

Macy's, Inc.  
Form 10-Q  
September 07, 2010

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended July 31, 2010**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 1-13536**

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Incorporated in Delaware

I.R.S. Employer Identification No.

13-3324058

7 West Seventh Street

Cincinnati, Ohio 45202

(513) 579-7000

and

151 West 34<sup>th</sup> Street

New York, New York 10001

(212) 494-1602

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class  
Common Stock, \$0.01 par value per share

Outstanding at August 27, 2010  
422,674,829 shares

**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****MACY S, INC.****Consolidated Statements of Operations****(Unaudited)****(millions, except per share figures)**

	<b>13 Weeks Ended</b>		<b>26 Weeks Ended</b>	
	<b>July 31, 2010</b>	<b>August 1, 2009</b>	<b>July 31, 2010</b>	<b>August 1, 2009</b>
Net sales	\$ 5,537	\$ 5,164	\$ 11,111	\$ 10,363
Cost of sales	(3,214)	(3,021)	(6,592)	(6,240)
Gross margin	2,323	2,143	4,519	4,123
Selling, general and administrative expenses	(1,953)	(1,861)	(3,946)	(3,817)
Division consolidation costs	0	(34)	0	(172)
Operating income	370	248	573	134
Interest expense	(131)	(141)	(294)	(284)
Interest income	1	2	2	4
Income (loss) before income taxes	240	109	281	(146)
Federal, state and local income tax (expense) benefit	(93)	(102)	(111)	65
Net income (loss)	\$ 147	\$ 7	\$ 170	\$ (81)
Basic earnings (loss) per share	\$ .35	\$ .02	\$ .40	\$ (.19)
Diluted earnings (loss) per share	\$ .35	\$ .02	\$ .40	\$ (.19)

The accompanying notes are an integral part of these unaudited Consolidated Financial Statements.

## MACY S, INC.

Consolidated Balance Sheets

(Unaudited)

(millions)

	July 31, 2010	January 30, 2010	August 1, 2009
<b>ASSETS:</b>			
Current Assets:			
Cash and cash equivalents	\$ 1,208	\$ 1,686	\$ 592
Receivables	355	358	324
Merchandise inventories	4,633	4,615	4,634
Income tax receivable	0	0	23
Supplies and prepaid expenses	237	223	231
Total Current Assets	6,433	6,882	5,804
Property and Equipment-net of accumulated depreciation and amortization of \$6,264, \$5,782 and \$5,957	9,070	9,507	10,046
Goodwill	3,743	3,743	3,743
Other Intangible Assets-net	658	678	697
Other Assets	534	490	494
Total Assets	\$ 20,438	\$ 21,300	\$ 20,784
<b>LIABILITIES AND SHAREHOLDERS EQUITY:</b>			
Current Liabilities:			
Short-term debt	\$ 609	\$ 242	\$ 92
Merchandise accounts payable	1,743	1,312	1,683
Accounts payable and accrued liabilities	2,065	2,626	2,071
Income taxes	57	68	0
Deferred income taxes	286	206	226
Total Current Liabilities	4,760	4,454	4,072
Long-Term Debt	7,493	8,456	8,632
Deferred Income Taxes	1,040	1,068	1,082
Other Liabilities	2,258	2,621	2,449
Shareholders Equity	4,887	4,701	4,549
Total Liabilities and Shareholders Equity	\$ 20,438	\$ 21,300	\$ 20,784

The accompanying notes are an integral part of these unaudited Consolidated Financial Statements.

## MACY S, INC.

Consolidated Statements of Cash Flows

(Unaudited)

(millions)

	26 Weeks Ended July 31, 2010	26 Weeks Ended August 1, 2009
Cash flows from operating activities:		
Net income (loss)	\$ 170	\$ (81)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Division consolidation costs	0	172
Depreciation and amortization	575	604
Stock-based compensation expense	32	42
Amortization of financing costs and premium on acquired debt	(12)	(12)
Changes in assets and liabilities:		
Decrease in receivables	4	24
(Increase) decrease in merchandise inventories	(18)	135
Increase in supplies and prepaid expenses	(15)	(5)
Increase in other assets not separately identified	(34)	(3)
Increase in merchandise accounts payable	403	379
Decrease in accounts payable and accrued liabilities not separately identified	(512)	(658)
Decrease in current income taxes	(10)	(51)
Increase (decrease) in deferred income taxes	42	(36)
Decrease in other liabilities not separately identified	(337)	(90)
Net cash provided by operating activities	288	420
Cash flows from investing activities:		
Purchase of property and equipment	(102)	(150)
Capitalized software	(64)	(41)
Disposition of property and equipment	41	9
Other, net	1	14
Net cash used by investing activities	(124)	(168)

(continued)

## MACY S, INC.

Consolidated Statements of Cash Flows (continued)

(Unaudited)

(millions)

	26 Weeks Ended July 31, 2010	26 Weeks Ended August 1, 2009
Cash flows from financing activities:		
Debt repaid	(584)	(958)
Dividends paid	(42)	(42)
Decrease in outstanding checks	(30)	(44)
Acquisition of treasury stock	(1)	(1)
Issuance of common stock	15	0
Net cash used by financing activities	(642)	(1,045)
Net decrease in cash and cash equivalents	(478)	(793)
Cash and cash equivalents at beginning of period	1,686	1,385
Cash and cash equivalents at end of period	\$ 1,208	\$ 592
Supplemental cash flow information:		
Interest paid	\$ 317	\$ 307
Interest received	2	6
Income taxes paid (net of refunds received)	103	33

The accompanying notes are an integral part of these unaudited Consolidated Financial Statements.

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**MACY S, INC.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**1. Summary of Significant Accounting Policies**

Macy's, Inc. and subsidiaries (the Company) is a retail organization operating retail stores and Internet websites under two brands (Macy's and Bloomingdale's) that sell a wide range of merchandise, including men's, women's and children's apparel and accessories, cosmetics, home furnishings and other consumer goods. The Company's operations include approximately 850 stores in 45 states, the District of Columbia, Guam and Puerto Rico, as well as macys.com and bloomingdales.com.

A description of the Company's significant accounting policies is included in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2010 (the 2009 10-K). The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2009 10-K.

Net sales include merchandise sales, leased department income, shipping and handling fees and sales to third party retailers. Beginning with the first quarter of 2010, the Company began including sales of private brand goods directly to third party retailers and sales of excess inventory to third parties in net sales. These items were previously reported, net of the related cost of sales, in selling, general and administrative expenses. This change in presentation had an immaterial impact on reported net sales, does not impact comparable store sales, net income (loss) or diluted earnings (loss) per share, and was not applied retroactively to periods ended prior to May 1, 2010.

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 the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

The Consolidated Financial Statements for the 13 and 26 weeks ended July 31, 2010 and August 1, 2009, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly, in all material respects, the consolidated financial position and results of operations of the Company.

Because of the seasonal nature of the retail business, the results of operations for the 13 and 26 weeks ended July 31, 2010 and August 1, 2009 (which do not include the Christmas season) are not necessarily indicative of such results for the full fiscal year.

Certain reclassifications were made to the prior fiscal year's amounts to conform with the classifications of such amounts for the current fiscal year.

In December 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2009-16, relating to the accounting and disclosures for transfers of financial assets. This guidance requires entities to provide more information about sales of securitized financial assets and similar transactions, particularly if the seller retains some risk with respect to the assets. The Company adopted this guidance on January 31, 2010, and the adoption did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2009, the FASB issued Accounting Standards Update No. 2009-17, with the intent to improve financial reporting by companies involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The Company adopted this guidance on January 31, 2010, and the adoption did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, which provides amendments and requires new disclosures relating to Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures, and also conforming amendments to guidance relating to ASC Topic 715, Compensation - Retirement Benefits. The Company adopted this guidance on January 31, 2010, except for the disclosure requirement regarding purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements, which is effective for interim and annual periods beginning after December 15, 2010. This guidance is limited to the form and content of disclosures, and the portion thereof that has been adopted did not have an impact on the Company's consolidated financial position, results of operations or cash flows. The Company does not anticipate that the full adoption of this guidance will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

(continued)



## MACY'S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

**2. Division Consolidation Costs and Store Closing Related Costs**

In 2008, the Company began a localization initiative called "My Macy's". This initiative was intended to strengthen local market focus and enhance selling service in an effort to both accelerate same-store sales growth and reduce expenses. To maximize the results from My Macy's, the Company took action, initially in selected markets, that: concentrated more management talent in local markets, effectively reducing the span of control over local stores; created new positions in the field to work with planning and buying executives in helping to understand and act on the merchandise needs of local customers; and empowered locally based executives to make more and better decisions.

In February 2009, the Company announced the expansion of the My Macy's localization initiative across the country. As My Macy's was rolled out nationally to new local markets in 2009, the Company's Macy's branded stores were reorganized into a unified operating structure, through division consolidations, to support the Macy's business. Division central office organizations were eliminated in New York-based Macy's East, San Francisco-based Macy's West, Atlanta-based Macy's Central and Miami-based Macy's Florida. The New York-based Macy's Home Store and Macy's Corporate Marketing divisions no longer exist as separate entities. Home Store functions were integrated into the Macy's national merchandising, merchandise planning, stores and marketing organizations. Macy's Corporate Marketing was integrated into the new unified marketing organization. The New York-based Macy's Merchandising Group was refocused solely on the design, development and marketing of the Macy's family of private brands.

The following table shows for the 26 weeks ended July 31, 2010, the beginning and ending balance of, and the activity associated with, the severance accrual established in connection with the division consolidation and localization initiative announced in February 2009:

	January 30, 2010	Payments (millions)	July 31, 2010
Severance costs	\$ 69	\$ (69)	\$ 0

Additionally, the Company paid out the \$2 million of accrued severance costs established in connection with the store closings announced in January 2010, which were included in accounts payable and accrued liabilities on the Consolidated Balance Sheets as of January 30, 2010, during the 13 weeks ended May 1, 2010.

During the 13 and 26 weeks ended August 1, 2009, the Company recorded \$34 million and \$172 million, respectively, of costs and expenses associated with the division consolidation and localization initiative announced in February 2009, consisting primarily of severance costs and other human resource-related costs.

The following table shows for the 26 weeks ended August 1, 2009, the beginning and ending balance of, and the activity associated with, the severance accrual established in connection with the division consolidation and localization initiative announced in February 2009:

	January 31, 2009	Charged To Division Consolidation Costs	Payments (millions)	August 1, 2009
Severance costs	\$ 30	\$ 124	\$ (108)	\$ 46

(continued)



## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

**3. Earnings (Loss) Per Share**

The following tables set forth the computation of basic and diluted earnings (loss) per share:

	13 Weeks Ended			
	July 31, 2010	August 1, 2009		
	Income	Shares	Income	Shares
	(millions, except per share figures)			
Net income and average number of shares outstanding	\$ 147	421.8	\$ 7	420.2
Shares to be issued under deferred compensation plans		1.2		1.3
	\$ 147	423.0	\$ 7	421.5
Basic earnings per share	\$ .35		\$ .02	
Effect of dilutive securities stock options, restricted stock and restricted stock units		3.5		0.6
	\$ 147	426.5	\$ 7	422.1
Diluted earnings per share	\$ .35		\$ .02	

	26 Weeks Ended			
	July 31, 2010	August 1, 2009		
	Income	Shares	Loss	Shares
	(millions, except per share figures)			
Net income (loss) and average number of shares outstanding	\$ 170	421.6	\$ (81)	420.2
Shares to be issued under deferred compensation plans		1.2		1.3
	\$ 170	422.8	\$ (81)	421.5
Basic earnings (loss) per share	\$ .40		\$ (.19)	
Effect of dilutive securities stock options, restricted stock and restricted stock units		3.5		0
	\$ 170	426.3	\$ (81)	421.5
Diluted earnings (loss) per share	\$ .40		\$ (.19)	

In addition to the stock options, restricted stock and restricted stock units reflected in the foregoing tables, stock options to purchase 31.8 million shares of common stock and 975,000 shares of restricted stock were outstanding at July 31, 2010, and stock options to purchase 34.3 million shares of common stock, 179,000 shares of restricted stock and 2.9 million shares of performance-based restricted stock units were outstanding at August 1, 2009, but were not included in the computation of diluted earnings per share for the 13 or 26 weeks ended July 31, 2010 or the 13 weeks ended August 1, 2009 because their inclusion would have been antidilutive.

Stock options to purchase 40.3 million shares of common stock, 179,000 shares of restricted stock and 2.9 million shares of performance-based restricted stock units were outstanding at August 1, 2009, but were not included in the computation of diluted loss per share for the 26 weeks ended August 1, 2009 because, as a result of the Company's net loss during this period, their inclusion would have been antidilutive.

(continued)

## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

**4. Financing**

During the 26 weeks ended July 31, 2010, consistent with its strategy to reduce its indebtedness, the Company used approximately \$526 million of cash to repurchase approximately \$500 million of indebtedness prior to maturity. The repurchases included approximately \$425 million of 5.35% senior notes due 2012, approximately \$57 million of 6.625% senior notes due 2011, approximately \$9 million of 8.0% senior debentures due 2012, and approximately \$9 million of 7.45% senior debentures due 2011. In connection with these repurchases, the Company recognized additional interest expense of approximately \$27 million due to the expenses associated with the early retirement of this debt.

On February 10, 2009, the Company completed a cash tender offer pursuant to which it purchased approximately \$199 million of its outstanding 6.30% senior notes due April 1, 2009 (resulting in approximately \$151 million of such notes remaining outstanding until they were paid at maturity on April 1, 2009) and approximately \$481 million of its outstanding 4.80% senior notes due July 15, 2009 (resulting in approximately \$119 million of such notes remaining outstanding until they were paid at maturity on July 15, 2009) for aggregate consideration, including accrued and unpaid interest, of approximately \$686 million.

**5. Benefit Plans**

The Company has a funded defined benefit plan ( Pension Plan ) and a defined contribution plan, which cover substantially all employees who work 1,000 hours or more in a year. The Company also has an unfunded defined benefit supplementary retirement plan, which provides benefits, for certain employees, in excess of qualified plan limitations.

In addition, certain retired employees currently are provided with specified health care and life insurance benefits ( Postretirement Obligations ). Eligibility requirements for such benefits vary, but generally state that benefits are available to eligible employees who were hired prior to a certain date and retire after a certain age with specified years of service. Certain employees are subject to having such benefits modified or terminated.

The actuarially determined components of the net periodic benefit cost are as follows:

	13 Weeks Ended		26 Weeks Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
	(millions)			
<b><u>Pension Plan</u></b>				
Service cost	\$ 26	\$ 22	\$ 50	\$ 44
Interest cost	40	44	79	87
Expected return on assets	(55)	(47)	(109)	(93)
Recognition of net actuarial loss	15	0	30	0
Amortization of prior service cost	0	0	0	0
	\$ 26	\$ 19	\$ 50	\$ 38
<b><u>Supplementary Retirement Plan</u></b>				
Service cost	\$ 1	\$ 2	\$ 3	\$ 3
Interest cost	9	11	18	22
Recognition of net actuarial loss	1	0	2	0
Amortization of prior service cost	(1)	(1)	(1)	(1)
	\$ 10	\$ 12	\$ 22	\$ 24

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Postretirement Obligations

Service cost	\$ 0	\$ 0	\$ 0	\$ 0
Interest cost	3	5	7	10
Recognition of net actuarial gain	(1)	(1)	(2)	(3)
Amortization of prior service cost	0	0	0	0
	\$ 2	\$ 4	\$ 5	\$ 7

(continued)

## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

During the 26 weeks ended July 31, 2010, the Company made a funding contribution to the Pension Plan of \$325 million. During the 26 weeks ended August 1, 2009 the Company made funding contributions to the Pension Plan totaling approximately \$60 million.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010 (the 2010 Acts). Included among the major provisions of these laws is a change in the tax treatment related to the Medicare Part D subsidy. The Company's postretirement obligations reflect estimated federal subsidies expected to be received under the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Under the 2010 Acts, the Company's deductions for retiree prescription drug benefits will be reduced by the amount of Medicare Part D subsidies received beginning February 3, 2013. The Company recorded a \$4 million deferred tax expense to reduce its deferred tax asset as a result of the elimination of the deductibility of retiree health care payments to the extent of tax-free Medicare Part D subsidies that are received.

Based on data currently available, the Company is not able at this time to determine the ongoing impact that the other provisions of the 2010 Acts will have on the Company-sponsored medical plans. As a result of this legislation, the Company is evaluating the impact of the 2010 Acts on the active and retiree benefit plans offered by the Company. The provisions of the 2010 Act did not require a re-measurement of the Company's postretirement obligations and did not impact the postretirement net periodic benefit costs for the 26 weeks ended July 31, 2010.

**6. Accumulated Other Comprehensive Loss**

The following table shows the beginning and ending balance of, and the activity associated with, accumulated other comprehensive loss, net of income tax effects, for the 26 weeks ended July 31, 2010 and August 1, 2009:

	July 31, 2010	August 1, 2009
	(millions)	
Accumulated other comprehensive loss, at beginning of period	\$ (753)	\$ (486)
Unrealized gain (loss) on marketable securities, net of income tax effect of \$1 million and \$3 million	(2)	4
Post employment and postretirement benefit plans:		
Recognition of net actuarial (gain) loss, net of income tax effect of \$12 million and \$1 million	18	(2)
Prior service cost, net of income tax effect of less than \$1 million and less than \$1 million	(1)	(1)
Accumulated other comprehensive loss, at end of period	\$ (738)	\$ (485)

**7. Fair Value Measurements**

The following table shows the Company's financial assets that are required to be measured at fair value on a recurring basis at July 31, 2010:

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
	(millions)			
Marketable equity and debt securities	\$ 95	\$ 30	\$ 65	\$ 0

The following table shows the Company's financial assets that are required to be measured at fair value on a recurring basis at August 1, 2009:

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	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Marketable equity and debt securities	\$ 81	\$ 32	\$ 49	\$ 0

(continued)



## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

Other financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, receivables, short-term debt, merchandise accounts payable, accounts payable and accrued liabilities and long-term debt. With the exception of long-term debt, the carrying amount approximates fair value because of the short maturity of these instruments. The fair values of long-term debt, excluding capitalized leases, are estimated based on the quoted market prices for publicly traded debt or by using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

The following table shows the estimated fair values of certain financial instruments of the Company at July 31, 2010:

	Notional Amount	Carrying Amount (millions)	Fair Value
Long-term debt	\$ 7,207	\$ 7,464	\$ 7,324

The following table shows the estimated fair values of certain financial instruments of the Company at August 1, 2009:

	Notional Amount	Carrying Amount (millions)	Fair Value
Long-term debt	\$ 8,312	\$ 8,603	\$ 7,046

The Company reviews the carrying value of its goodwill and other intangible assets with indefinite lives at least annually for possible impairment in accordance with ASC Topic 350, Intangibles—Goodwill and Other. Goodwill and other intangible assets with indefinite lives have been assigned to reporting units for purposes of impairment testing. The reporting units are the Company's retail operating divisions. Goodwill and other intangible assets with indefinite lives are tested for impairment annually at the end of the fiscal month of May. The Macy's retail operating division is the only reporting unit with goodwill and indefinite lived intangible assets.

During the second quarter of fiscal 2010, the Company completed its annual impairment test of goodwill and indefinite lived intangible assets. The goodwill impairment testing process includes estimating the fair value of the applicable reporting unit based on its estimated discounted cash flows and comparing the estimated fair value of the applicable reporting unit to its carrying value. The goodwill impairment testing process involves the use of unobservable inputs (level 3) and significant assumptions, estimates and judgments by management, and is subject to inherent uncertainties and subjectivity. Estimating a reporting unit's discounted cash flows involves the use of significant assumptions, estimates and judgments with respect to a variety of factors, including sales, gross margin and selling, general and administrative rates, capital expenditures, cash flows and the selection of an appropriate discount rate. Projected sales, gross margin and selling, general and administrative expense rate assumptions and estimated capital expenditures are based on the Company's annual business plan or other forecasted results. Discount rates reflect market-based estimates of the risks associated with the projected cash flows of the reporting unit directly resulting from the use of its assets in its operations.

Based on the results of the annual impairment test of goodwill and indefinite lived intangible assets, the Company determined that goodwill and indefinite lived intangible assets were not impaired as of May 29, 2010 and the estimated fair value of the Macy's retail operating division substantially exceeded its carrying value.

The use of different assumptions, estimates or judgments in the goodwill impairment testing process, including with respect to the estimated future cash flows of the Company's reporting units, the discount rate used to discount such estimated cash flows to their net present value, and the reasonableness of the resultant implied control premium relative to the Company's market capitalization, could materially increase or decrease the estimated fair value of a reporting unit and, accordingly, could impact the results of the annual impairment test.



**MACY S, INC.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**8. Condensed Consolidating Financial Information**

The senior notes and senior debentures of the Company, which constitute debt obligations of Macy's Retail Holdings, Inc. ( "Subsidiary Issuer" ), a wholly-owned subsidiary of Macy's, Inc. ( "Parent" ), are fully and unconditionally guaranteed by Parent. In the following condensed consolidating financial statements, "Other Subsidiaries" includes all other direct subsidiaries of Parent, including FDS Bank, Leadville Insurance Company and Snowdin Insurance Company, Macy's Merchandising Group, Inc. and its subsidiary Macy's Merchandising Group International, LLC. "Subsidiary Issuer" includes operating divisions and non-guarantor subsidiaries of the Subsidiary Issuer on an equity basis. The assets and liabilities and results of operations of the non-guarantor subsidiaries of the Subsidiary Issuer are also reflected in "Other Subsidiaries."

Condensed Consolidating Balance Sheets as of July 31, 2010, August 1, 2009 and January 30, 2010, the related Condensed Consolidating Statements of Operations for the 13 and 26 weeks ended July 31, 2010 and August 1, 2009, and the related Condensed Consolidating Statements of Cash Flows for the 26 weeks ended July 31, 2010 and August 1, 2009 are presented on the following pages.

(continued)

## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

## Condensed Consolidating Balance Sheet

As of July 31, 2010

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents	\$ 899	\$ 37	\$ 272	\$ 0	\$ 1,208
Receivables	0	57	298	0	355
Merchandise inventories	0	2,462	2,171	0	4,633
Supplies and prepaid expenses	0	95	142	0	237
Income taxes	26	0	0	(26)	0
Total Current Assets	925	2,651	2,883	(26)	6,433
Property and Equipment net	0	5,143	3,927	0	9,070
Goodwill	0	3,315	428	0	3,743
Other Intangible Assets net	0	200	458	0	658
Other Assets	4	120	410	0	534
Deferred Income Tax Assets	29	0	0	(29)	0
Intercompany Receivable	1,443	0	2,818	(4,261)	0
Investment in Subsidiaries	2,618	2,884	0	(5,502)	0
Total Assets	\$ 5,019	\$ 14,313	\$ 10,924	\$ (9,818)	\$ 20,438
<b>LIABILITIES AND SHAREHOLDERS EQUITY:</b>					
Current Liabilities:					
Short-term debt	\$ 0	\$ 606	\$ 3	\$ 0	\$ 609
Merchandise accounts payable	0	859	884	0	1,743
Accounts payable and accrued liabilities	78	902	1,085	0	2,065
Income taxes	0	11	72	(26)	57
Deferred income taxes	0	269	17	0	286
Total Current Liabilities	78	2,647	2,061	(26)	4,760
Long-Term Debt	0	7,470	23	0	7,493
Intercompany Payable	0	4,261	0	(4,261)	0
Deferred Income Taxes	0	260	809	(29)	1,040
Other Liabilities	54	968	1,236	0	2,258
Shareholders Equity (Deficit)	4,887	(1,293)	6,795	(5,502)	4,887
Total Liabilities and Shareholders Equity	\$ 5,019	\$ 14,313	\$ 10,924	\$ (9,818)	\$ 20,438



## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

**Condensed Consolidating Statement of Operations****For the 13 Weeks Ended July 31, 2010**

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ 0	\$ 2,909	\$ 4,160	\$ (1,532)	\$ 5,537
Cost of sales	0	(1,707)	(3,026)	1,519	(3,214)
Gross margin	0	1,202	1,134	(13)	2,323
Selling, general and administrative expenses	(2)	(1,074)	(890)	13	(1,953)
Operating income (loss)	(2)	128	244	0	370
Interest (expense) income, net					
External	1	(131)	0	0	(130)
Intercompany	(1)	(42)	43	0	0
Equity in earnings of subsidiaries	149	68	0	(217)	0
Income before income taxes	147	23	287	(217)	240
Federal, state and local income tax benefit (expense)	0	14	(107)	0	(93)
Net income	\$ 147	\$ 37	\$ 180	\$ (217)	\$ 147

(continued)

## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

**Condensed Consolidating Statement of Operations****For the 26 Weeks Ended July 31, 2010**

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ 0	\$ 5,836	\$ 8,779	\$ (3,504)	\$ 11,111
Cost of sales	0	(3,568)	(6,500)	3,476	(6,592)
Gross margin	0	2,268	2,279	(28)	4,519
Selling, general and administrative expenses	(4)	(2,148)	(1,822)	28	(3,946)
Operating income (loss)	(4)	120	457	0	573
Interest (expense) income, net					
External	1	(294)	1	0	(292)
Intercompany	(1)	(84)	85	0	0
Equity in earnings of subsidiaries	173	85	0	(258)	0
Income (loss) before income taxes	169	(173)	543	(258)	281
Federal, state and local income tax benefit (expense)	1	76	(188)	0	(111)
Net income (loss)	\$ 170	\$ (97)	\$ 355	\$ (258)	170

(continued)

## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the 26 Weeks Ended July 31, 2010

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:					
Net income (loss)	\$ 170	\$ (97)	\$ 355	\$ (258)	\$ 170
Equity in earnings of subsidiaries	(173)	(85)	0	258	0
Dividends received from subsidiaries	198	0	0	(198)	0
Depreciation and amortization	0	285	290	0	575
(Increase) decrease in working capital	(18)	(278)	148	0	(148)
Other, net	(4)	(395)	90	0	(309)
Net cash provided (used) by operating activities	173	(570)	883	(198)	288
Cash flows from investing activities:					
Purchase of property and equipment and capitalized software, net	0	(33)	(92)	0	(125)
Other, net	0	0	1	0	1
Net cash used by investing activities	0	(33)	(91)	0	(124)
Cash flows from financing activities:					
Debt repaid	0	(583)	(1)	0	(584)
Dividends paid	(42)	0	(198)	198	(42)
Issuance of common stock, net of common stock acquired	14	0	0	0	14
Intercompany activity, net	(526)	1,176	(650)	0	0
Other, net	(38)	(13)	21	0	(30)
Net cash provided (used) by financing activities	(592)	580	(828)	198	(642)
Net decrease in cash and cash equivalents	(419)	(23)	(36)	0	(478)
Cash and cash equivalents at beginning of period	1,318	60	308	0	1,686
Cash and cash equivalents at end of period	\$ 899	\$ 37	\$ 272	\$ 0	\$ 1,208

(continued)





## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

## Condensed Consolidating Balance Sheet

As of August 1, 2009

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents	\$ 269	\$ 58	\$ 265	\$ 0	\$ 592
Receivables	0	47	277	0	324
Merchandise inventories	0	2,491	2,143	0	4,634
Supplies and prepaid expenses	0	98	133	0	231
Deferred income tax assets	0	0	17	(17)	0
Income tax receivable	146	0	0	(123)	23
<b>Total Current Assets</b>	<b>415</b>	<b>2,694</b>	<b>2,835</b>	<b>(140)</b>	<b>5,804</b>
Property and Equipment net	0	5,651	4,395	0	10,046
Goodwill	0	3,315	428	0	3,743
Other Intangible Assets net	0	232	465	0	697
Other Assets	4	135	355	0	494
Deferred Income Tax Assets	111	0	0	(111)	0
Intercompany Receivable	1,474	0	2,120	(3,594)	0
Investment in Subsidiaries	2,700	2,760	0	(5,460)	0
<b>Total Assets</b>	<b>\$ 4,704</b>	<b>\$ 14,787</b>	<b>\$ 10,598</b>	<b>\$ (9,305)</b>	<b>\$ 20,784</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY:</b>					
Current Liabilities:					
Short-term debt	\$ 0	\$ 89	\$ 3	\$ 0	\$ 92
Merchandise accounts payable	0	857	826	0	1,683
Accounts payable and accrued liabilities	82	925	1,064	0	2,071
Income taxes	0	26	97	(123)	0
Deferred income taxes	9	234	0	(17)	226
<b>Total Current Liabilities</b>	<b>91</b>	<b>2,131</b>	<b>1,990</b>	<b>(140)</b>	<b>4,072</b>
Long-Term Debt	0	8,607	25	0	8,632
Intercompany Payable	0	3,594	0	(3,594)	0
Deferred Income Taxes	0	459	734	(111)	1,082
Other Liabilities	64	1,107	1,278	0	2,449
Shareholders' Equity (Deficit)	4,549	(1,111)	6,571	(5,460)	4,549
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 4,704</b>	<b>\$ 14,787</b>	<b>\$ 10,598</b>	<b>\$ (9,305)</b>	<b>\$ 20,784</b>

(continued)



## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

**Condensed Consolidating Statement of Operations****For the 13 Weeks Ended August 1, 2009**

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ 0	\$ 2,810	\$ 3,522	\$ (1,168)	\$ 5,164
Cost of sales	0	(1,688)	(2,485)	1,152	(3,021)
Gross margin	0	1,122	1,037	(16)	2,143
Selling, general and administrative expenses	(2)	(1,096)	(779)	16	(1,861)
Division consolidation costs	0	(11)	(23)	0	(34)
Operating income (loss)	(2)	15	235	0	248
Interest (expense) income, net					
External	1	(140)	0	0	(139)
Intercompany	(1)	(38)	39	0	0
Equity in losses of subsidiaries	8	23	0	(31)	0
Income (loss) before income taxes	6	(140)	274	(31)	109
Federal, state and local income tax benefit (expense)	1	(7)	(96)	0	(102)
Net income (loss)	\$ 7	\$ (147)	\$ 178	\$ (31)	\$ 7

(continued)

## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

**Condensed Consolidating Statement of Operations****For the 26 Weeks Ended August 1, 2009**

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$ 0	\$ 5,620	\$ 6,393	\$ (1,650)	\$ 10,363
Cost of sales	0	(3,454)	(4,402)	1,616	(6,240)
Gross margin	0	2,166	1,991	(34)	4,123
Selling, general and administrative expenses	(4)	(2,203)	(1,644)	34	(3,817)
Division consolidation costs	0	(59)	(113)	0	(172)
Operating income (loss)	(4)	(96)	234	0	134
Interest (expense) income, net					
External	2	(282)	0	0	(280)
Intercompany	(1)	(78)	79	0	0
Equity in losses of subsidiaries	(79)	(36)	0	115	0
Income (loss) before income taxes	(82)	(492)	313	115	(146)
Federal, state and local income tax benefit (expense)	1	181	(117)	0	65
Net income (loss)	\$ (81)	\$ (311)	\$ 196	\$ 115	\$ (81)

(continued)

## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the 26 Weeks Ended August 1, 2009

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:					
Net income (loss)	\$ (81)	\$ (311)	\$ 196	\$ 115	\$ (81)
Division consolidation costs	0	59	113	0	172
Equity in losses of subsidiaries	79	36	0	(115)	0
Dividends received from subsidiaries	198	0	0	(198)	0
Depreciation and amortization	0	321	283	0	604
Increase in working capital	(45)	(52)	(79)	0	(176)
Other, net	6	4	(109)	0	(99)
Net cash provided by operating activities	157	57	404	(198)	420
Cash flows from investing activities:					
Purchase of property and equipment and capitalized software, net	0	(53)	(129)	0	(182)
Other, net	0	0	14	0	14
Net cash used by investing activities	0	(53)	(115)	0	(168)
Cash flows from financing activities:					
Debt repaid	0	(957)	(1)	0	(958)
Dividends paid	(42)	0	(198)	198	(42)
Intercompany activity, net	(853)	947	(94)	0	0
Other, net	(40)	(4)	(1)	0	(45)
Net cash used by financing activities	(935)	(14)	(294)	198	(1,045)
Net decrease in cash and cash equivalents	(778)	(10)	(5)	0	(793)
Cash and cash equivalents at beginning of period	1,047	68	270	0	1,385
Cash and cash equivalents at end of period	\$ 269	\$ 58	\$ 265	\$ 0	\$ 592

(continued)

## MACY S, INC.

Notes to Consolidated Financial Statements

(Unaudited)

## Condensed Consolidating Balance Sheet

As of January 30, 2010

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents	\$ 1,318	\$ 60	\$ 308	\$ 0	\$ 1,686
Receivables	0	82	276	0	358
Merchandise inventories	0	2,536	2,079	0	4,615
Supplies and prepaid expenses	0	98	125	0	223
Income taxes	7	0	0	(7)	0
Deferred income tax assets	0	0	54	(54)	0
<b>Total Current Assets</b>	<b>1,325</b>	<b>2,776</b>	<b>2,842</b>	<b>(61)</b>	<b>6,882</b>
Property and Equipment net	0	5,383	4,124	0	9,507
Goodwill	0	3,315	428	0	3,743
Other Intangible Assets net	0	217	461	0	678
Other Assets	4	123	363	0	490
Deferred Income Tax Assets	113	0	0	(113)	0
Intercompany Receivable	890	0	2,188	(3,078)	0
Investment in Subsidiaries	2,627	2,792	0	(5,419)	0
<b>Total Assets</b>	<b>\$ 4,959</b>	<b>\$ 14,606</b>	<b>\$ 10,406</b>	<b>\$ (8,671)</b>	<b>\$ 21,300</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY:</b>					
Current Liabilities:					
Short-term debt	\$ 0	\$ 239	\$ 3	\$ 0	\$ 242
Merchandise accounts payable	0	637	675	0	1,312
Accounts payable and accrued liabilities	117	1,529	980	0	2,626
Income taxes	0	4	71	(7)	68
Deferred income taxes	93	167	0	(54)	206
<b>Total Current Liabilities</b>	<b>210</b>	<b>2,576</b>	<b>1,729</b>	<b>(61)</b>	<b>4,454</b>
Long-Term Debt	0	8,432	24	0	8,456
Intercompany Payable	0	3,078	0	(3,078)	0
Deferred Income Taxes	0	570	611	(113)	1,068
Other Liabilities	48	1,161	1,412	0	2,621
Shareholders' Equity (Deficit)	4,701	(1,211)	6,630	(5,419)	4,701
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 4,959</b>	<b>\$ 14,606</b>	<b>\$ 10,406</b>	<b>\$ (8,671)</b>	<b>\$ 21,300</b>

(continued)





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**MACY'S, INC.**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

For purposes of the following discussion, all references to second quarter of 2010 and second quarter of 2009 are to the Company's 13-week fiscal periods ended July 31, 2010 and August 1, 2009, respectively, and all references to 2010 and 2009 are to the Company's 26-week fiscal periods ended July 31, 2010 and August 1, 2009, respectively.

The Company is a retail organization operating retail stores and Internet websites under two brands (Macy's and Bloomingdale's) that sell a wide range of merchandise, including men's, women's and children's apparel and accessories, cosmetics, home furnishings and other consumer goods. The Company's operations include approximately 850 stores in 45 states, the District of Columbia, Guam and Puerto Rico, as well as macys.com and bloomingdales.com.

The Company continues to be focused on four key priorities for improving the business over the longer term: (i) differentiating merchandise assortments and tailoring them to local tastes; (ii) delivering obvious value; (iii) improving the overall shopping environment; and (iv) enhancing customer engagement, loyalty and traffic through more brand focused and effective marketing.

In February 2008, the Company announced a new initiative intended to strengthen local market focus and enhance selling service in an effort to both accelerate same-store sales growth and reduce expense. The localization initiative, called My Macy's, was developed with the goal to accelerate sales growth in existing locations by ensuring that core customers surrounding each Macy's store find merchandise assortments, size ranges, marketing programs and shopping experiences that are custom-tailored to their needs. To maximize the results from My Macy's, the Company took action in certain markets that: concentrated more management talent in local markets, effectively reducing the span of control over local stores; created new positions in the field to work with division central planning and buying executives in helping to understand and act on the merchandise needs of local customers; and empowered locally based executives to make more and better decisions. In combination with the localization initiative, the Company consolidated the Minneapolis-based Macy's North organization into New York-based Macy's East, the St. Louis-based Macy's Midwest organization into Atlanta-based Macy's South and the Seattle-based Macy's Northwest organization into San Francisco-based Macy's West. The Atlanta-based division was renamed Macy's Central.

In February 2009, the Company announced the expansion of the My Macy's localization initiative across the country. As My Macy's was rolled out nationally to new local markets, the Company's Macy's branded stores were reorganized into a unified operating structure to support the Macy's business. Division central office organizations were eliminated in New York-based Macy's East, San Francisco-based Macy's West, Atlanta-based Macy's Central and Miami-based Macy's Florida. This has reduced central office and administrative expense, eliminated duplication, sharpened execution, and helped the Company to partner more effectively with its suppliers and business partners.

The savings from the division consolidation process, net of the amount invested in the My Macy's localization initiatives, have reduced, and are expected to continue to reduce, selling, general and administrative (SG&A) expenses, as compared to expected levels absent the consolidations.

During January 2010, the Company announced plans to launch a new Bloomingdale's Outlet store concept in 2010, which will initially consist of four Bloomingdale's Outlet stores, each with approximately 25,000 square feet, to open prior to the Christmas season of 2010. Additional Bloomingdale's Outlet stores are expected to roll out to selected locations across the country in 2011 and beyond. Bloomingdale's Outlet stores will offer a range of apparel and accessories, including women's ready-to-wear, men's, children's, women's shoes, fashion accessories, jewelry, handbags and intimate apparel.

Additionally, in February 2010, Bloomingdale's opened in Dubai, United Arab Emirates under a license agreement with Al Tayer Insignia, a company of Al Tayer Group, LLC, under which the Company is entitled to a license fee in accordance with the terms of the underlying agreement, generally based upon the greater of the contractually earned or guaranteed minimum amounts.

The Company's operations are impacted by competitive pressures from department stores, specialty stores, mass merchandisers and all other retail channels. The Company's operations are also impacted by general consumer spending levels, including the impact of general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods and the effects of weather or natural disasters and other factors over which the Company has little or no control.

In recent periods, consumer spending levels have been adversely affected by a number of factors, including substantial declines in the level of general economic activity and real estate and investment values, substantial increases in consumer pessimism, unemployment and the costs of basic necessities, and a significant tightening of consumer credit. These conditions adversely affected, and to varying degrees continue to adversely affect, the amount of funds that consumers are willing and able to spend for discretionary purchases, including purchases of some of the merchandise offered by the Company.



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**MACY'S, INC.**

The effects of the factors and conditions described above have been, and may continue to be, experienced differently, or at different times, in the various geographic regions in which the Company operates, in relation to different types of merchandise that the Company offers for sale, or in relation to the Company's Macy's-branded and Bloomingdale's-branded operations. All of these effects, however, ultimately affect the Company's overall operations.

The Company cannot predict whether, when or the manner in which the economic conditions described above will change. Based on its assessment of current and anticipated market conditions and its recent performance, the Company is assuming that its comparable store sales in 2010 will increase in the range of 4% to 4.2% from 2009 levels.

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes included elsewhere in this report, as well as the financial and other information included in the 2009 10-K. The following discussion contains forward-looking statements that reflect the Company's plans, estimates and beliefs. The Company's actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those discussed below and elsewhere in this report (particularly in *Forward-Looking Statements*) and in the 2009 10-K (particularly in *Risk Factors*).

**Results of Operations**

Net sales include merchandise sales, leased department income, shipping and handling fees and sales to third party retailers. Beginning with the first quarter of 2010, the Company began including sales of private brand goods directly to third party retailers and sales of excess inventory to third parties in net sales. These items were previously reported, net of the related cost of sales, in selling, general and administrative expenses. This change in presentation had an immaterial impact on reported net sales, does not impact comparable store sales, net income (loss) or diluted earnings (loss) per share, and was not applied retroactively to periods ended prior to May 1, 2010.

**Comparison of the 13 Weeks Ended July 31, 2010 and August 1, 2009**

Net income for the second quarter of 2010 was \$147 million, compared to the net income of \$7 million in the second quarter of 2009, reflecting the benefits of the strategic initiatives at Macy's and the continued strong performance at Bloomingdale's. Net income for the second quarter of 2009 included the impact of \$34 million of division consolidation costs.

Net sales for the second quarter of 2010 totaled \$5,537 million, compared to net sales of \$5,164 million for the second quarter of 2009, an increase of \$373 million or 7.2%. On a comparable store basis, net sales for the second quarter of 2010 were up 4.9% compared to the second quarter of 2009. Sales from the Company's Internet businesses in the second quarter of 2010 increased 28.1% compared to the second quarter of 2009 and positively affected the Company's second quarter of 2010 comparable store sales by 0.5%. Sales of the Company's private label and exclusive brands continued to be strong in the second quarter of 2010. Sales in the second quarter of 2010 were strongest in men's collections, fashion watches, updated women's apparel, swimwear, luggage, furniture and mattresses. Sales in the second quarter of 2010 were less strong in women's traditional career apparel and young men's denim. The Company calculates comparable store sales as sales from stores in operation throughout 2009 and 2010 and all Internet sales. Stores undergoing remodeling, expansion or relocation remain in the comparable store sales calculation unless the store is closed for a significant period of time. Definitions and calculations of comparable store sales differ among companies in the retail industry.

Cost of sales was \$3,214 million or 58.1% of net sales for the second quarter of 2010, compared to \$3,021 million or 58.5% of net sales for the second quarter of 2009, an increase of \$193 million. The cost of sales rate for the second quarter of 2010 benefited from increased net sales and good inventory management. The valuation of merchandise inventories on the last-in, first-out basis did not impact cost of sales in either period.

SG&A expenses were \$1,953 million or 35.2% of net sales for the second quarter of 2010, compared to \$1,861 million or 36.0% of net sales for the second quarter of 2009, an increase of \$92 million. The increase in SG&A expenses for the second quarter of 2010 resulted from higher selling costs as a result of stronger sales, higher performance based incentive compensation expense and lower credit income, partially offset by lower stock based compensation expense. The SG&A rate as a percent to net sales was lower in the second quarter of 2010, as compared to the second quarter of 2009, reflecting increased net sales.

Division consolidation costs were \$34 million for the second quarter of 2009, and consisted primarily of severance and other human resource-related costs.

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Net interest expense was \$130 million for the second quarter of 2010 compared to \$139 million for the second quarter of 2009, a decrease of \$9 million. The decrease in net interest expense resulted from a lower level of borrowings, primarily due to the early retirement of outstanding debt.

The Company's effective income tax rate of 38.8% for the second quarter of 2010 and 93.6% for the second quarter of 2009 differ from the federal income tax statutory rate of 35.0%, and on a comparative basis, principally because of the effect of state and local income taxes, including the settlement of various tax issues and tax examinations.

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**MACY S, INC.**

**Comparison of the 26 Weeks Ended July 31, 2010 and August 1, 2009**

Net income for 2010 was \$170 million, compared to the net loss of \$81 million for 2009, reflecting the benefits of the strategic initiatives at Macy's and the continued strong performance at Bloomingdale's. The net loss for 2009 included the impact of \$172 million of division consolidation costs.

Net sales for 2010 totaled \$11,111 million, compared to net sales of \$10,363 million for 2009, an increase of \$748 million or 7.2%. On a comparable store basis, net sales for 2010 were up 5.2% compared to 2009. Sales from the Company's Internet businesses in 2010 increased 31.0% compared to of 2009 and positively affected the Company's 2010 comparable store sales by 0.8%. Sales of the Company's private label and exclusive brands continued to be strong in 2010. Sales in 2010 were strongest in men's collections, fashion watches, updated women's apparel, furniture and mattresses. Sales in 2010 were less strong in young men's denim. The Company calculates comparable store sales as sales from stores in operation throughout 2009 and 2010 and all Internet sales. Stores undergoing remodeling, expansion or relocation remain in the comparable store sales calculation unless the store is closed for a significant period of time. Definitions and calculations of comparable store sales differ among companies in the retail industry.

Cost of sales was \$6,592 million or 59.3% of net sales for 2010, compared to \$6,240 million or 60.2% of net sales for 2009, an increase of \$352 million. The cost of sales rate for 2010 benefited from increased net sales and good inventory management. The valuation of merchandise inventories on the last-in, first-out basis did not impact cost of sales in either period.

SG&A expenses were \$3,946 million or 35.5% of net sales for 2010, compared to \$3,817 million or 36.8% of net sales for 2009, an increase of \$129 million. The increase in SG&A expenses for 2010 resulted from higher selling costs as a result of stronger sales, higher performance based incentive compensation expense and lower credit income, partially offset by lower stock based compensation expense. The SG&A rate as a percent to net sales was lower in 2010, as compared to 2009, reflecting increased net sales.

Division consolidation costs were \$172 million for 2009, and consisted primarily of severance and other human resource-related costs.

Net interest expense was \$292 million for 2010 compared to \$280 million for 2009, an increase of \$12 million. The increase in net interest expense is primarily due to the \$27 million of expenses associated with the early retirement of outstanding debt, partially offset by lower levels of borrowings.

The Company's effective tax rate of 39.5% for 2010 and 45.0% for 2009 differ from the federal income tax statutory rate of 35%, and on a comparative basis, principally because of the effect of state and local income taxes, including the settlement of various tax issues and tax examinations. Additionally, income tax expense for 2010 reflects a \$4 million reduction of deferred tax assets due to the enactment of recent healthcare reform legislation. The reduction was required as a result of the elimination of the deductibility of retiree health care payments to the extent of tax-free Medicare Part D subsidies that are received. The change in deductibility is effective for the Company on February 3, 2013.

**Liquidity and Capital Resources**

The Company's principal sources of liquidity are cash from operations, cash on hand and the credit facility described below.

Net cash provided by operating activities in 2010 was \$288 million, compared to net cash provided by operating activities of \$420 million in 2009. The decrease in cash provided by operating activities in 2010 compared to 2009 reflects accelerated pension contributions and higher income taxes paid.

Net cash used by investing activities was \$124 million for 2010, compared to net cash used by investing activities of \$168 million for 2009. Investing activities for 2010 include purchases of property and equipment totaling \$102 million and capitalized software of \$64 million, compared to purchases of property and equipment totaling \$150 million and capitalized software of \$41 million for 2009. As of the date of this report, the Company has opened one new Bloomingdale's store and two Bloomingdale's Outlet stores and intends to open two new Macy's stores and two Bloomingdale's Outlet stores during the remainder of fiscal 2010. During 2009, the Company opened one new Macy's store, and in August 2009, the Company opened two new Macy's stores and re-opened a Macy's store that had been damaged in 2008 by Hurricane Ike. Cash flows from investing activities included \$41 million and \$9 million from the disposition of property and equipment for 2010 and 2009, respectively.

## Edgar Filing: Macy's, Inc. - Form 10-Q

Net cash used by financing activities was \$642 million for 2010, including the repayment of \$584 million of debt, the payment of \$42 million of cash dividends and a decrease in outstanding checks of \$30 million, partially offset by the issuance of \$15 million of common stock, primarily related to the exercise of stock options. The debt repaid during 2010 includes the early retirement of \$500 million of outstanding debt. During 2010, the Company repurchased no shares of its common stock under its share repurchase program and anticipates no share repurchases under its share repurchase program for the remainder of fiscal 2010.

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**MACY S, INC.**

Net cash used by financing activities was \$1,045 million for 2009, including the repayment of \$958 million of debt, a decrease in outstanding checks of \$44 million and the payment of \$42 million of cash dividends.

The Company is a party to a credit agreement with certain financial institutions providing for revolving credit borrowings and letters of credit in an aggregate amount not to exceed \$2,000 million (which may be increased to \$2,500 million at the option of the Company, subject to the willingness of existing or new lenders to provide commitments for such additional financing) outstanding at any particular time. This agreement is set to expire August 30, 2012. As of and during the 26 weeks ended July 31, 2010, the Company had no borrowings outstanding under this agreement. As of the date of this report, the Company does not expect to borrow under this agreement during fiscal 2010.

The credit agreement requires the Company to maintain a specified interest coverage ratio for the latest four quarters of no less than 3.00 (3.25 after October 2010) and a specified leverage ratio as of and for the latest four quarters of no more than 4.75 (4.50 after October 2010). The Company's interest coverage ratio for the second quarter of 2010 was 5.05 and its leverage ratio at July 31, 2010 was 2.70, in each case as calculated in accordance with the credit agreement.

The rate of interest payable in respect of \$650 million in aggregate principal amount of the Company's senior notes outstanding at July 31, 2010 decreased by .50 percent per annum to 8.375% effective in May 2010 as a result of an upgrade of the notes by specified rating agencies. The rate of interest payable in respect of these senior notes outstanding at July 31, 2010 could increase by up to 1.50 percent per annum or decrease by up to .50 percent per annum from its current level in the event of one or more downgrades or upgrades of the notes by specified rating agencies.

On August 20, 2010, the Company's board of directors declared a regular quarterly dividend of 5 cents per share on its common stock, payable October 1, 2010, to shareholders of record at the close of business on September 15, 2010.

Management believes that, with respect to the Company's current operations, cash on hand and funds from operations, together with its credit facility and other capital resources, will be sufficient to cover the Company's reasonably foreseeable working capital, capital expenditure and debt service requirements and other cash requirements in both the near term and over the longer term. The Company's ability to generate funds from operations may be affected by numerous factors, including general economic conditions and levels of consumer confidence and demand; however, the Company expects to be able to manage its working capital levels and capital expenditure amounts so as to maintain sufficient levels of liquidity. To the extent that the Company's cash balances from time to time exceed amounts that are needed to fund its immediate liquidity requirements, the Company will consider alternative uses of some or all of such excess cash. Depending upon its actual and anticipated sources and uses of liquidity, conditions in the capital markets and other factors, the Company will from time to time consider the issuance of debt or other securities, or other possible capital markets transactions, for the purpose of raising capital which could be used to refinance current indebtedness or for other corporate purposes, and the redemption or repurchase of debt or other securities through open market purchases, privately negotiated transactions or otherwise.

Management believes the department store business and other retail businesses will continue to consolidate. The Company intends from time to time to consider additional acquisitions of, and investments in, department stores and other complementary assets and companies. Acquisition transactions, if any, are expected to be financed from one or more of the following sources: cash on hand, cash from operations, borrowings under existing or new credit facilities and the issuance of long-term debt or other securities, including common stock.

**Item 4. Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer have carried out, as of July 31, 2010, with the participation of the Company's management, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in reports the Company files under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms, and that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.





**PART II OTHER INFORMATION****MACY S, INC.****Item 1. Legal Proceedings.**

On October 3, 2007, Ebrahim Shanehchian, an alleged participant in the Macy's, Inc. Profit Sharing 401(k) Investment Plan (the "401(k) Plan"), filed a purported class action lawsuit in the United States District Court for the Southern District of Ohio on behalf of persons who participated in the 401(k) Plan and The May Department Stores Company Profit Sharing Plan (the "May Plan") between February 27, 2005 and the present. The complaint charges the Company, as well as members of the Company's board of directors and certain members of senior management, with breach of fiduciary duties owed under the Employee Retirement Income Security Act ("ERISA") to participants in the 401(k) Plan and the May Plan, alleging that the defendants made false and misleading statements regarding the Company's business, operations and prospects in relation to the integration of the acquired May operations, resulting in supposed "artificial inflation" of the Company's stock price between August 30, 2005 and May 15, 2007. The plaintiff seeks an unspecified amount of compensatory damages and costs. The Company believes the lawsuit is without merit and intends to contest it vigorously.

The Company and its subsidiaries are also involved in various proceedings that are incidental to the normal course of their businesses. As of the date of this report, the Company does not expect that any of such proceedings will have a material adverse effect on the Company's financial position or results of operations.

**Item 1A. Risk Factors.**

There have been no material changes to the Risk Factors described in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2010 as filed with the SEC.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The following table provides information regarding the Company's purchases of common stock during the second quarter of 2010:

		<b>Total Number of Shares Purchased (thousands)</b>	<b>Average Price per Share (\$)</b>	<b>Total Number of Shares Purchased Under Program (1) (thousands)</b>	<b>Open Authorization Remaining (1) (\$ (millions)</b>
May 2, 2010	May 29, 2010	1	15.89	0	852
May 30, 2010	July 3, 2010	2	21.90	0	852
July 4, 2010	July 31, 2010	0	0	0	852
Total		3	20.49	0	

(1) Commencing in January 2000, the Company's board of directors has from time to time approved authorizations to purchase, in aggregate, up to \$9,500 million of Common Stock. All authorizations are cumulative and do not have an expiration date. As of July 31, 2010, \$852 million of authorization remained unused. Although the Company has not made any purchases of Common Stock since February 1, 2008 and currently does not intend to make any such purchases in 2010, it may resume purchases of Common Stock under these or possible future authorizations in the open market, in privately negotiated transactions or otherwise at any time and from time to time without prior notice.

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**MACY S, INC.**

**Item 5. Other Information**  
**Forward-Looking Statements**

This report and other reports, statements and information previously or subsequently filed by the Company with the SEC contain or may contain forward-looking statements. Such statements are based upon the beliefs and assumptions of, and on information available to, the management of the Company at the time such statements are made. The following are or may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995: (i) statements preceded by, followed by or that include the words may, will, could, should, believe, expect, future, potential, anticipate, intend, plan, think, estimate or continue or the negative or other variations thereof; (ii) statements regarding matters that are not historical facts. Such forward-looking statements are subject to various risks and uncertainties, including:

risks and uncertainties relating to the possible invalidity of the underlying beliefs and assumptions;

competitive pressures from department and specialty stores, general merchandise stores, manufacturers outlets, off-price and discount stores, and all other retail channels, including the Internet, mail-order catalogs and television;

general consumer-spending levels, including the impact of general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods and the effects of the weather or natural disasters;

conditions to, or changes in the timing of, proposed transactions and changes in expected synergies, cost savings and non-recurring charges;

possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions;

actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, competitors and legislative, regulatory, judicial and other governmental authorities and officials;

adverse changes in relationships with vendors and other product and service providers;

risks related to currency and exchange rates and other capital market, economic and geopolitical conditions;

risks associated with severe weather and changes in weather patterns;

risks associated with an outbreak of an epidemic or pandemic disease;

the potential impact of national and international security concerns on the retail environment, including any possible military action, terrorist attacks or other hostilities;

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risks associated with the possible inability of the Company's manufacturers to deliver products in a timely manner or meet quality standards;

risks associated with the Company's reliance on foreign sources of production, including risks related to the disruption of imports by labor disputes;

risks related to duties, taxes, and other charges and quotas on imports; and

system failures and/or security breaches, including any security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or company information, or the failure to comply with various laws applicable to the Company in the event of such a breach.

In addition to any risks and uncertainties specifically identified in the text surrounding such forward-looking statements, the statements in the immediately preceding sentence and the statements under captions such as Risk Factors and Special Considerations in reports, statements and information filed by the Company with the SEC from time to time constitute cautionary statements identifying important factors that could cause actual amounts, results, events and circumstances to differ materially from those reflected in such forward-looking statements.

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**MACY S, INC.**

**Item 6. Exhibits**

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated May 18, 2010).
- 3.2 Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated May 18, 2010).
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32.1 Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act.
- 32.2 Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act.
- 101\*\* The following financial statements from Macy's, Inc.'s Quarterly Report on Form 10-Q for the quarter ended July 31, 2010, filed on September 7, 2010, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, and (iv) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

\*\* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

**MACY S, INC.**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MACY S, INC.

Dated: September 7, 2010

By: /s/ Dennis J. Broderick  
Name: Dennis J. Broderick  
Title: Executive Vice President, General Counsel

and Secretary

By: /s/ Joel A. Belsky  
Name: Joel A. Belsky  
Title: Executive Vice President and Controller  
(Principal Accounting Officer)