perform our obligations under this agreement would result in an event of default under the Value City senior subordinated convertible loan facility, as amended.

**Stock Options and Restricted Shares**

Immediately following the pricing of but prior to the consummation of this offering, we expect to grant employee stock options to purchase up to 900,000 shares to several of our officers under the DSW 2005 Equity Plan. The exercise price per share will be equal to the initial public offering price per share. We also expect at that time to issue up to 100,000 restricted Class A Common Shares and stock units at a price per share equal to the initial public offering price per share. These issuances remain subject to approval by the DSW board of directors prior to the consummation of this offering, and we expect to register the Class A Common Shares subject to the DSW 2005 Equity Plan prior to the consummation of this offering. After giving effect to these expected issuances, we will have 3,600,000 additional Class A Common Shares available for issuance under the DSW 2005 Equity Plan pursuant to which we may grant stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance share awards and annual incentive awards.

**Rule 144**

In general, under Rule 144 of the Securities Act as currently in effect, beginning 90 days after the date of this prospectus, a person (or persons whose shares are aggregated) who has beneficially owned restricted securities within the meaning of Rule 144 for at least one year (including the holding period of any prior owner other than an affiliate), would be entitled to sell within any three-month period, a number of shares that does not exceed the greater of:

one percent of the number of common shares then outstanding, which will equal approximately 418,652 Common Shares immediately after this offering; or

the average weekly trading volume of the common shares on the NYSE during the four calendar weeks preceding the sale.

Sales under Rule 144 are also subject to other requirements regarding the manner of sale, notice filing and the availability of current public information about us. An affiliate is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with an issuer.

**Rule 144(k)**

Under Rule 144(k), a person (or persons whose shares are aggregated) who is not deemed to have been our affiliate at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years (including the holding period of any prior owner other than an affiliate), is entitled to sell these shares under Rule 144(k) without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, 144(k) shares may be sold immediately upon completion of this offering.

**Table of Contents****MATERIAL U.S. FEDERAL INCOME AND ESTATE TAX CONSEQUENCES**

The following is a general discussion of the anticipated material U.S. federal income and estate tax consequences relating to the ownership and disposition of our Class A Common Shares by non-United States holders, as defined below, who purchase our Class A Common Shares in this offering and hold such Class A Common Shares as capital assets. This discussion is based on currently existing provisions of the Internal Revenue Code of 1986, as amended, or the Code, existing and proposed Treasury regulations promulgated thereunder, and administrative and judicial interpretation thereof, all as in effect or proposed on the date hereof and all of which are subject to change, possibly with retroactive effect or different interpretations. This discussion does not address all the tax consequences that may be relevant to specific holders in light of their particular circumstances or to holders subject to special treatment under U.S. federal income or estate tax laws (such as financial institutions, insurance companies, tax-exempt organizations, retirement plans, partnerships and their partners, other pass-through entities and their members, dealers in securities, brokers, U.S. expatriates, or persons who have acquired our Class A Common Shares as part of a straddle, hedge, conversion transaction or other integrated investment). This discussion does not address the U.S. state and local or non-U.S. tax consequences relating to the ownership and disposition of our Class A Common Shares. **You are urged to consult your own tax advisor regarding the U.S. federal tax consequences of owning and disposing of our Class A Common Shares, as well as the applicability and effect of any state, local or foreign tax laws.**

As used in this discussion, the term non-United States holder refers to a beneficial owner of our Class A Common Shares that for U.S. federal income tax purposes is not:

- (i) an individual who is a citizen or resident of the United States;
- (ii) a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States or any state or political subdivision thereof or therein, including the District of Columbia;
- (iii) an estate the income of which is subject to U.S. federal income tax regardless of source thereof; or
- (iv) a trust (a) with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all its substantial decisions, or (b) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a United States person.

An individual may, in many cases, be treated as a resident of the United States, rather than a nonresident, among other ways, by virtue of being present in the United States on at least 31 days in that calendar year and for an aggregate of at least 183 days during the three-year period ending in that calendar year (counting for such purposes all the days present in the current year, one-third of the days present in the immediately preceding year and one-sixth of the days present in the second preceding year). Residents are subject to U.S. federal income tax as if they were U.S. citizens.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds Class A Common Shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding Class A Common Shares, we urge you to consult your own tax advisor.

**Dividends**

We or a withholding agent will have to withhold U.S. federal withholding tax from the gross amount of any dividends paid to a non-United States holder at a rate of 30%, unless (i) an applicable income tax treaty reduces or eliminates such tax, and a non-United States holder claiming the benefit of such treaty provides to us or such agent proper Internal Revenue Service, or IRS, documentation or (ii) the dividends are effectively connected with a non-United States holder's conduct of a trade or business in the United States and the non-United States holder provides to us or such agent proper IRS documentation. In the latter case, such non-United States holder generally will be subject to U.S. federal income tax with respect to such dividends in the same manner as a U.S. citizen or corporation, as applicable, unless otherwise provided in an applicable

## **Table of Contents**

income tax treaty. Additionally, a non-United States holder that is a corporation could be subject to a branch profits tax on effectively connected dividend income at a rate of 30% (or at a reduced rate under an applicable income tax treaty). If a non-United States holder is eligible for a reduced rate of U.S. federal withholding tax pursuant to an income tax treaty, such non-United States holder may obtain a refund of any excess amount withheld by filing an appropriate claim for refund with the IRS.

### **Sale, Exchange or Other Disposition**

Generally, a non-United States holder will not be subject to U.S. federal income tax on gain realized upon the sale, exchange or other disposition of our Class A Common Shares unless (i) such non-United States holder is an individual present in the United States for 183 days or more in the taxable year of the sale, exchange or other disposition and certain other conditions are met, (ii) the gain is effectively connected with such non-United States holder's conduct of a trade or business in the United States, or where a tax treaty provides, the gain is attributable to a U.S. permanent establishment of such non-United States holder, or (iii) we are or have been a U.S. real property holding corporation for U.S. federal income tax purposes at any time during the shorter of the five-year period preceding such sale, exchange or other disposition or the period that such non-United States holder held our Class A Common Shares, or the Applicable Period.

We do not believe that we have been, are currently or are likely to be a U.S. real property holding corporation for U.S. federal income tax purposes. If we were to become a U.S. real property holding corporation, so long as our common shares are regularly traded on an established securities market and continue to be traded, a non-United States holder would be subject to U.S. federal income tax on any gain from the sale, exchange or other disposition of Class A Common Shares only if such non-United States holder actually or constructively owned, during the Applicable Period more than 5% of our Class A Common Shares.

Special rules may apply to non-United States holders, such as controlled foreign corporations, passive foreign investment companies and corporations that accumulate earnings to avoid federal income tax, that are subject to special treatment under the Code. These entities should consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them.

### **Federal Estate Tax**

Common stock owned or treated as owned by an individual who is a non-United States holder at the time of his or her death generally will be included in the individual's gross estate for U.S. federal estate tax purposes and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

### **Information Reporting and Backup Withholding Tax**

Information reporting may apply to payments made to a non-United States holder on or with respect to our Class A Common Shares. Backup withholding tax (at the then applicable rate) may also apply to payments made to a non-United States holder on or with respect to our Class A Common Shares, unless the non-United States holder certifies as to its status as a non-United States holder under penalties of perjury or otherwise establishes an exemption, and certain other conditions are satisfied. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-United States holder will be allowed as a refund or a credit against such non-United States holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

**Table of Contents****UNDERWRITING**

Under the terms of an underwriting agreement, which will be filed as an exhibit to the registration statement relating to this prospectus, each of the underwriters named below, for whom Lehman Brothers Inc., Goldman, Sachs & Co., CIBC World Markets Corp. and Johnson Rice & Company L.L.C. are acting as representatives, have severally agreed to purchase from us the respective number of our Class A Common Shares opposite their names below:

<b>Underwriter</b>	<b>Number of Shares</b>
Lehman Brothers Inc.	7,541,870
Goldman, Sachs & Co.	2,399,690
CIBC World Markets Corp.	2,399,690
Johnson Rice & Company L.L.C.	1,371,250
Fidelity Capital Markets, a division of National Financial Services LLC	50,000
HSBC Securities (USA) Inc.	50,000
Loop Capital Markets, LLC	50,000
Muriel Siebert & Co., Inc.	50,000
NatCity Investments, Inc.	50,000
Ryan Beck & Co.	50,000
Stifel, Nicolaus & Company, Incorporated	50,000
 Total	 14,062,500

The underwriting agreement provides that the underwriters' obligation to purchase our Class A Common Shares depends on the satisfaction of the conditions contained in the underwriting agreement, including:

the obligation to purchase all our Class A Common Shares offered hereby, if any of the shares are purchased;

the representations and warranties made by us to the underwriters are true;

there is no material change in the financial markets; and

we deliver customary closing documents to the underwriters.

**Commissions and Expenses**

The following table summarizes the underwriting discounts and commissions we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares. The underwriting fee is the difference between the initial price to the public and the amount the underwriters pay to us for the shares.

	<b>No Exercise</b>	<b>Full Exercise</b>
Per share	\$ 1.33	\$ 1.33
Total	\$ 18,703,125	\$ 21,508,594

The representatives of the underwriters have advised us that the underwriters propose to offer shares of our Class A Common Shares directly to the public at the public offering price on the cover of this prospectus and to selected dealers, who may include the underwriters, at such offering price less a selling concession not in excess of \$0.80 per share. The underwriters may allow, and the selected dealers may re-allow, a discount from the concession

not in excess of \$0.10 per share to other dealers. After this offering, the representatives may change the public offering price and other offering terms.

The expenses of this offering that are payable by us are estimated to be approximately \$6.9 million.

## **Table of Contents**

### **Option to Purchase Additional Shares**

We have granted the underwriters an option after the date of the prospectus to purchase, from time to time, in whole or in part, up to an aggregate of 2,109,375 Class A Common Shares at the public offering price less underwriting discounts and commissions. The option may be exercised if the underwriters sell more than 14,062,500 Class A Common Shares in connection with this offering. To the extent that this option is exercised, each underwriter will be obligated, subject to certain conditions, to purchase its pro rata portion of these additional shares based on the underwriter's percentage underwriting commitment in this offering as indicated in the preceding table.

### **Lock-Up Agreements**

We, Retail Ventures, SSC, Cerberus, and Back Bay, and all of our directors and executive officers have agreed that, without the prior written consent of Lehman Brothers Inc. on behalf of the underwriters, we and they will not directly or indirectly offer, pledge, announce the intention to sell, sell, contract to sell, sell an option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any of our Common Shares or any securities which may be converted into or exchanged for any of our Common Shares or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of any of our Common Shares for a period of 180 days from the date of this prospectus other than permitted transfers.

The 180-day restricted period described in the preceding paragraph will be extended if:

during the last 17 days of the 180-day restricted period we issue an earnings release or announce material news or a material event; or

prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event. However, Cerberus may transfer the warrants issued by Retail Ventures and held by Cerberus as of the effective date of the offering to up to four transferees, provided that any transferee or transferees of Cerberus also agree, for the duration of the lock-up period, that any further transfer shall be made on the terms set forth in the lock-up agreement, and provided further that neither Cerberus nor its direct or indirect transferees may transfer any DSW Common Shares underlying the warrants for the remainder of the lock-up period.

In addition, persons purchasing more than 1,000 shares pursuant to the directed share program described below (except for our officers and directors, as to whom the 180-day restricted period applies) will be restricted from selling or otherwise transferring or disposing of their Common Shares purchased in this offering for a period of 25 days from the date of this prospectus.

### **Offering Price Determination**

Prior to this offering, there has been no public market for our Class A Common Shares. The initial public offering price will be negotiated between the representatives and us. In determining the initial public offering price of our Class A Common Shares, the representatives will consider:

the history and prospects for the industry in which we compete,

our financial information,

the ability of our management and our business potential and earning prospects,

the prevailing securities markets at the time of this offering, and

the recent market prices of, and the demand for, publicly traded shares of generally comparable companies.

## **Table of Contents**

### **Indemnification**

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933 and liabilities incurred in connection with the directed share program referred to below, and to contribute to payments that the underwriters may be required to make for these liabilities.

### **Directed Share Program**

At our request, the underwriters have reserved for sale at the initial public offering price up to 1,160,000 shares offered hereby for officers, directors, employees and certain other persons associated with us and with Retail Ventures and SSC. The number of shares available for sale to the general public will be reduced to the extent such persons purchase such reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered hereby. We or our affiliates may also purchase reserved shares that have not been purchased, provided that we or the purchasing affiliate first receive a legal opinion from counsel stating that such purchase will not violate the federal securities laws.

In connection with the directed share program, Lehman Brothers Inc. may make an electronic version of this prospectus available through a password-protected Internet site as described below.

### **Stabilization, Short Positions and Penalty Bids**

The representatives may engage in stabilizing transactions, short sales and purchases to cover positions created by short sales, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of our Common Shares, in accordance with Regulation M under the Exchange Act:

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

A short position involves a sale by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase in this offering, which creates the syndicate short position. This short position may be either a covered short position or a naked short position. In a covered short position, the number of shares involved in the sales made by the underwriters in excess of the number of shares they are obligated to purchase is not greater than the number of shares that they may purchase by exercising their option to purchase additional shares. In a naked short position, the number of shares involved is greater than the number of shares in their option to purchase additional shares. The underwriters may close out any short position by either exercising their option to purchase additional shares and/or purchasing shares in the open market. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through their option to purchase additional shares. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering.

Syndicate covering transactions involve purchases of our Common Shares in the open market after the distribution has been completed in order to cover syndicate short positions.

Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the Common Shares originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our Common Shares or preventing or retarding a decline in the market price of our Common Shares. As a result, the price of the Common Shares may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the NYSE or otherwise and, if commenced, may be discontinued at any time.



## **Table of Contents**

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our Common Shares. In addition, neither we nor any of the underwriters make representation that the representatives will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

### **Electronic Distribution**

In addition to the electronic prospectus that Lehman Brothers Inc. may make available to participants in the directed share program described above, a prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular selling group member, prospective investors may be allowed to place orders online. The selling group members may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the representatives on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any selling group member's website and any information contained in any other website maintained by a selling group member is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

### **Listing on New York Stock Exchange**

Our Class A Common Shares have been approved for listing on the NYSE under the symbol DSW. In connection with that listing, the underwriters will undertake to sell the minimum number of Common Shares to the minimum number of beneficial owners necessary to meet the NYSE listing requirements.

### **Discretionary Sales**

The underwriters have informed us that they do not intend to confirm sales to discretionary accounts that exceed 5% of the total number of shares offered by them.

### **Stamp Taxes**

If you purchase shares of our Class A Common Shares offered in this prospectus, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to this offering price listed on the cover page of this prospectus.

### **Relationships**

The underwriters may in the future perform investment banking and advisory services for us from time to time for which they may in the future receive customary fees and expenses. The underwriters may, from time to time, engage in transactions with or perform services for us in the ordinary course of their business. CIBC World Markets Corp., one of the underwriters for this offering, has in the past, including during 2004, performed advisory services for Retail Ventures, in exchange for customary fees. In addition, Lehman Brothers Inc. has entered into an engagement letter, dated June 9, 2005, with Retail Ventures relating to financial advisory services provided in connection with the restructuring of Retail Ventures' existing indebtedness. Lehman Brothers Inc. will receive customary fees for these services, which will be offset against the underwriting discounts and commissions it receives in this offering.

### **Selling Restrictions**

Each underwriter has represented, warranted and agreed that: (i) it has not offered or sold and, prior to the expiry of a period of six months from the closing date, will not offer or sell any shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has only communicated or

**Table of Contents**

caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, or FSMA) received by it in connection with the issue or sale of any shares in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

This prospectus is not being distributed pursuant to a public offer in France within the meaning of Article L. 411-1 of the French Monetary and Financial Code (*Code monétaire et financier*), and as a result this prospectus has not been and will not be submitted to the *Autorité des Marchés Financiers* for approval in France. The shares offered have not been offered or sold, and will not be offered or sold, directly or indirectly, to the public in France, and this prospectus and any other offering related material has not been distributed and will not be distributed to the public in France. Any offers, sales and distributions have only been and will only be made in France to qualified investors (*investisseurs qualifiés*) and/or to a restricted group of investors (*cercle restreint d'investisseurs*), in each case, acting for their own account, all as defined in, and in accordance with, Articles L. 411-1 and L. 411-2 of the French Monetary and Financial Code and Decree no. 98-880 dated October 1, 1998. This prospectus is not to be further distributed or reproduced (in whole or in part) in France by the recipients hereof and this prospectus will be distributed on the understanding that any recipients will only participate in the issue or sale of the shares for their own account and undertake not to transfer, directly or indirectly, the shares to the public in France, other than in compliance with all applicable laws and regulations and in particular with Articles L. 411-1 and L. 411-2 of the French Monetary and Financial Code.

The shares have not been and will not be offered to the public within the meaning of the German Sales Prospectus Act (*Verkaufsprospektgesetz*) or the German Investment Act (*Investmentgesetz*). The shares have not been and will not be listed on a German exchange. No sales prospectus pursuant to the German Sales Prospectus Act has been or will be published or circulated in Germany or filed with the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) or any other governmental or regulatory authority in Germany. This prospectus does not constitute an offer to the public in Germany and it does not serve for public distribution of the shares in Germany. Neither this prospectus, nor any other document issued in connection with this offering, may be issued or distributed to any person in Germany except under circumstances which do not constitute an offer to the public within the meaning of the German Sales Prospectus Act or the German Investment Act.

The offering has not been registered with the Commissione Nazionale per le Società e la Borsa (CONSOB) pursuant to Italian securities legislation. The shares may not be offered or sold nor may the prospectus or any other offering materials be distributed in the Republic of Italy unless such offer, sale or distribution is:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of September 1, 1993 (Decree No. 385), Legislative Decree No. 58 of February 24, 1998, CONSOB Regulation No. 11971 of May 14, 1999 and any other applicable laws and regulations;

(b) made (i) to professional investors (*operatori qualificati*) as defined in Article 31, second paragraph of CONSOB Regulation No. 11422 of July 1, 1998, as amended, or Regulation No. 11522, (ii) in circumstances where an exemption from the rules governing solicitations to the public at large applies pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998 and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999, as amended or (iii) to persons located in the Republic of Italy who submit an unsolicited request to purchase shares; and

(c) in compliance with all relevant Italian securities and tax laws and regulations.

The shares may not be offered or sold to any investors in Switzerland other than on a non-public basis. This prospectus does not constitute a prospectus within the meaning of Article 652a and Art. 1156 of the Swiss Code of Obligations (*Schweizerisches Obligationenrecht*). Neither this offering nor the shares have been or will be approved

by any Swiss regulatory authority.

**Table of Contents**

**LEGAL MATTERS**

DSW is represented by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, Vorys, Sater, Seymour and Pease LLP, Columbus, Ohio and Sonnenschein Nath & Rosenthal LLP, St. Louis, Missouri, and the underwriters are represented by Debevoise & Plimpton LLP, New York, New York. The validity of the Class A Common Shares offered in this offering will be passed upon for DSW by Vorys, Sater, Seymour and Pease LLP, Columbus, Ohio.

**EXPERTS**

The financial statements included in this prospectus as of January 29, 2005 and January 31, 2004, and for each of fiscal 2003 and fiscal 2004, and the related supplemental schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein and elsewhere in the registration statement (which report expresses an unqualified opinion and includes an explanatory paragraph that describes the Company's change in its method of accounting for goodwill and other intangible assets effective February 3, 2002), and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the Class A Common Shares offered by this prospectus. This prospectus, filed as part of the registration statement, does not contain all the information set forth in the registration statement and its exhibits and schedules, portions of which have been omitted as permitted by the rules and regulations of the SEC. For further information about us and our Class A Common Shares, we refer you to the registration statement and to its exhibits and schedules. With respect to statements in this prospectus about the contents of any contract, agreement or other document, in each instance, we refer you to the copy of such contract, agreement or document filed as an exhibit to the registration statement, and each such statement is qualified in all respects by reference to the document to which it refers. Anyone may inspect the registration statement and its exhibits and schedules without charge at the public reference facilities the SEC maintains at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain copies of all or any part of these materials from the SEC upon the payment of certain fees prescribed by the SEC. You may obtain further information about the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. These reports and other information may also be inspected without charge at a website maintained by the SEC at <http://www.sec.gov>. In addition, you may obtain information about us at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

Upon completion of this offering, we will become subject to the informational requirements of the Exchange Act and will be required to file reports, proxy statements and other information with the SEC. You will be able to inspect and copy these reports, proxy statements and other information at the public reference facilities maintained by the SEC at the address noted above. You also will be able to obtain copies of this material from the Public Reference Room of the SEC as described above, or inspect them without charge at the SEC's website. We intend to furnish our shareholders with annual reports containing consolidated financial statements audited by an independent accounting firm.

**Table of Contents**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<b><u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u></b>	F-2
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
<u>Consolidated Balance Sheets as of January 29, 2005 and January 31, 2004</u>	F-3
<u>Consolidated Statements of Income for the years ended January 29, 2005, January 31, 2004 and February 1, 2003.</u>	F-4
<u>Consolidated Statements of Shareholder's Equity for the years ended January 29, 2005, January 31, 2004 and February 1, 2003.</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended January 29, 2005, January 31, 2004 and February 1, 2003.</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7
<u>Schedule II-Valuation and Qualifying Accounts</u>	F-19
<b>CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited):</b>	
Condensed Consolidated Balance Sheet as of April 30, 2005 (unaudited)	F-20
Condensed Consolidated Statements of Income for the three months ended April 30, 2005 and May 1, 2004 (unaudited)	F-21
Condensed Consolidated Statements of Shareholder's Equity for the three months ended April 30, 2005 and May 1, 2004 (unaudited)	F-22
Condensed Consolidated Statements of Cash Flows for the three months ended April 30, 2005 and May 1, 2004 (unaudited)	F-23
Notes to Condensed Consolidated Financial Statements	F-24

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholder

DSW Inc.

Columbus, Ohio

We have audited the accompanying consolidated balance sheets of DSW Inc. and subsidiary (the Company), a wholly owned subsidiary of Retail Ventures, Inc., as of January 29, 2005 and January 31, 2004 and the related consolidated statements of income, shareholder's equity, and cash flows for each of the three years in the period ended January 29, 2005, January 31, 2004 and February 1, 2003. Our audits also included the supplemental schedule. These consolidated financial statements and supplemental schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the supplemental schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of DSW Inc. and subsidiary as of January 29, 2005 and January 31, 2004 and the results of their operations and their cash flows for each of the three years in the period ended January 29, 2005, January 31, 2004 and February 1, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such supplemental schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in the notes to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, effective February 3, 2002.

/s/ Deloitte & Touche LLP

May 5, 2005

Columbus, Ohio

(May 31, 2005 as to Notes 7 and 9)

**Table of Contents**

**DSW INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**JANUARY 29, 2005 AND JANUARY 31, 2004**

	<b>January 29, 2005</b>	<b>January 31, 2004</b>
<b>(In thousands, except share amounts)</b>		
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and equivalents	\$ 8,339	\$ 7,076
Accounts receivable	2,291	2,264
Inventories	208,015	150,019
Prepaid expenses and other assets	8,940	8,847
Deferred income taxes	20,261	9,202
Total current assets	247,846	177,408
ADVANCES TO AFFILIATES	23,676	1,440
<b>PROPERTY AND EQUIPMENT At cost:</b>		
Furniture, fixtures and equipment	81,605	58,729
Leasehold improvements	70,936	60,255
Capital leases furniture, fixtures and equipment		1,227
Total property and equipment at cost	152,541	120,211
Less accumulated depreciation	(62,485)	(46,068)
Property and equipment net	90,056	74,143
GOODWILL	25,899	25,899
TRADENAMES AND OTHER INTANGIBLES Net	7,079	7,943
DEFERRED INCOME TAXES AND OTHER ASSETS	881	4,351
<b>TOTAL</b>	<b>\$ 395,437</b>	<b>\$ 291,184</b>
<b>LIABILITIES AND SHAREHOLDER S EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 72,120	\$ 52,237
Accrued expenses:		
Compensation	6,804	7,215
Taxes	12,560	9,940
Other	17,443	4,634
Current maturities of long-term obligations		138
Total current liabilities	108,927	74,164
LONG-TERM OBLIGATIONS Net of current maturities	55,000	35,000
OTHER NONCURRENT LIABILITIES	52,684	38,149
COMMITMENTS AND CONTINGENCIES		

<b>SHAREHOLDER S EQUITY:</b>			
Common stock	no par value:		
Authorized	500 shares		
Outstanding	410.09 shares		
Paid in capital		101,442	101,442
Retained earnings		77,384	42,429
	<b>Total shareholder s equity</b>	<b>178,826</b>	<b>143,871</b>
<b>TOTAL</b>		<b>\$ 395,437</b>	<b>\$ 291,184</b>

See notes to consolidated financial statements.

F-3



Table of Contents

**DSW INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED JANUARY 29, 2005, JANUARY 31, 2004 AND FEBRUARY 1, 2003**

	January 29, 2005	January 31, 2004,	February 1, 2003
	(In thousands)		
NET SALES	\$ 961,089	\$ 791,348	\$ 644,345
COST OF SALES	(690,878)	(588,421)	(485,589)
GROSS PROFIT	270,211	202,927	158,756
OPERATING EXPENSES	(214,102)	(174,874)	(140,975)
OPERATING PROFIT	56,109	28,053	17,781
INTEREST EXPENSE NET	(2,734)	(2,739)	(3,874)
EARNINGS BEFORE INCOME TAXES	53,375	25,314	13,907
INCOME TAX PROVISION	(18,420)	(10,507)	(5,847)
NET INCOME	\$ 34,955	\$ 14,807	\$ 8,060

See notes to consolidated financial statements.

Table of Contents

**DSW INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDER S EQUITY**  
**YEARS ENDED JANUARY 29, 2005, JANUARY 31, 2004 AND FEBRUARY 1, 2003**

		Number of Common Shares	Paid in Capital	Retained Earnings	Total
(In thousands, except share amounts)					
BALANCE	February 2, 2002	410.09	\$ 101,442	\$ 19,562	\$ 121,004
	Net income			8,060	8,060
BALANCE	February 1, 2003	410.09	101,442	27,622	129,064
	Net income			14,807	14,807
BALANCE	January 31, 2004	410.09	101,442	42,429	143,871
	Net income			34,955	34,955
BALANCE	January 29, 2005	410.09	\$ 101,442	\$ 77,384	\$ 178,826

See notes to consolidated financial statements.

**Table of Contents**

**DSW INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JANUARY 29, 2005, JANUARY 31, 2004 AND FEBRUARY 1, 2003**

	January 29, 2005	January 31, 2004	February 1, 2003
<b>(In thousands)</b>			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 34,955	\$ 14,807	\$ 8,060
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	18,275	15,478	12,986
Amortization of debt issuance costs	469	479	529
Deferred income taxes	(7,813)	26	(3,715)
Loss on fixed assets	968	585	40
Change in working capital, assets and liabilities:			
Accounts receivable	(27)	2,965	(3,227)
Inventories	(57,996)	(8,907)	(24,475)
Prepaid expenses and other assets	(338)	(641)	41
Advances to/from affiliates	(22,236)	20,574	(33,020)
Accounts payable	19,883	(8,995)	1,732
Proceeds from lease incentives	11,509	6,394	9,159
Other noncurrent liabilities	3,026	386	176
Accrued expenses	15,019	1,973	876
Net cash provided by (used in) operating activities	15,694	45,124	(30,838)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(34,293)	(22,324)	(23,140)
Cash used in investing activities	(34,293)	(22,324)	(23,140)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payments of capital lease obligations	(138)	(205)	(169)
Net increase (decrease) in revolving credit facility	20,000	(19,000)	54,000
Debt issuance costs			(1,437)
Net cash provided by (used in) financing activities	19,862	(19,205)	52,394
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>			
CASH AND EQUIVALENTS Beginning of year	1,263	3,595	(1,584)
CASH AND EQUIVALENTS End of year	7,076	3,481	5,065
CASH AND EQUIVALENTS End of year	\$ 8,339	\$ 7,076	\$ 3,481

**SUPPLEMENTAL DISCLOSURES:**

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Cash paid for interest	\$	2,138	\$	2,121	\$	3,280
Cash paid for income taxes	\$	3,998	\$	898	\$	2,552

See notes to consolidated financial statements.

F-6

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Table of Contents

**DSW INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED JANUARY 29, 2005, JANUARY 31, 2004 AND FEBRUARY 1, 2003**

**1. SIGNIFICANT ACCOUNTING POLICIES**

*Business Operations* DSW Inc. and its wholly owned subsidiary are herein referred to collectively as the Company. At January 29, 2005, the Company's common stock was wholly owned by Retail Ventures, Inc. ( RVI ). RVI is listed on the New York Stock Exchange trading under the ticker symbol RVI. Prior to a reorganization within RVI in December 2004, the Company's common stock was wholly owned by Value City Department Stores, Inc. ( VCDS ) which in turn was a wholly owned subsidiary of RVI. The Company operates a single segment, which includes DSW stores and leased shoe departments, and sells better-branded footwear and accessories. As of January 29, 2005, there were a total of 172 stores located throughout the United States of America. The Company also supplies footwear, under supply arrangements, to 22 Filene's Basement stores and 202 locations for other non-related retailers in the United States of America.

*Fiscal Year* The Company's fiscal year ends on the Saturday nearest January 31. Fiscal years 2004, 2003 and 2002 consist of 52 weeks. Unless otherwise stated, references to years in this report relate to fiscal years rather than calendar years.

*Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Significant estimates are required as a part of inventory valuation, depreciation, amortization, recoverability of long-lived assets and establishing reserves for insurance. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, actual results could differ from these estimates.

*Financial Instruments* The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

*Cash and Equivalents* Cash and equivalents represent cash, highly liquid investments with original maturities of three months or less at the date of purchase and credit card receivables, which generally settle within three days to be cash equivalents.

*Accounts Receivable* Accounts receivables are classified as current assets because the average collection period is generally less than one year. The carrying amount approximates fair value because of the relatively short average maturity of the instruments and no significant change in interest rates.

*Long-Term Debt* The carrying amount approximates fair value as a result of the variable rate-based borrowings.

*Concentration of Credit Risk* Financial instruments, which principally subject the Company to concentration of credit risk, consist of cash and cash equivalents. The Company invests excess cash when available through financial institutions in over night investments. At times, such amounts may be in excess of FDIC insurance limits.

*Concentration of Vendor Risk* During fiscal 2004, taking into account industry consolidation, merchandise supplied to the Company by three key vendors accounted for approximately 19% of net sales.

*Inventories* Merchandise inventories are stated at the lower of cost, determined using the first-in, first-out basis, or market, using the retail inventory method. The retail method is widely used in the retail industry due to its practicality. Under the retail inventory method, the valuation of inventories at cost and the resulting gross profits are calculated by applying a calculated cost to retail ratio to the retail value of inventories. The cost of the inventory reflected on the balance sheet is decreased by charges to cost of sales at the time the retail value of the inventory is lowered through the use of markdowns. Hence, earnings are negatively

**Table of Contents****DSW INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

impacted as the merchandise is marked down prior to sale. Reserves to value inventory at the lower of cost or market were \$14.2 million and \$11.5 million at the end of fiscal years 2004 and 2003, respectively.

Inherent in the calculation of inventories are certain significant management judgments and estimates, including setting the original merchandise retail value or mark-on, markups of initial prices established, reductions in prices due to customers' perception of value (known as markdowns), and estimates of losses between physical inventory counts, or shrinkage, which combined with the averaging process within the retail method, can significantly impact the ending inventory valuation at cost and the resulting gross profit.

*Vendor Allowances* Vendor allowances include allowances, rebates and cooperative advertising funds received from vendors. The amount of these funds is determined for each fiscal year and the majority is based on various quantitative contract terms. Amounts expected to be received from vendors relating to the purchase of merchandise inventories are recognized as a reduction of cost of goods sold as the merchandise is sold. Amounts that represent a reimbursement of costs incurred, such as advertising, are recorded as a reduction to the related expense in the period that the related expense is incurred. On an annual basis, the Company confirms earned allowances with vendors to determine the amounts are recorded in accordance with the terms of the contract. At January 29, 2005 and January 31, 2004, the Company had a vendor allowance balance of less than \$100,000.

*Property and Equipment* Property and equipment is stated at cost less accumulated depreciation determined by the straight-line method over the expected useful lives of the assets. Assets held under capital leases and related obligations are recorded initially at the lower of fair market value or the present value of the minimum lease payments. The straight-line method is used to amortize such capitalized costs over the lesser of the expected useful life of the asset or the life of the lease. Leasehold improvements are amortized under the straight-line method over the lesser of the initial lease term or the expected useful life (10 years). The estimated useful lives of furniture, fixtures and equipment are 3 to 10 years.

*Asset Impairment and Long-Lived Assets* The Company must periodically evaluate the carrying amount of its long-lived assets, primarily property and equipment, and finite life intangible assets when events and circumstances warrant such a review to ascertain if any assets have been impaired. The carrying amount of a long-lived asset is considered impaired when the carrying value of the asset exceeds the expected future cash flows (undiscounted and without interest) from the asset. The Company reviews are conducted down at the lowest identifiable level, which include a store. The impairment loss recognized is the excess of the carrying value, based on discounted future cash flows, of the asset over its fair value. Should an impairment loss be realized, it will be included in operating expenses. Based on recent analysis, the Company expensed \$0.9 million in fiscal 2004 of identified store assets where the recorded value could not be supported by cash flows. The amount of impairment losses recorded during fiscal years 2003 and 2002 were immaterial to the financial statements.

*Goodwill* Goodwill represents the excess cost over the estimated fair values of net assets including identifiable intangible assets of businesses acquired. Goodwill is tested for impairment at least annually. The Company, as a result of adoption of Statement of Financial Accounting Standards ( SFAS ) No. 142, *Goodwill and Other Intangible Assets*, no longer records goodwill amortization.

*Tradenames and Other Intangible Assets* Tradenames and other intangible assets are comprised of values assigned to names the Company acquired and leases acquired. The accumulated amortization for these

**Table of Contents****DSW INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

assets is \$5.8 million and \$4.9 million at January 29, 2005 and January 31, 2004, respectively. The asset value and accumulated amortization of intangible assets is as follows:

	<b>January 29, 2005</b>	<b>January 31, 2004</b>
<b>(In thousands)</b>		
<b>Tradenames:</b>		
Gross	\$ 12,750	\$ 12,750
Accumulated amortization	(5,738)	(4,887)
<b>Subtotal</b>	<b>7,012</b>	<b>7,863</b>
Useful life	15	15
<b>Favorable leases:</b>		
Gross	140	140
Accumulated amortization	(73)	(60)
<b>Subtotal</b>	<b>67</b>	<b>80</b>
Useful life	14	14
<b>Tradenames and other intangible assets net</b>	<b>\$ 7,079</b>	<b>\$ 7,943</b>

Aggregate amortization expense for the current and each of the five succeeding years is as follows:

<b>Fiscal Year</b>	<b>(In thousands)</b>
2004	\$864
2005	864
2006	861
2007	854
2008	854
2009	854

*Income Taxes* Income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. A valuation allowance is established against deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of January 29, 2005, the Company did not have any income tax valuation allowances.

*Deferred Rent* Many of the Company's operating leases contain predetermined fixed increases of the minimum rental rate during the initial lease term. For these leases the Company recognizes the related rental expense on a straight-line basis and records the difference between the amount charged to expense and the rent paid as a deferred rent and begins amortizing such deferred rent upon the delivery of the lease location by the lessor. The amounts included in other noncurrent liabilities caption were \$16.7 million and \$11.7 million, at January 29, 2005 and January 31, 2004, respectively.

*Tenant Allowances* The Company receives cash allowances from landlords, which are deferred and amortized on a straight-line basis over the life of the lease as a reduction of rent expense. These allowances are included in the caption other noncurrent liabilities and were \$35.0 million and \$26.5 million, at January 29, 2005 and January 31,

2004, respectively.

*Sales and Revenue Recognition* Sales of merchandise are net of returns and exclude sales tax. Revenues from our retail operations are recognized at the latter of point of sale or delivery of goods to the customer. Revenue from gift cards is deferred and the revenue is recognized upon redemption of the gift card.

F-9

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**Table of Contents****DSW INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company supplies footwear, under supply arrangements, to 22 Filene's Basement stores and 202 locations for other non-related retailers in the United States of America. Sales for these leased supply locations are net of returns and sales tax, as tracked by the lessor, and are included in net sales and represent 9.4%, 8.9% and 3.5% of total net sales for fiscal 2004, 2003, and 2002, respectively.

*Cost of Sales* Cost of sales includes the cost of merchandise, distribution and warehousing (including depreciation), store occupancy (excluding depreciation), permanent and point of sale reductions, markdowns and shrinkage provision.

Warehousing costs are comprised of labor, benefits and other labor-related costs associated with the operations of the warehouse, which are primarily payroll-related taxes and benefits. The non-labor costs associated with warehousing include rent, depreciation, insurance, utilities and maintenance and other operating costs that are passed to the Company from the landlord. Distribution costs include the transportation of merchandise to the warehouse and from the warehouse to the stores. Store occupancy costs include rent, utilities, repairs, maintenance and janitorial costs and other costs associated with licenses and occupancy-related taxes, which are primarily real estate taxes passed to the Company by the landlords.

*Operating Expenses* Operating expenses include expenses related to store selling, store management and store payroll costs, advertising, leased shoe department operations, store depreciation and amortization, pre-opening advertising and other pre-opening costs (which are expensed as incurred), corporate expenses for buying services, information services, depreciation expense for corporate cost centers, marketing, insurance, legal, finance, outside professional services, allocable costs from our parent and other corporate related departments, and benefits for associates and related payroll taxes. Corporate level expenses are primarily attributable to operations at our corporate offices in Columbus, Ohio.

*Customer Loyalty Program* The Company maintains a customer loyalty program for its DSW operations in which customers receive a future discount on qualifying purchases in exchange for marketing information. The Reward Your Style ( RYS ) is designed to promote customer awareness and loyalty plus to provide the Company with the ability to communicate with its customers. Upon reaching the target level, customers may redeem these discounts on a future purchase. Generally these future discounts must be redeemed within six months. The Company accrues the estimated costs of the anticipated redemptions of the discount earned at the time of the initial purchase and charges such costs to operating expenses based on historical experience. The estimates of the costs associated with the loyalty program require the Company to make assumptions related to customer purchase levels and redemption rates. The accrued liability as of January 29, 2005 and January 31, 2004 is \$4.5 million and \$3.0 million, respectively. The Company utilizes this customer database for direct mail and marketing efforts.

*Pre-Opening Costs* Pre-opening costs associated with opening or remodeling of stores are expensed as incurred. Pre-opening costs expensed were \$10.8 million, \$5.1 million and \$2.9 million for fiscal 2004, 2003, and 2002, respectively.

*Advertising Expense* The cost of advertising is expensed as incurred or when the advertising first takes place. Advertising costs were \$39.3 million, \$36.4 million and \$29.8 million in fiscal 2004, 2003, and 2002, respectively.

*Earnings Per Share ( EPS )* The Company was a wholly owned subsidiary of RVI at January 29, 2005, and is not required to report EPS.

*Recent Accounting Pronouncements* The Financial Accounting Standards Board ( FASB ) periodically issues SFAS, some of which require implementation by a date falling within or after the close of the fiscal year.

In January 2003, the FASB issued Financial Interpretation No. 46, *Consolidation of Variable Interest Entities* ( FIN 46 ), which requires the consolidation of certain entities considered to be variable interest

**Table of Contents****DSW INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

entities ( VIEs ). An entity is considered to be a VIE when it has equity investors who lack the characteristics of having a controlling financial interest, or its capital is insufficient to permit it to finance its activities without additional subordinated financial support. Consolidation of a VIE by an investor is required when it is determined that the investor will absorb a majority of the VIE s expected losses or residual returns if they occur. FIN 46 provides certain exceptions to these rules, relating to qualifying special purpose entities ( QSPEs ) subject to the requirements of SFAS No. 140. Upon its original issuance, FIN 46 required that VIEs created after January 31, 2003 would be consolidated immediately, while VIEs created prior to February 1, 2003 were to be consolidated as of July 1, 2003.

In October 2003, the FASB deferred the effective date for consolidation of VIEs created prior to February 1, 2003 to December 31, 2003 for calendar year-end companies, with earlier application encouraged.

In December 2003, the FASB published a revision to FIN 46 ( FIN 46R ) to clarify some of the provisions of the original interpretation and to exempt certain entities from its requirements. FIN 46R provides special effective date provisions to enterprises that fully or partially applied to FIN 46 prior to the issuance of the revised interpretation. In particular, entities that have already adopted FIN 46 are not required to adopt FIN 46R until the quarterly reporting period ended May 1, 2004. Adoption of the required sections of FIN 46, as modified and interpreted, including the provisions of FIN 46R, did not have any effect on the Company s financial statements or disclosures.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances), many of which were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003 and for pre-existing instruments as of the beginning of the first interim period beginning after June 15, 2003. Initial adoption of this accounting pronouncement did not have a material impact on the Company s financial statements.

The FASB s Emerging Issues Task Force ( EITF ) Issue No. 02-16, *Accounting By A Customer (Including A Reseller) For Cash Consideration Received From A Vendor*, addressed the accounting treatment for vendor allowances. The adoption of EITF Issue No. 02-16 in 2003 did not have a material impact on the Company s financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) ( SFAS No. 123R ), *Share-Based Payment*. This statement revised SFAS No. 123, *Accounting for Stock-Based Compensation*, and requires companies to expense the value of employee stock options and similar awards. The effective date of this standard is interim and annual periods beginning after June 15, 2005. No stock options or similar awards have been granted by the Company as of fiscal years 2004 and 2003. Therefore SFAS No. 123R has no impact on the Company. However any future stock options and similar awards would need to be valued and expensed in accordance with SFAS No. 123R.

In April 2005, the SEC delayed the compliance date for SFAS 123R until the beginning of the Company s fiscal year 2006.

**2. RELATED PARTY TRANSACTIONS**

The Company purchases merchandise from VCDS and affiliates of Schottenstein Stores Corporation ( SSC ), direct owner of approximately 57.3% of RVI s common shares. Purchases of merchandise from affiliates were immaterial in fiscal 2004 and fiscal 2003 and was \$1.5 million in fiscal 2002.

The Company also leases certain store and warehouse locations owned by SSC as described in Note 3.

Accounts receivable from and payable to affiliates principally result from commercial transactions with entities owned or controlled by SSC or intercompany transactions with SSC. Settlement of affiliate receivables

**Table of Contents**

**DSW INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and payables are in the form of cash. These transactions settle normally in 30 to 60 days. Amounts receivable or payable to SSC or its affiliates at January 29, 2005 and January 31, 2004 were immaterial.

The Company shares certain personnel, administrative and service costs with SSC and its affiliates. The costs of providing these services are allocated among the Company, SSC and its affiliates without a premium. The allocated amounts are not significant. SSC does not charge the Company for general corporate management services. In the opinion of the Company and SSC management, the aforementioned charges are reasonable.

The Company was self-insured through its participation in SSC's self-insurance program for general liability, casualty loss and certain state workers' compensation programs, which participation ended in fiscal 2003. While the Company no longer participates in the program, it continues to remain responsible for liabilities it incurred under the program. The Company expensed an immaterial amount in fiscal 2004 and \$0.2 million and \$3.0 million in fiscal years 2003 and 2002, respectively, for such program. Estimates for self-insured programs are determined by independent actuaries based on actuarial assumptions, which incorporate historical incurred claims and incurred but not reported (IBNR) claims.

In the ordinary course of business, the Company has received various services provided by RVI or its subsidiaries, including import administration, risk management, human resources, information technology, tax, financial services and payroll, as well as other corporate services. RVI has also provided the Company with the services of a number of its executives and employees. The financial statements include allocations by RVI of its costs related to these services. These costs allocations have been determined on a basis that the Company and RVI consider to be reasonable reflections of the use of services provided or the benefit received to the Company. These allocations totaled \$29.5 million and \$24.4 million in fiscal 2004 and fiscal 2003, respectively and were immaterial in fiscal 2002. In addition, the Company has entered into agreements with various subsidiaries of RVI to supply all of their shoe inventories. The net balance of these transactions is reflected within the balance sheets as advances to affiliates.

See Notes 3, 4, 5, 6, 7 and 9 for additional related party disclosures.

**3. LEASES**

The Company leases stores and warehouses under various arrangements with related and unrelated parties. Such leases expire through 2019 and in most cases provide for renewal options. Generally, the Company is required to pay real estate taxes, maintenance, insurance and contingent rentals based on sales in excess of specified levels.

As of January 29, 2005, the Company leased or had other agreements with 15 store locations owned by SSC or affiliates of SSC, and one warehouse facility for an annual minimum rent of \$8.3 million and additional contingent rents based on aggregate sales in excess of specified sales for the store locations. Under supply agreements to Filene's Basement stores and other non-related retailers, the Company pays contingent rents based on sales.

**Table of Contents****DSW INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Future minimum lease payments required under the aforementioned leases, exclusive of real estate taxes, insurance and maintenance costs, at January 29, 2005 are as follows:

<b>Fiscal Year</b>	<b>Operating Leases</b>		
	<b>Total</b>	<b>Unrelated Party</b>	<b>Related Party</b>
	<b>(In thousands)</b>		
2005	\$ 81,496	\$ 73,674	\$ 7,822
2006	84,349	75,951	8,398
2007	82,835	74,199	8,636
2008	81,088	72,215	8,873
2009	79,082	70,280	8,802
Future years	377,761	316,593	61,168
<b>Total minimum lease payments</b>	<b>\$ 786,611</b>	<b>\$ 682,912</b>	<b>\$ 103,699</b>

The composition of rental expense is as follows:

	<b>January 29, 2005</b>	<b>January 31, 2004</b>	<b>February 1, 2003</b>
	<b>(In thousands)</b>		
<b>Minimum rentals:</b>			
Unrelated parties	\$ 63,172	\$ 52,326	\$ 47,411
Related parties	6,152	6,011	4,224
<b>Contingent rentals:</b>			
Unrelated parties	13,692	10,785	434
Related parties	6,931	5,796	4,896
<b>Total</b>	<b>\$ 89,947</b>	<b>\$ 74,918</b>	<b>\$ 56,965</b>

Assets acquired under capital leases are included in the balance sheets as property, while the related obligations are included in long-term obligations. At January 29, 2005, the Company had no capital leases.

	<b>January 31, 2004</b>
	<b>(In thousands)</b>
<b>Assets held under capital leases:</b>	
Equipment	\$ 1,227
Accumulated depreciation and amortization	(1,128)

Net book value	\$	99
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F-13

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**Table of Contents****DSW INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. LONG-TERM OBLIGATIONS**

Long-term obligations consist of the following:

	January 29, 2005	January 31, 2004
	(In thousands)	
Revolving credit facility	\$ 55,000	\$ 35,000
Capital lease obligations		138
	55,000	35,138
Less current maturities		(138)
	\$ 55,000	\$ 35,000
Letters of credit outstanding	\$ 14,854	\$ 11,370
Availability under revolving credit facility	\$ 108,544	\$ 119,995

At January 29, 2005, the Company's direct parent, RVI and its subsidiaries, had an aggregate \$525.0 million of financing that consisted of three separate credit facilities (collectively, the Credit Facilities): (i) a \$350.0 million revolving credit facility (the Revolving Loan), (ii) two \$50.0 million term loan facilities provided equally by Cerberus Partners, L.P. and SSC (the Term Loans), and (iii) an amended and restated \$75.0 million senior subordinated convertible term loan facility, initially entered into by RVI and its subsidiaries on March 15, 2000, which is held equally by Cerberus Partners, L.P. and SSC (the Convertible Loan). The Company is a co-borrower under the Revolving Loan and the Term Loans, and is a guarantor under the Convertible Loan. The Company, the other co-borrowers and the guarantors are jointly and severally liable under the Revolving Loan and the Term Loans. All of the Credit Facilities are guaranteed by RVI.

The Company has reflected in the financial statements its direct obligations under the Revolving Loan as it relates to the borrowings thereunder secured by its assets. The Term Loans and Convertible Loan are not reflected on the Company's financial statements as they are recorded on consolidated financial statements of RVI. These Credit Facilities are also subject to an Intercreditor Agreement which provides for an established order of payment of obligations from the proceeds of collateral upon default (the Intercreditor Agreement).

When the Credit Facilities closed in June 2002, the Company and other co-borrowers executed leasehold mortgages, which secured obligations under all three Credit Facilities. Pursuant to the Intercreditor Agreement, these leasehold mortgages served first as primary collateral for the Term Loans and then as subordinate collateral for the Revolving Loan and Convertible Loan.

**\$350 Million Revolving Credit Facility** Under the Revolving Loan, the borrowing base formula applicable to the Company is based on the value of the Company's inventory and accounts receivable. Primary security for the Revolving Loan is provided in part by a first priority lien on all of the inventory and accounts receivable of the Company and other borrowers thereunder, as well as certain notes and payment intangibles. Subject to the Intercreditor Agreement, the Revolving Loan also has the substantial equivalent of a second priority-perfected security interest in all of the first priority collateral securing the Term Loans. Interest on borrowings under the Revolving Loan is calculated at the bank's base rate plus 0% to 0.5%, or at the London Interbank Offered Rate (LIBOR) plus 2.00% to 2.75%, depending upon the level of average excess availability that the Company and the other borrowers maintain. The interest rate on borrowings under the Revolving Loan was 4.7% and 3.2% at January 29, 2005 and January 31,

2004, respectively. During fiscal 2004, the Company extended the maturity date of the Revolving Loan by one year. As a result, the maturity date of the Revolving Loan, which originally matured on June 11, 2005, was extended to June 11, 2006, under substantially the same terms and conditions. See Note 9 for additional disclosure.

**Table of Contents****DSW INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At January 29, 2005, the outstanding borrowings for the Company and RVI and their affiliates under the Credit Facilities were: Revolving Loan, \$140.0 million; Term Loans, \$100.0 million; and Convertible Loan, \$75.0 million.

The Company is not subject to any financial covenants; however, the Credit Facilities contain numerous restrictive covenants relating to the management and operation of RVI and its subsidiaries, including the Company. These non-financial covenants include, among other restrictions, limitations on indebtedness, guarantees, mergers, acquisitions, fundamental corporate changes, financial reporting requirements, budget approval, disposition of assets, investments, loans and advances, liens, dividends, stock purchases, transactions with affiliates, issuance of securities and the payments of and modifications to debt instruments under these arrangements.

The weighted average interest rate on borrowings under the Company's Credit Facilities during fiscal years 2004, 2003 and 2002 were 3.6%, 3.3% and 4.0%, respectively. However the Company was allocated interest expense from RVI up through June 2002. Interest expense allocated was \$2.0 million in fiscal 2002. The total interest expense was \$2.7 million, \$2.7 million and \$3.9 million and included fees, such as commitment and line of credit fees, of \$0.5 million, \$0.6 million and \$1.8 million for fiscal 2004, 2003 and 2002, respectively.

On June 11, 2002, VCDS refinanced its previous financing arrangement. The Company recorded \$0.2 million loss in extinguishment of debt resulting from the write-off of deferred financing costs, as their allocated portion. This write-off was included in interest expense, net in fiscal 2002.

**5. INCOME TAX PROVISION**

The provision for income taxes consists of the following:

	<b>January 29, 2005</b>	<b>January 31, 2004</b>	<b>February 1, 2003</b>
	<b>(In thousands)</b>		
<b>Current:</b>			
Federal	\$ 21,438	\$ 8,711	\$ 7,019
State and local	4,803	1,770	2,543
	26,241	10,481	9,562
<b>Deferred:</b>			
Federal	(6,843)	(27)	(2,274)
State and local	(978)	53	(1,441)
	(7,821)	26	(3,715)
<b>Income tax expense</b>	<b>\$ 18,420</b>	<b>\$ 10,507</b>	<b>\$ 5,847</b>



**Table of Contents****DSW INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A reconciliation of the expected income taxes based upon the statutory rate is as follows:

	January 29, 2005	January 31, 2004	February 1, 2003
	(In thousands)		
Income tax expense at federal statutory rate	\$ 18,681	\$ 8,860	\$ 4,868
State and local taxes net	2,538	1,188	651
Non-deductible amortization		298	298
WOTC net	(119)	(131)	(108)
Officer compensation		169	
Meals and entertainment	201	123	138
Currently deductible expenses and other	(2,881)		
	\$ 18,420	\$ 10,507	\$ 5,847

The components of the net deferred tax asset are as follows:

	January 29, 2005	January 31, 2004
	(In thousands)	
Deferred tax assets:		
Basis differences in inventory	\$ 5,418	\$ 3,513
Basis differences in property and equipment	859	
Tenant allowance	1,406	
State and local tax NOLs	5,043	5,018
Alternative Minimum Tax credit carryforward	1,634	1,634
Amortization		622
Accrued rent	7,042	4,995
Workers compensation	1,443	
Accrued expenses	3,708	
Accrued bonus		726
Other	3,640	2,041
	30,193	18,549
Deferred tax liabilities:		
Amortization	(2,785)	
Prepaid expenses	(2,569)	
Accrued bonus	(1,336)	
Capital leases		(1,672)
Basis differences in property and equipment		(526)
Accrued expenses		(773)
State and local taxes	(3,192)	(3,080)

		(9,882)		(6,051)
Total net	\$	20,311	\$	12,498

F-16

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**Table of Contents****DSW INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The net deferred tax asset is recorded in the Company's balance sheet as follows:

	January 29, 2005	January 31, 2004
	(In thousands)	
Current deferred tax asset	\$ 20,261	\$ 9,202
Non-current deferred tax asset	50	3,296
<b>Total net</b>	<b>\$ 20,311</b>	<b>\$ 12,498</b>

The state and city net operating loss (NOLs) carry forward is approximately \$66.1 million and is available to reduce state and city taxable income. The NOLs expire as follows: 2005 \$1.7 million, 2006 to 2009 \$14.6 million, 2010 to 2019 \$4.0 million and 2020 to 2023 \$45.8 million.

The Company joins in the filing of a consolidated federal income tax return with RVI and its other subsidiaries. The allocation of the RVI current consolidated federal income tax to its subsidiaries is in accordance with SFAS No. 109, *Accounting for Income Taxes*. RVI uses the parent company down approach in allocating the consolidated amount of current and deferred tax expense to its subsidiaries.

**6. OTHER BENEFIT PLANS**

The Company participates in a 401(k) Plan (the Plan) maintained by RVI. Employees who attain age twenty-one are eligible to defer compensation as of the first day of the month following 60 days of employment and may contribute up to thirty percent of their compensation to the Plan, on a pre-tax basis, subject to Internal Revenue Service limitations. As of the first day of the month following an employee's completion of one year of service as defined under the terms of the Plan, the Company matches employee deferrals into the Plan, 100% on the first 3% of eligible compensation deferred and 50% on the next 2% of eligible compensation deferred. Additionally, the Company may contribute a discretionary profit sharing amount to the Plan each year. The Company incurred costs associated with the 401(k) Plan of \$0.7 million, \$0.9 million and \$0.9 million for fiscal years 2004, 2003 and 2002, respectively.

Certain employees of the Company participated in the Schottenstein Stores Corporation Deferred Compensation Plan which is a non-qualified, pre-tax, income deferral plan. The cost of the plan was not material to the financial statements. Effective January 31, 2003, their participation in that plan was terminated.

**7. COMMITMENTS AND CONTINGENCIES**

In March 2005, the Company announced the theft of credit card and other purchase information relating to all customers who made purchases at 103 DSW stores between mid-November 2004 and mid-February 2005. The Company now believes that the theft occurred at 108 DSW stores. The Company has contacted federal law enforcement authorities, who are involved in the investigation. The Company is taking steps to address the situation, including a review of the technology systems in conjunction with a leading computer security firm, and also working with others to mitigate the situation. As a result, the Company has estimated its potential liability associated with these events and has recorded a \$6.5 million reserve in the first quarter of fiscal 2005 and has estimated that the ultimate liability could exceed \$6.5 million by as much as an additional \$3.0 million.

The Company is involved in various legal proceedings that are incidental to the conduct of its business. The Company estimates the range of liability related to pending litigation where the amount and range of loss can be estimated. The Company records its best estimate of a loss when the loss is considered probable. Where a liability is probable and there is a range of estimated loss, the Company records the minimum estimated liability related to the claim. In the opinion of management, the amount of any liability with respect to these proceedings will not be material. As additional information becomes available, the Company assesses



**Table of Contents**

**DSW INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the potential liability related to its pending litigation and revises the estimates. Revisions in the Company's estimates and potential liability could materially impact its results of operations.

The Company has entered into cross-corporate guarantees with various financing institutions pursuant to which the Company, RVI, Filene's Basement and VCDS, jointly and severally, guarantee payment obligations owed to these entities under factoring arrangements they have entered into with vendors who may provide merchandise to some or all of RVI's subsidiaries.

**8. SEGMENT REPORTING**

The Company operates as one segment, which is footwear and accessories. All of the operations are located in the United States of America.

**9. SUBSEQUENT EVENTS**

In March 2005, the Company and RVI and their affiliates increased the ceiling under its revolving credit facility from \$350 million to \$425 million. The increase of \$75 million to the revolving credit facility was accomplished by amendment under substantially the same terms to the existing revolving credit agreement which expires in June 2006.

In March 2005, the Company declared a dividend and issued an intercompany note to its parent in the amount of \$165.0 million. The indebtedness is evidenced by a note which is scheduled to mature in March 2020 and bears interest at a rate equal to LIBOR plus 850 basis points per year.

In March 2005, RVI announced that the Company filed a registration statement with the SEC and plans to pursue an initial public offering (IPO). The Company expects that the IPO will be completed in 2005, subject to market conditions. After the IPO, the Company expects that RVI will continue to own a majority of the outstanding common shares.

In May 2005, the Company declared a dividend and issued an intercompany note to its parent in the amount of \$25.0 million. The indebtedness is evidenced by a note which is scheduled to mature in May 2020 and bears interest at a rate equal to LIBOR plus 950 basis points per year.

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**Table of Contents**

**DSW Inc.**  
**Schedule II Valuation and Qualifying Accounts**

Column A	Column B	Column C	Column D	Column E
	Balance at Beginning of Period	Charge to Costs and Expenses	Charges to Other Accounts Deductions	Balance at End of Period
(Dollars in thousands)				
Description				
Allowance deduction from asset to which it applies:				
<b>Inventory Reserve:</b>				
Year Ended:				
2/1/2003	\$ 9,054	\$ 3,702	\$ 1,367	\$ 11,389
1/31/2004	11,389	3,730	3,614	11,505
1/29/2005	11,505	2,697		14,202
<b>Allowance for Sales Returns:</b>				
Year Ended:				
2/1/2003	\$ 726	\$	\$ 107	\$ 619
1/31/2004	619	786		1,405
1/29/2005	1,405	176	109	1,472
<b>Store Closing Reserve:</b>				
Year Ended:				
2/1/2003	\$ 1,117	\$	\$ 989	\$ 128
1/31/2004	128	1,249	574	803
1/29/2005	803	129	400	532

F-19

**Table of Contents**

**DSW INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**April 30, 2005**  
**(Unaudited)**

		April 30, 2005
		(In thousands, except share amounts)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and equivalents	\$	13,718
Accounts receivable, net		3,065
Inventories		228,086
Prepaid expenses and other assets		9,035
Deferred income taxes		23,327
Total current assets		277,231
PROPERTY AND EQUIPMENT	NET	91,055
GOODWILL		25,899
TRADENAMES AND OTHER INTANGIBLES	Net	6,863
DEFERRED INCOME TAXES AND OTHER ASSETS		6,067
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>407,115</b>
<b>LIABILITIES AND SHAREHOLDER S EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$	82,020
Accrued expenses:		
Compensation		3,593
Taxes		14,644
Other		25,259
Total current liabilities		125,516
ADVANCES FROM AFFILIATES		649
LONG-TERM OBLIGATIONS	Net of current maturities	40,000
INTERCOMPANY NOTE TO PARENT		165,000
OTHER NONCURRENT LIABILITIES		55,144
COMMITMENTS AND CONTINGENCIES		
<b>SHAREHOLDER S EQUITY:</b>		
Common shares	without par value:	
Authorized	500 shares	
Outstanding	410.09 shares	
Paid in capital		
Retained earnings		20,806

Total shareholder s equity	20,806
TOTAL LIABILITIES AND SHAREHOLDER S EQUITY	\$ 407,115

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

F-20

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**Table of Contents**

**DSW INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**Three Months Ended April 30, 2005 and May 1, 2004**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>April 30, 2005</b>	<b>May 1, 2004</b>
	<b>(In thousands)</b>	
NET SALES	\$ 281,806	\$ 232,559
COST OF SALES	(199,008)	(164,972)
GROSS PROFIT	82,798	67,587
OPERATING EXPENSES	(67,745)	(53,782)
OPERATING PROFIT	15,053	13,805
INTEREST EXPENSE NET		
NON-RELATED PARTIES	(849)	(726)
RELATED PARTIES	(2,672)	
EARNINGS BEFORE INCOME TAXES	11,532	13,079
INCOME TAX PROVISION	(4,552)	(5,263)
NET INCOME	\$ 6,980	\$ 7,816

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

Table of Contents

**DSW INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDER S EQUITY**  
**Three Months Ended April 30, 2005 and May 1, 2004**  
**(Unaudited)**

		Number of Common Shares	Paid in Capital	Retained Earnings	Total
<b>(In thousands, except share amounts)</b>					
BALANCE	January 31, 2004	410.09	\$ 101,442	\$ 42,429	\$ 143,871
	Net income			7,816	7,816
BALANCE	May 1, 2004	410.09	\$ 101,442	\$ 50,245	\$ 151,687
BALANCE	January 29, 2005	410.09	\$ 101,442	\$ 77,384	\$ 178,826
	Net income			6,980	6,980
	Dividend to parent		(101,442)	(63,558)	(165,000)
BALANCE	April 30, 2005	410.09	\$ 0	\$ 20,806	\$ 20,806

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

**Table of Contents**

**DSW INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Three Months Ended April 30, 2005 and May 1, 2004**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>April 30,</b>	<b>May 1,</b>
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net Income	\$ 6,980	\$ 7,816
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Depreciation and amortization	4,719	4,363
Amortization of debt issuance costs	98	140
Deferred income taxes	(3,213)	31
Loss on disposal of assets	14	30
<b>Change in working capital, assets and liabilities:</b>		
Accounts receivable	(774)	(2,758)
Inventories	(20,071)	(20,846)
Prepaid expenses and other assets	(5,136)	1,152
Advances to/from affiliates	24,325	1,718
Accounts payable	9,900	4,104
Proceeds from lease incentives	1,828	4,233
Other noncurrent liabilities	632	1,757
Accrued expenses	6,752	432
<b>Net cash provided by operating activities</b>	<b>26,054</b>	<b>2,172</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(5,579)	(7,334)
<b>Net cash used in investing activities</b>	<b>(5,579)</b>	<b>(7,334)</b>
<b>Cash flows from financing activities:</b>		
Payments on capital lease obligations		(54)
Net (decrease) increase in revolving credit facility	(15,000)	10,000
Debt issuance costs	(96)	
<b>Net cash (used in) provided by financing activities</b>	<b>(15,096)</b>	<b>9,946</b>
<b>Net increase in cash and equivalents</b>	<b>5,379</b>	<b>4,784</b>
Cash and equivalents, beginning of period	8,339	7,076
<b>Cash and equivalents, end of period</b>	<b>\$ 13,718</b>	<b>\$ 11,860</b>

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

F-23

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**Table of Contents**

**1. BUSINESS OPERATIONS**

DSW Inc. and its wholly owned subsidiary are herein referred to collectively as the Company. At April 30, 2004, the Company was a wholly owned subsidiary of Retail Ventures, Inc. ( RVI ). RVI is listed on the New York Stock Exchange trading under the ticker symbol RVI. As a result of a reorganization within RVI, the Company became a wholly owned subsidiary of RVI on January 1, 2005. Prior to January 1, 2005, the Company was a subsidiary of Value City Department Stores, Inc., a wholly owned subsidiary of RVI. The Company operated in a single segment and sells better-branded footwear and accessories. As of April 30, 2005, the Company operated a total of 177 stores located throughout the United States. The Company also supplies footwear, under supply arrangements, to 25 Filene s Basement stores and 206 locations for other non-related retailers in the United States.

**2. BASIS OF PRESENTATION**

The accompanying unaudited interim financial statements should be read in conjunction with the 2004 Annual Report.

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

**3. ADOPTION OF ACCOUNTING STANDARDS**

The Financial Accounting Standards Board ( FASB ) periodically issues Statements of Financial Accounting Standards ( SFAS ), some of which require implementation by a date falling within or after the close of the fiscal year.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) ( SFAS No. 123R ), Share-Based Payment. This statement revised SFAS No. 123, Accounting for Stock-Based Compensation, and requires companies to expense the value of employee stock options and similar awards. The effective date of this standard is interim and annual periods beginning after June 15, 2005. No stock options or similar awards have been granted by the Company as of fiscal years 2004 and 2003. Therefore SFAS No. 123R has had no impact on the Company. However any future stock options and similar awards would need to be valued and expensed in accordance with SFAS No. 123R.

In April 2005, the Securities and Exchange Commission delayed compliance date for SFAS 123R until the beginning of the Company s fiscal year 2006.

**4. LONG-TERM OBLIGATIONS**

In March 2005, the Company and RVI and their affiliates increased the ceiling under their revolving credit facility from \$350 million to \$425 million. The increase of \$75 million to the revolving credit facility was accomplished by amendment under substantially the same terms to the existing revolving credit agreement, which expires in June 2006.

In March 2005, the Company declared a dividend and issued an intercompany note to its parent in the amount of \$165.0 million. The indebtedness is evidenced by a note which is scheduled to mature in March 2020 and bears interest at a rate equal to London Interbank Offered Rate, or LIBOR, plus 850 basis points per year. The interest is payable quarterly in arrears beginning on March 31, 2005 and continuing on the last business day of each fiscal quarter thereafter, except that the entire unpaid balance of accrued interest, if not sooner paid, shall be due and payable in full on or before the maturity date. As of April 30, 2005, there was interest accrued of \$2.7 million for the intercompany note included in Advances from affiliates on the balance sheet.

**Table of Contents****5. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

A supplemental schedule of non-cash investing and financing activities is presented below:

	<b>Three Months Ended</b>	
	<b>April 30, 2005</b>	<b>May 1, 2004</b>
<b>(In thousands)</b>		
<b>Cash paid during the period for:</b>		
Interest to non-related parties	\$ 1,021	\$ 554
Income taxes	\$ 494	\$ 1,024

During the three months ended April 30, 2005, the Company declared a dividend and issued an intercompany note to RVI in the amount of \$165.0 million.

**6. COMMITMENTS AND CONTINGENCIES**

On March 8, 2005, RVI announced that it had learned of the theft of credit card and other purchase information. On April 18, 2005, RVI issued the findings from the Company's investigation into the theft. The theft took place primarily over two weeks and covered all customers who made purchases at 108 DSW stores, primarily during a three-month period from mid-November 2004 to mid-February 2005. Transaction information involving approximately 1.4 million credit cards was obtained. For each card, the stolen information included credit card or debit card numbers, name and transaction amount. In addition, data from transactions involving approximately 96,000 checks were stolen. In these cases, checking account numbers and driver's license numbers were obtained.

The Company has contacted and is cooperating with federal law enforcement and other authorities with regard to this matter. To mitigate potential negative effects on its business and financial performance, the Company is working with credit card companies and issuers and trying to contact as many of its affected customers as possible. On June 6, 2005, the Ohio Attorney General brought an action against us in the court of Common Pleas in Franklin County, Ohio (State of Ohio v. DSW Inc.) seeking to require the Company to notify all customers affected by the theft who have not thus far been notified by the Company. There can be no assurance that there will not be additional proceedings or claims brought against the Company in the future. In addition, the Company is working with a leading computer security firm to minimize the risk of any further data theft.

As of April 30, 2005, the Company estimates that the potential exposure for losses related to this theft range from approximately \$6.5 million to approximately \$9.5 million. Because of many factors, including the early development of information regarding the theft and recoverability under insurance policies, there is no amount in the estimated range that represents a better estimate than any other amount in the range. Therefore, in accordance with Financial Accounting Standard No. 5, *Accounting for Contingencies*, the Company has accrued a charge to operations in the first quarter of fiscal 2005 equal to the low end of the range set forth above, or \$6.5 million. As the situation develops and more information becomes available, the amount of the reserve may increase or decrease accordingly. The amount of any such change may be material.

The Company does not yet know what effect this incident may have on its customers' perception of the Company. Since the announcement of the theft, the Company has not discerned any negative effect on comparable store sales trends after accounting for the shifting Easter holiday. However, given the short time period involved, these recent trends may not be indicative of the long-term effects of the incident.

The Company is involved in various legal proceedings that are incidental to the conduct of its business. The Company estimates the range of liability related to pending litigation where the amount and range of loss can be estimated. The Company records its best estimate of a loss when the loss is considered probable. Where a liability is probable and there is a range of estimated loss, the Company records the minimum estimated liability related to the claim. In the opinion of management, the amount of any liability with respect to these proceedings will not be

material. As additional information becomes available, the Company assesses  
F-25

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**Table of Contents**

the potential liability related to its pending litigation and revises the estimates. Revisions in the Company's estimates and potential liability could materially impact its results of operations.

**7. SUBSEQUENT EVENTS**

In May 2005, the Company declared a dividend and issued an intercompany note to its parent in the amount of \$25.0 million. The indebtedness is evidenced by a note which is scheduled to mature in May 2020 and bears interest at a rate equal to LIBOR plus 950 basis points per year.

F-26

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**Table of Contents**

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**Table of Contents**

14,062,500 Shares  
Class A Common Shares

PROSPECTUS  
June 28, 2005

**Lehman Brothers**

**Goldman, Sachs & Co.**  
**CIBC World Markets**  
**Johnson Rice & Company L.L.C.**  
(GLOBE WATERMARK)