Macy's, Inc.
Form 10-Q
September 08, 2008

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

FORM 10-Q

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

For the quarterly period ended August 2, 2008

OR

o 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

Macy's, Inc.

Incorporated in Delaware	I.R.S. Employer Identification No. 13-3324058

7 West Seventh Street
Cincinnati, Ohio 45202
(513) 579-7000

and

151 West 34th 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 [X] 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 [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

(do not check if a 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 [X]

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

Class	Outstanding at August 29, 200
Common Stock, $0.01 par value per share	420,548,193 shares

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

MACY'S, INC.

Consolidated Statements of Income

(Unaudited)

(millions, except per share figures)

	13 Weeks Ended		26 Weeks Ended	
	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
Net sales..	$ 5,718	$ 5,892	$11,465	$11,813
Cost of sales..	(3,346)	(3,507)	(6,873)	(7,071)
Gross margin..	2,372	2,385	4,592	4,742
Selling, general and administrative expenses..	(2,037)	(2,038)	(4,140)	(4,151)
Division consolidation costs......................	(26)	-	(113)	-
May integration costs...............................	-	(97)	-	(133)
Asset impairment charges.......................	(50)	-	(50)	-
Operating income...............................	259	250	289	458
Interest expense.....................................	(147)	(146)	(289)	(283)
Interest income...................................	9	9	15	21

Income from continuing operations before income taxes.	121	113	15	196
Federal, state and local income tax expense...............	(48)	(39)	(1)	(70)
Income from continuing operations..........................	73	74	14	126
Discontinued operations, net of income taxes............	-	-	-	(16)
Net income...	$ 73	$ 74	$ 14	$ 110
Basic earnings (loss) per share:				
Income from continuing operations.........................	$ .17	$ .16	$ .03	$ .27
Loss from discontinued operations..........................	-	-	-	(.03)
Net income..	$ .17	$ .16	$ .03	$ .24
Diluted earnings (loss) per share:				
Income from continuing operations.........................	$ .17	$ .16	$ .03	$ .27
Loss from discontinued operations..........................	-	-	-	(.03)
Net income..	$ .17	$ .16	$ .03	$ .24

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

MACY'S, INC.

Consolidated Balance Sheets

(Unaudited)

(millions)

	August 2, 2008	February 2, 2008	August 4, 2007
ASSETS:			
Current Assets:			
Cash and cash equivalents................................	$ 1,293	$ 583	$ 249
Receivables..	341	463	490
Merchandise inventories...................................	5,008	5,060	5,200
Income tax receivable......................................	27	-	-
Supplies and prepaid expenses..........................	243	218	267
Total Current Assets......................................	6,912	6,324	6,206
Property and Equipment - net of accumulated depreciation and amortization of $5,677, $5,139 and $5,145.................................	10,655	10,991	11,110
Goodwill...	9,132	9,133	9,194
Other Intangible Assets - net..............................	757	831	857
Other Assets..	537	510	561
Total Assets..	$27,993	$27,789	$27,928
LIABILITIES AND SHAREHOLDERS EQUITY:			
Current Liabilities:			
Short-term debt...	$ 1,616	$ 666	$ 545
Accounts payable and accrued liabilities.............	4,094	4,127	4,266
Income taxes..	-	344	76
Deferred income taxes.....................................	234	223	192
Total Current Liabilities..................................	5,944	5,360	5,079
Long-Term Debt...	8,761	9,087	9,762
Deferred Income Taxes.....................................	1,450	1,446	1,391
Other Liabilities..	2,002	1,989	2,089
Shareholders Equity...	9,836	9,907	9,607

Total Liabilities and Shareholders Equity..........	$27,993	$27,789	$27,928

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 August 2, 2008	26 Weeks Ended August 4, 2007
Cash flows from continuing operating activities:		
Net income..	$ 14	$ 110
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Loss from discontinued operations.......................................	-	16
Stock-based compensation expense......................................	26	32
Division consolidation costs..	113	-
May integration costs...	-	133
Asset impairment charges..	50	-
Depreciation and amortization...	630	656
Amortization of financing costs and premium on acquired debt...	(14)	(17)
Changes in assets and liabilities:		
Decrease in receivables..	109	26
Decrease in merchandise inventories.................................	52	117
Increase in supplies and prepaid expenses..........................	(25)	(16)
Decrease in other assets not separately identified...............	-	13
Decrease in accounts payable and accrued liabilities not separately identified....................................	(37)	(310)
Decrease in current income taxes......................................	(371)	(299)
Increase (decrease) in deferred income taxes......................	20	(89)
Increase in other liabilities not separately identified...	25	40
Net cash provided by continuing operating activities..........	592	412
Cash flows from continuing investing activities:		
Purchase of property and equipment..	(284)	(403)
Capitalized software..	(63)	(50)

Proceeds from hurricane insurance claims	13	1
Disposition of property and equipment	22	71
Proceeds from the disposition of After Hours Formalwear	-	66
Net cash used by continuing investing activities	(312)	(315)
Cash flows from continuing financing activities:		
Debt issued	650	2,253
Financing costs	(5)	(15)
Debt repaid	(9)	(416)
Dividends paid	(110)	(117)
Decrease in outstanding checks	(101)	(97)
Acquisition of treasury stock	(1)	(2,919)
Issuance of common stock	6	253
Net cash provided (used) by continuing financing activities	430	(1,058)
Net cash provided (used) by continuing operations	710	(961)
Net cash provided by discontinued operating activities	-	7
Net cash used by discontinued investing activities	-	(7)
Net cash used by discontinued financing activities	-	(1)
Net cash used by discontinued operations	-	(1)
Net increase (decrease) in cash and cash equivalents	710	(962)
Cash and cash equivalents at beginning of period	583	1,211
Cash and cash equivalents at end of period	$1,293	$ 249
Supplemental cash flow information:		
Interest paid	$ 306	$ 271
Interest received	15	23
Income taxes paid (net of refunds received)	361	406

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

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 websites 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 more than 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 February 2, 2008 (the 2007 10-K). The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2007 10-K.

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, the 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 August 2, 2008 and August 4, 2007, 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 August 2, 2008 and August 4, 2007 (which do not include the Christmas season) are not necessarily indicative of such results for the fiscal year.

On August 30, 2005, the Company completed the acquisition of The May Department Stores Company (May). The operations of the acquired Lord & Taylor division and the bridal group (consisting of David s Bridal, After Hours Formalwear and Priscilla of Boston) have been divested and were presented as discontinued operations (see Note 5, Discontinued Operations).

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

Effective February 3, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, (SFAS 157), as it applies to financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The SFAS 157 fair value hierarchy consists of three levels: Level 1 fair values are valuations based on quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access; Level 2 fair values are those valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities; and Level 3 fair values are valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The adoption of SFAS 157 as it applies to financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis did not have and is not expected to have an impact on the Company s consolidated financial position, results of operations or cash flows.

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company s financial assets and liabilities that are required to be measured at fair value on a recurring basis at August 2, 2008:

		Fair Value Measurements		
	Total	Level 1	Level 2	Level 3
		(millions)		
Marketable equity and debt securities.......	$ 95	$ 33	$ 62	$ -

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 157-2 (FSP 157-2) that permits a one-year deferral for the implementation of SFAS 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis (at least annually). This deferral will impact the Company s accounting for certain nonfinancial assets and liabilities accounted for under SFAS No. 142, Goodwill and Other Intangible Assets, SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, SFAS No. 143, Accounting for Asset Retirement Obligations and SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The Company has elected this deferral and the full adoption of SFAS 157 is not expected to have a material impact on the Company s consolidated financial position, results of operations and cash flows.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, (SFAS 159), which provides companies with the option to report selected financial assets and liabilities at fair value, became effective for the Company beginning February 3, 2008. The adoption of this statement did not and is not expected to have an impact on the Company s consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin (ARB) No. 51, (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company does not anticipate the adoption of this statement will have a material impact on the Company s consolidated financial position, results of operations or cash flows.

Also in December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. The adoption of this statement will affect any future acquisitions entered into by the Company, and beginning with fiscal 2009 the Company will no longer account for adjustments to acquired tax liabilities and unrecognized tax benefits as increases or decreases to goodwill. After adoption of SFAS 141R such adjustments will be accounted for in income tax expense.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133, (SFAS 161). SFAS 161 expands disclosure requirements for derivative instruments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Company does not anticipate the adoption of this statement will have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States of America. SFAS 162 will be effective 60 days after the Security and Exchange Commission approves the Public Company Accounting Oversight Board s amendments to AU Section 411. The Company does not anticipate the adoption of SFAS 162 will have an impact on the Company s consolidated financial position, results of operations or cash flows.

2. Division Consolidation Costs

Division consolidation costs represent certain one-time costs related to a localization initiative, called My Macy s, and division consolidations. This initiative is to strengthen local market focus and enhance selling service to enable the Company to both accelerate same-store sales growth and reduce expenses. 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. With My Macy s, the Company is taking action in certain markets to ensure that customers surrounding each Macy s store find merchandise assortments, size ranges, marketing programs and shopping experiences that are custom-tailored to their needs. The Company is concentrating more management talent in certain local markets, has 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 is empowering locally based executives to make more and better decisions. My Macy s is expected to drive sales growth by improving knowledge at the local level and then acting quickly on that knowledge.

During the 13 and 26 weeks ended August 2, 2008, the Company recorded $26 million and $113 million, respectively, of costs and expenses associated with the division consolidation and localization initiative, consisting primarily of severance costs and other human resource-related costs.

The following table shows the beginning and ending balance of, and the activity associated with, the severance accrual established in connection with the division consolidation and localization initiative during the 26 weeks ended August 2, 2008:

	February 2, 2008	Charged To Division Consolidation Costs	Payments	August 2, 2008
		(millions)		
Severance costs.....	$ -	$ 68	$(57)	$ 11

The Company expects to pay out the accrued severance costs, which are included in accounts payable and accrued liabilities on the Consolidated Balance Sheets, prior to January 31, 2009.

3. <u>May Integration Costs</u>

May integration costs represent the costs associated with the integration of the acquired May businesses with the Company s pre-existing businesses and the consolidation of certain operations of the Company. The Company completed its review of store locations and distribution center facilities during 2007, closing certain underperforming stores, temporarily closing other stores for remodeling to optimize merchandise offering strategies, closing certain distribution center facilities, and consolidating operations in existing or newly constructed facilities. The remaining non-divested stores or facilities which have been closed, with carrying values totaling approximately $75 million, are classified as assets held for sale and are included in other assets on the Consolidated Balance Sheets as of August 2, 2008.

During the 13 weeks ended August 4, 2007, the Company recorded $97 million of costs and expenses associated with the integration and consolidation of May s operations into the Company s operations, including $47 million related to impairment charges in connection with distribution center facilities planned to be closed and disposed of. The remaining $50 million of May integration costs incurred during the 13 weeks ended August 4, 2007 included additional costs related to closed locations, severance, system conversion costs, impairment charges associated with acquired indefinite lived intangible assets and costs related to other operational consolidations.

During the 26 weeks ended August 4, 2007, the Company recorded $133 million of costs and expenses associated with the integration and consolidation of May s operations into the Company s operations, including $47 million related to impairment charges in connection with distribution center facilities planned to be closed and disposed of. The remaining $86 million of May integration costs incurred during the 26 weeks ended August 4, 2007 included additional costs related to closed locations, severance, system conversion costs, impairment charges associated with acquired indefinite lived intangible assets and costs related to other operational consolidations.

During the 26 weeks ended August 4, 2007, approximately $70 million of property and equipment was transferred to assets held for sale upon store or facility closure. In addition, property and equipment totaling approximately $25 million was disposed of in connection with the May integration and the Company collected approximately $22 million of receivables from a prior year disposition.

The following tables show, for the 26 weeks ended August 2, 2008 and August 4, 2007, the beginning and ending balance of, and the activity associated with, the severance and relocation accrual established in connection with the May integration:

	February 2, 2008	Payments (millions)	August 2, 2008
Severance and relocation costs.....	$ 30	$ (23)	$ 7

The Company expects to payout the accrued severance and relocation costs, which are included in accounts payable and accrued liabilities on the Consolidated Balance Sheets, prior to January 31, 2009.

	February 3, 2007	Charged To May Integration Costs (millions)	Payments	August 4, 2007
Severance and relocation costs.....	$ 73	$ 19	$(60)	$ 32

4. Asset Impairment Charges

The Company completed its annual impairment test of goodwill and indefinite lived intangible assets during the second quarter of 2008. In connection with the preparation of these financial statements, management concluded that approximately $50 million of asset impairment charges for the 13 and 26 weeks ended August 2, 2008 were required in relation to indefinite lived acquired tradenames. As a result of the current operating performance and expectations regarding future operating performance of the Karen Scott and John Ashford private brand tradenames, it was determined that the carrying values exceeded the estimated fair values, which were based on discounted cash flows, by approximately $50 million.

5. Discontinued Operations

In April 2007, the Company completed the sale of its After Hours Formalwear business for approximately $66 million in cash, net of $1 million of transaction costs. The After Hours Formalwear business represented approximately $73 million of net assets. The Company recorded the loss on disposal of the After Hours Formalwear business of $7 million on a pre-tax and after-tax basis, or $.01 per diluted share.

Discontinued operations included net sales of approximately $27 million for the 26 weeks ended August 4, 2007. No consolidated interest expense had been allocated to discontinued operations. For the 26 weeks ended August 4, 2007, the loss from discontinued operations, including the loss on disposal of the Company s After Hours Formalwear business, totaled $22 million before income taxes, with a related income tax benefit of $6 million.

In connection with the sale of the David s Bridal and Priscilla of Boston businesses, the Company agreed to indemnify the buyer and related parties of the buyer for certain losses or liabilities incurred by the buyer or such related parties with respect to (1) certain representations and warranties made to the buyer by the Company in connection with the sale, (2) liabilities relating to the After Hours Formalwear Business under certain circumstances, and (3) certain pre-closing tax obligations. The representations and warranties in respect of which the Company is subject to indemnification are generally limited to representations and warranties relating to the capitalization of the entities that were sold, the Company s ownership of the equity interests that were sold, the enforceability of the agreement and certain employee benefits and tax matters. The indemnity for breaches of most of these representations expired on March 31, 2008, with the exception of certain representations relating to capitalization and the Company s ownership interest, in respect of which the indemnity does not expire and is not subject to a cap or deductible.

Indemnity obligations created in connection with the sales of businesses generally do not represent added liabilities for the Company, but simply serve to protect the buyer from potential liabilities associated with particular conditions. The Company records accruals for those pre-closing obligations that are considered probable and estimable. Under FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, the Company is required to record a liability for the fair value of the guarantees that are entered into subsequent to December 15, 2002. The Company has not accrued any additional amounts as a result of the indemnity arrangements summarized above as the Company believes the fair value of these arrangements is not material.

6. Earnings Per Share

The following tables set forth the computation of basic and diluted earnings per share based on income from continuing operations:

	13 Weeks Ended			
	August 2, 2008		August 4, 2007	
	Income	Shares	Income	Shares
	(millions, except per share figures)			
Income from continuing operations and average number of shares outstanding.........................	$ 73	420.0	$ 74	450.9
Shares to be issued under deferred compensation plans...........................		1.1		1.0
	$ 73	421.1	$ 74	451.9
Basic earnings per share......................	$.17		$.16	
Effect of dilutive securities - stock options and restricted stock.......		1.0		5.9
	$ 73	422.1	$ 74	457.8
Diluted earnings per share..................	$.17		$.16	

26 Weeks Ended

	26 Weeks Ended			
	August 2, 2008		August 4, 2007	
	Income	Shares	Income	Shares
	(millions, except per share figures)			
Income from continuing operations and average number of shares outstanding.........................	$ 14	419.9	$ 126	459.0
Shares to be issued under deferred compensation plans...........................		1.1		1.0
	$ 14	421.0	$ 126	460.0
Basic earnings per share......................	$.03		$.27	
Effect of dilutive securities - stock options and restricted stock.......		1.4		7.1
	$ 14	422.4	$ 126	467.1
Diluted earnings per share...................	$.03		$.27	

In addition to the stock options and restricted stock reflected in the foregoing tables, stock options to purchase 33.9 million shares of common stock at prices ranging from $21.25 to $46.15 and 419,000 shares of restricted stock were outstanding at August 2, 2008, and stock options to purchase 12.8 million shares of common stock at prices ranging from $33.25 to $46.15 per share and 274,000 shares of restricted stock were outstanding at August 4, 2007, but were not included in the computation of diluted earnings per share because their inclusion would have been antidulitive.

7. Benefit Plans

The Company has a funded defined benefit plan (Pension Plan) and defined contribution plans, 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 (SERP), 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 by division and subsidiary, 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 August 2, 2008 (millions)	August 4, 2007	26 Weeks Ended August 2, 2008	August 4, 2007
Pension Plan				
Service cost...................................	$ 26	$ 29	$ 53	$ 58
Interest cost..................................	40	41	80	81
Expected return on assets...............	(48)	(51)	(95)	(102)
Recognition of net actuarial loss.......	2	4	3	9
Amortization of prior service cost.....	-	-	-	(1)
	$ 20	$ 23	$ 41	$ 45
-				
Supplementary Retirement Plan				
Service cost...................................	$ 2	$ 3	$ 3	$ 5
Interest cost..................................	10	10	20	20
Recognition of net actuarial loss.......	-	-	-	-
Amortization of prior service cost.....	(1)	(1)	(1)	(1)
	$ 11	$ 12	$ 22	$ 24
Postretirement Obligations				
Service cost...................................	$ -	$ -	$ -	$ -
Interest cost..................................	6	5	11	10
Recognition of net actuarial loss.......	-	-	1	-
Amortization of prior service cost.....	-	-	-	-
	$ 6	$ 5	$ 12	$ 10

8. 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 August 2, 2008 and August 4, 2007:

	August 2, 2008 (millions)	August 4, 2007
Accumulated other comprehensive loss, at beginning of period......	$ (182)	$ (182)
Adjustment to adopt new accounting pronouncements, net of income tax effect of $14 million...	-	29
Unrealized loss on marketable securities, net of income tax effect of $8 million and $18 million....................................	(12)	(29)

Post employment and postretirement benefit plans:		
Recognition of net actuarial loss, net of income tax effect of $1 million and $4 million..	3	5
Prior service cost, net of income tax effect of less than $1 million and $1 million...	(1)	(1)
Accumulated other comprehensive loss, at end of period..............	$ (192)	$ (178)

9. Legal Settlement

The Company is subject to a wage and hour class action in California. The Company concluded that it is probable that a loss of approximately $23 million will be incurred to settle this legal matter and has recorded this estimated amount as part of selling, general and administrative expenses during the 26 weeks ended August 2, 2008. However, because this settlement is subject to court approval, there can be no assurance that the outcome of the legal matter will not result in an additional loss.

10. Condensed Consolidating Financial Information

Macy s, Inc. (Parent) has fully and unconditionally guaranteed certain long-term debt obligations of its wholly-owned subsidiary, Macy s Retail Holdings, Inc. (Subsidiary Issuer). Other Subsidiaries includes all other direct subsidiaries of Parent, including FDS Bank, Leadville Insurance Company and Snowdin Insurance Company and, prior to the date of disposition, After Hours Formalwear, Inc. 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, including Macy s Merchandising Group International, LLC, are also reflected in Other Subsidiaries.

Condensed Consolidating Balance Sheets as of August 2, 2008, August 4, 2007 and February 2, 2008, the related Condensed Consolidating Statements of Operations for the 13 and 26 weeks ended August 2, 2008 and August 4, 2007, and the related Condensed Consolidating Statements of Cash Flows for the 26 weeks ended August 2, 2008 and August 4, 2007 are presented on the following pages.

Condensed Consolidating Balance Sheet

As of August 2, 2008

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current Assets:					
Cash and cash equivalents....................	$ 1,065	$ 68	$ 160	$ -	$ 1,293
Receivables..	-	33	308	-	341
Merchandise inventories......................	-	2,578	2,430	-	5,008
Supplies and prepaid expenses............	-	115	128	-	243
Income tax receivable..........................	116	-	-	(89)	27
Total Current Assets........................	1,181	2,794	3,026	(89)	6,912
Property and Equipment - net................	-	6,023	4,632	-	10,655
Goodwill..	-	6,563	2,569	-	9,132
Other Intangible Assets - net..................	-	271	486	-	757
Other Assets..	4	142	391	-	537
Deferred Income Tax Assets...................	111	-	-	(111)	-
Intercompany Receivable........................	304	-	1,211	(1,515)	-
Investment in Subsidiaries......................	8,411	4,907	-	(13,318)	-
Total Assets.....................................	$10,011	$20,700	$12,315	$(15,033)	$27,993
LIABILITIES AND SHAREHOLDERS EQUITY:					
Current Liabilities:					
Short-term debt....................................	$ -	$ 1,614	$ 2	$ -	$ 1,616
Accounts payable and accrued liabilities..	113	1,825	2,156	-	4,094
Income taxes..	-	27	62	(89)	-
Deferred income taxes..........................	10	215	9	-	234
Total Current Liabilities....................	123	3,681	2,229	(89)	5,944
Long-Term Debt.....................................	-	8,733	28	-	8,761
Intercompany Payable............................	-	1,515	-	(1,515)	-
Deferred Income Taxes...........................	-	1,118	443	(111)	1,450
Other Liabilities.....................................	52	880	1,070	-	2,002
Shareholders Equity...............................	9,836	4,773	8,545	(13,318)	9,836
Total Liabilities and Shareholders Equity.......................	$10,011	$20,700	$12,315	$(15,033)	$27,993

Condensed Consolidating Statement of Operations

For the 13 Weeks Ended August 2, 2008

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales..	$ -	$ 3,073	$ 3,097	$ (452)	$ 5,718
Cost of	-	(1,856)	(1,925)	435	(3,346)
Gross margin..	-	1,217	1,172	(17)	2,372
Selling, general and administrative expenses......	(1)	(1,142)	(911)	17	(2,037)
Division consolidation costs............................	-	(24)	(2)	-	(26)
Asset impairment charges.......................	-	-	(50)	-	(50)
Operating income (loss)......................................	(1)	51	209	-	259
Interest (expense) income, net					
External...	6	(146)	2	-	(138)
Intercompany..	7	(41)	34	-	-
Equity in earnings of subsidiaries.....................	67	85	-	(152)	-
Income (loss) before income taxes......................	79	(51)	245	(152)	121
Federal, state and local income tax benefit (expense)..	(6)	49	(91)	-	(48)
Net income (loss)..	$ 73	$ (2)	$ 154	$ (152)	$ 73

Condensed Consolidating Statement of Operations

For the 26 Weeks Ended August 2, 2008

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales...	$ -	$ 6,132	$ 6,321	$ (988)	$11,465
Cost of sales...	-	(3,861)	(3,965)	953	(6,873)
Gross margin..	-	2,271	2,356	(35)	4,592
Selling, general and administrative expenses............	(3)	(2,310)	(1,862)	35	(4,140)
Division consolidation costs...............................	-	(80)	(33)	-	(113)
Asset impairment charges....................................	-	-	(50)	-	(50)