

Macy's, Inc.
Form 10-Q
September 04, 2012

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

FORM 10-Q

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

For the quarterly period ended July 28, 2012

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

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 ☒ 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 Regulation 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 the 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 ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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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	Outstanding at August 24, 2012
Common Stock, \$0.01 par value per share	402,522,102 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	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Net sales	\$6,118	\$5,939	\$12,261	\$11,828
Cost of sales	(3,555)	(3,457)	(7,312)	(7,043)
Gross margin	2,563	2,482	4,949	4,785
Selling, general and administrative expenses	(2,009)	(1,976)	(4,004)	(3,949)
Operating income	554	506	945	836
Interest expense	(105)	(112)	(218)	(229)
Interest income	—	1	1	2
Income before income taxes	449	395	728	609
Federal, state and local income tax expense	(170)	(154)	(268)	(237)
Net income	\$279	\$241	\$460	\$372
Basic earnings per share	\$.68	\$.56	\$1.11	\$.87
Diluted earnings per share	\$.67	\$.55	\$1.09	\$.86

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

MACY'S, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(millions)

	13 Weeks Ended		26 Weeks Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Net income	\$279	\$241	\$460	\$372
Other comprehensive income (loss), before tax:				
Post employment and postretirement benefit plans	40	22	78	44
Marketable securities	—	—	—	(15)
Total other comprehensive income, before tax	40	22	78	29
Tax effect related to items of other comprehensive income	(16)	(8)	(31)	(12)
Total other comprehensive income, net of tax effect	24	14	47	17
Comprehensive income	\$303	\$255	\$507	\$389

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

MACY'S, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(millions)

	July 28, 2012	January 28, 2012	July 30, 2011
ASSETS			
Current Assets:			
Cash and cash equivalents	\$1,604	\$2,827	\$1,495
Receivables	359	368	296
Merchandise inventories	5,036	5,117	4,948
Prepaid expenses and other current assets	387	465	383
Total Current Assets	7,386	8,777	7,122
Property and Equipment - net of accumulated depreciation and amortization of \$6,368, \$5,986 and \$6,487	8,291	8,420	8,506
Goodwill	3,743	3,743	3,743
Other Intangible Assets – net	580	598	618
Other Assets	565	557	519
Total Assets	\$20,565	\$22,095	\$20,508
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term debt	\$313	\$1,103	\$914
Merchandise accounts payable	1,895	1,593	1,956
Accounts payable and accrued liabilities	2,078	2,788	2,002
Income taxes	158	371	119
Deferred income taxes	410	408	380
Total Current Liabilities	4,854	6,263	5,371
Long-Term Debt	6,637	6,655	6,162
Deferred Income Taxes	1,134	1,141	1,337
Other Liabilities	2,037	2,103	1,675
Shareholders' Equity	5,903	5,933	5,963
Total Liabilities and Shareholders' Equity	\$20,565	\$22,095	\$20,508

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

MACY'S, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(millions)

	26 Weeks Ended	
	July 28, 2012	July 30, 2011
Cash flows from operating activities:		
Net income	\$460	\$372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	513	536
Stock-based compensation expense	31	37
Amortization of financing costs and premium on acquired debt	(7)	(8)
Changes in assets and liabilities:		
Decrease in receivables	14	36
(Increase) decrease in merchandise inventories	81	(190)
(Increase) decrease in prepaid expenses and other current assets	60	(24)
Decrease in other assets not separately identified	22	2
Increase in merchandise accounts payable	292	512
Decrease in accounts payable and accrued liabilities not separately identified	(591)	(497)
Decrease in current income taxes	(213)	(64)
Increase (decrease) in deferred income taxes	(35)	96
Increase (decrease) in other liabilities not separately identified	11	(221)
Net cash provided by operating activities	638	587
Cash flows from investing activities:		
Purchase of property and equipment	(310)	(164)
Capitalized software	(109)	(88)
Disposition of property and equipment	23	6
Proceeds from insurance claims	—	6
Other, net	3	18
Net cash used by investing activities	(393)	(222)
Cash flows from financing activities:		
Debt repaid	(797)	(337)
Financing costs	—	(8)
Dividends paid	(165)	(64)
Decrease in outstanding checks	(43)	(6)
Acquisition of treasury stock	(615)	(2)
Issuance of common stock	152	83
Net cash used by financing activities	(1,468)	(334)
Net increase (decrease) in cash and cash equivalents	(1,223)	31
Cash and cash equivalents beginning of period	2,827	1,464
Cash and cash equivalents end of period	\$1,604	\$1,495
Supplemental cash flow information:		
Interest paid	\$238	\$245
Interest received	1	2
Income taxes paid (net of refunds received)	495	211

The accompanying notes are an integral part of these 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 an omnichannel retail organization operating stores and websites under two brands (Macy's and Bloomingdale's) that sell a wide range of merchandise, including apparel and accessories (men's, women's and children's), 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 28, 2012 (the "2011 10-K"). The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2011 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 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 28, 2012 and July 30, 2011, 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 28, 2012 and July 30, 2011 (which do not include the Christmas season) are not necessarily indicative of such results for the full fiscal year.

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

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update No. 2011-04, which amends Accounting Standards Codification ("ASC") Topic 820, "Fair Value Measurements and Disclosures," to result in common fair value measurements and disclosures between accounting principles generally accepted in the United States of America and International Financial Reporting Standards. The amendments explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments change the wording used to describe fair value measurement requirements and disclosures, but often do not result in a change in the application of current guidance. Certain amendments clarify the intent about the application of existing fair value measurement requirements, while certain other amendments change a principle or requirement for fair value measurement or disclosure. The Company adopted this guidance as of January 29, 2012, and adoption did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued Accounting Standard Update No. 2011-05, which amends ASC Topic 220, "Comprehensive Income," to increase the prominence of items reported in other comprehensive income by eliminating the option of presenting components of comprehensive income as part of the statement of changes in shareholders' equity. The updated guidance requires that all nonowner changes in shareholders' equity be presented either as a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued Accounting Standards Update No. 2011-12, which defers the requirement to present on the face of the financial statements items that are reclassified from other comprehensive income to net income, while the FASB further deliberates this aspect of the proposal. The guidance is limited to the form and content of the financial statements and disclosures. The Company adopted this guidance, as amended, as of January 29, 2012, and adoption did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, which amends ASC Topic 350, "Intangibles - Goodwill and Other." The guidance amends the impairment test for goodwill by allowing companies to first assess qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than the carrying amount and whether it is necessary to perform the current two-step goodwill impairment test. The Company adopted this guidance as of January 29, 2012, and adoption did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, which amends ASC Subtopic 210-20, "Offsetting." The guidance requires enhanced disclosures with improved information about financial instruments and derivative instruments that are either (i) offset in accordance with current guidance or (ii) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current guidance. This guidance is effective for interim and annual periods beginning after January 1, 2013. The guidance is limited to the form and content of disclosures, and the Company does not anticipate that the adoption of this guidance will have an impact on the Company's consolidated financial position, results of operations or cash flows.

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, which amends ASC Topic 350, "Intangibles - Goodwill and Other." The guidance amends the impairment test for indefinite lived intangible assets other than goodwill by allowing companies to first assess qualitative factors to determine if it is more likely than not that an indefinite lived intangible asset is impaired and whether it is necessary to perform the impairment test of comparing the carrying amount with the recoverable amount of the indefinite lived intangible asset. This guidance is effective for interim and annual periods beginning after September 15, 2012. The Company does not anticipate that the adoption of this guidance will have an impact on the Company's consolidated financial position, results of operations or cash flows.

2. Earnings Per Share

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

	13 Weeks Ended		July 30, 2011	
	July 28, 2012		July 30, 2011	
	Net	Shares	Net	Shares
	Income		Income	
	(millions, except per share data)			
Net income and average number of shares outstanding	\$279	410.2	\$241	426.5
Shares to be issued under deferred compensation plans		1.0		1.0
	\$279	411.2	\$241	427.5
Basic earnings per share	\$.68		\$.56	
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units		5.9		7.1
	\$279	417.1	\$241	434.6
Diluted earnings per share	\$.67		\$.55	

	26 Weeks Ended		July 30, 2011	
	July 28, 2012		July 30, 2011	
	Net	Shares	Net	Shares
	Income		Income	
	(millions, except per share data)			
Net income and average number of shares outstanding	\$460	412.8	\$372	425.3
Shares to be issued under deferred compensation plans		1.3		1.0
	\$460	414.1	\$372	426.3
Basic earnings per share	\$1.11		\$.87	
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units		6.6		6.0

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	\$460	420.7	\$372	432.3
Diluted earnings per share	\$1.09		\$0.86	

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

In addition to the stock options, restricted stock and restricted stock units reflected in the foregoing table, stock options to purchase 9.0 million shares of common stock and restricted stock units relating to 2.5 million shares of common stock were outstanding at July 28, 2012, but were not included in the computation of diluted earnings per share for the 13 or 26 weeks ended July 28, 2012 because their inclusion would have been antidilutive or these shares were subject to performance conditions that had not been met.

In addition to the stock options, restricted stock and restricted stock units reflected in the foregoing table, stock options to purchase 13.8 million shares of common stock and restricted stock units relating to 1.8 million shares of common stock were outstanding at July 30, 2011, but were not included in the computation of diluted earnings per share for the 13 or 26 weeks ended July 30, 2011 because their inclusion would have been antidilutive or these shares were subject to performance conditions that had not been met.

3. Financing Activities

On January 10, 2012, the Company issued \$550 million aggregate principal amount of 3.875% senior notes due 2022 and \$250 million aggregate principal amount of 5.125% senior notes due 2042, the proceeds of which were used to retire indebtedness maturing during the 26 weeks ended July 28, 2012.

On March 29, 2012, the Company redeemed the \$173 million of 8.0% senior debentures due July 15, 2012, as allowed under the terms of the indenture. The price for the redemption was calculated pursuant to the indenture and resulted in the recognition of additional interest expense of approximately \$4 million. By redeeming this debt early, the Company saved approximately \$4 million of interest expense during the 26 weeks ended July 28, 2012. In addition, the Company repaid \$616 million of 5.35% senior notes due March 15, 2012 at maturity.

During the 26 weeks ended July 30, 2011, the Company repaid \$330 million of indebtedness at maturity.

The following table shows the detail of debt repayments:

	26 Weeks Ended	
	July 28, 2012	July 30, 2011
	(millions)	
5.35% Senior notes due 2012	\$616	\$—
8.0% Senior debentures due 2012	173	—
6.625% Senior notes due 2011	—	330
9.5% amortizing debentures due 2021	2	2
9.75% amortizing debentures due 2021	1	1
Capital leases and other obligations	5	4
	\$797	\$337

During the 26 weeks ended July 28, 2012, the Company repurchased 15,977,428 shares of its common stock pursuant to existing stock purchase authorizations at an approximate cost of \$588 million. As of July 28, 2012, the Company had approximately \$764 million of authorization remaining under its share repurchase program. The Company may continue or, from time to time, suspend repurchases of shares under its share repurchase program, depending on prevailing market conditions, alternate uses of capital and other factors.

4. 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. Effective January 1, 2012, the Pension Plan was closed to new participants, with limited exceptions. The Company also has an unfunded defined benefit supplementary retirement plan, which provides benefits, for certain employees, in excess of qualified plan limitations. Effective January 2, 2012, the supplementary retirement plan was closed to new participants.

During the 26 weeks ended July 30, 2011, the Company made a funding contribution to the Pension Plan of \$225 million.

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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.

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"). The 2010 Acts contain provisions which impact the accounting for postretirement obligations. Based on the analysis to date, the impact of the provisions in the 2010 Acts on the Company's postretirement obligations has not and is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows. The Company continues to evaluate the impact of the 2010 Acts on the active and retiree benefit plans offered by the Company.

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

	13 Weeks Ended		26 Weeks Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
	(millions)			
Pension Plan				
Service cost	\$30	\$25	\$58	\$51
Interest cost	39	40	78	80
Expected return on assets	(63)	(62)	(126)	(124)
Recognition of net actuarial loss	36	23	71	44
Amortization of prior service credit	—	—	—	—
	\$42	\$26	\$81	\$51
Supplementary Retirement Plan				
Service cost	\$1	\$2	\$3	\$3
Interest cost	9	9	17	18
Recognition of net actuarial loss	5	2	9	4
Amortization of prior service credit	—	(1)	—	(1)
	\$15	\$12	\$29	\$24
Postretirement Obligations				
Service cost	\$—	\$—	\$—	\$—
Interest cost	3	3	6	7
Recognition of net actuarial gain	(1)	(2)	(2)	(3)
Amortization of prior service cost	—	—	—	—
	\$2	\$1	\$4	\$4

5. 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, by level within the hierarchy as defined by applicable accounting standards:

July 28, 2012				July 30, 2011			
Total	Fair Value Measurements			Total	Fair Value Measurements		
	Quoted Prices in Active	Significant Observable	Significant Unobservable		Quoted Prices in Active	Significant Observable	Significant Unobservable

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	Markets for Identical Assets (Level 1)			Inputs (Level 2)		Inputs (Level 3)			Markets for Identical Assets (Level 1)			Inputs (Level 2)		Inputs (Level 3)	
	(millions)														
Marketable equity and debt securities	\$62	\$—		\$62		\$—		\$73	\$—			\$73		\$—	

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

On February 25, 2011, the Company sold its investment in The Knot, Inc. and unrecognized gains in accumulated other comprehensive income were reclassified and recognized into Selling, General and Administrative expenses in the Consolidated Statements of Income.

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 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, and are classified as level 3 measurements within the hierarchy as defined by applicable accounting standards.

The following table shows the estimated fair value of the Company's long-term debt:

	July 28, 2012			July 30, 2011		
	Notional Amount (millions)	Carrying Amount	Fair Value	Notional Amount	Carrying Amount	Fair Value
Long-term debt	\$6,398	\$6,603	\$7,404	\$5,907	\$6,134	\$6,557

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 operations. 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 operation is the only reporting unit with goodwill and indefinite lived intangible assets.

During the second quarter of fiscal 2012, the Company completed its annual impairment test of goodwill and indefinite lived intangible assets and determined that goodwill and indefinite lived intangible assets were not impaired as of May 26, 2012.

The Company evaluated qualitative factors (including macroeconomic conditions, industry and market considerations and actual and expected financial performance) to determine if it was more likely than not that the fair value of a reporting unit was less than the carrying amount as a basis for determining whether it was necessary to perform the two-step goodwill impairment test process. Based on the results of this qualitative assessment, the Company determined that it was more likely than not that the carrying value of the Macy's retail operation was less than its fair value and the two-step goodwill impairment test process was not required.

The indefinite lived intangible asset impairment testing process includes estimating the fair value of the Company's non-amortizing tradenames. This 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 the non-amortizing tradename discounted cash flows involves the use of significant assumptions, estimates and judgments with respect to a variety of factors, including sales, royalty rates and the selection of appropriate discount rates. Projected sales are based on the Company's business plan or other long term forecasted results, the royalty rates are based on market data and discount rates reflect market-based estimates of the risks associated with the projected cash flows directly resulting from the use of such assets in its operations.

The use of different assumptions, estimates or judgments in the testing process, including with respect to the analysis of macroeconomic conditions, industry and market considerations and actual and expected financial performance, the estimated future cash flows and the discount rates used to discount such estimated cash flows to their net present values, could materially increase or decrease the estimated fair values and, accordingly, could impact the results of the annual impairment tests.

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

6. Condensed Consolidating Financial Information

Certain debt obligations 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, West 34th Street Insurance Company (prior to a merger, known separately as Leadville Insurance Company and Snowdin Insurance Company) and its subsidiary West 34th Street Insurance Company New York, Macy's Merchandising Group, Inc. and its subsidiaries Macy's Merchandising Group International, LLC, Macy's Merchandising Group Procurement, LLC, Macy's Merchandising Group (Hong Kong) Limited, and Macy's Merchandising Group International (Hong Kong) Limited. "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 28, 2012, July 30, 2011 and January 28, 2012, the related Condensed Consolidating Statements of Comprehensive Income for the 13 and 26 weeks ended July 28, 2012 and July 30, 2011, and the related Condensed Consolidating Statements of Cash Flows for the 26 weeks ended July 28, 2012 and July 30, 2011 are presented on the following pages.

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Balance Sheet

As of July 28, 2012

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$1,303	\$32	\$269	\$ —	\$1,604
Receivables	—	76	283	—	359
Merchandise inventories	—	2,607	2,429	—	5,036
Prepaid expenses and other current assets	—	96	291	—	387
Income taxes	20	—	—	(20)	—
Total Current Assets	1,323	2,811	3,272	(20)	7,386
Property and Equipment – net	—	4,716	3,575	—	8,291
Goodwill	—	3,315	428	—	3,743
Other Intangible Assets – net	—	138	442	—	580
Other Assets	3	67	495	—	565
Deferred Income Tax Assets	11	—	—	(11)	—
Intercompany Receivable	1,281	—	2,847	(4,128)	—
Investment in Subsidiaries	3,430	2,636	—	(6,066)	—
Total Assets	\$6,048	\$13,683	\$11,059	\$ (10,225)	\$20,565
LIABILITIES AND SHAREHOLDERS' EQUITY:					
Current Liabilities:					
Short-term debt	\$ —	\$310	\$3	\$ —	\$313
Merchandise accounts payable	—	890	1,005	—	1,895
Accounts payable and accrued liabilities	113	825	1,140	—	2,078
Income taxes	—	63	115	(20)	158
Deferred income taxes	—	317	93	—	410
Total Current Liabilities	113	2,405	2,356	(20)	4,854
Long-Term Debt	—	6,613	24	—	6,637
Intercompany Payable	—	4,128	—	(4,128)	—
Deferred Income Taxes	—	373	772	(11)	1,134
Other Liabilities	32	757	1,248	—	2,037
Shareholders' Equity (Deficit)	5,903	(593)	6,659	(6,066)	5,903
Total Liabilities and Shareholders' Equity	\$6,048	\$13,683	\$11,059	\$ (10,225)	\$20,565

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Statement of Comprehensive Income

For the 13 Weeks Ended July 28, 2012

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$—	\$3,004	\$4,708	\$ (1,594)	\$6,118
Cost of sales	—	(1,783)	(3,352)	1,580	(3,555)
Gross margin	—	1,221	1,356	(14)	2,563
Selling, general and administrative expenses	(2)	(1,090)	(931)	14	(2,009)
Operating income (loss)	(2)	131	425	—	554
Interest (expense) income, net:					
External	—	(104)	(1)	—	(105)
Intercompany	—	(36)	36	—	—
Equity in earnings of subsidiaries	279	130	—	(409)	—
Income before income taxes	277	121	460	(409)	449
Federal, state and local income tax benefit (expense)	2	2	(174)	—	(170)
Net income	\$279	\$123	\$286	\$ (409)	\$279
Comprehensive income	\$303	\$147	\$296	\$ (443)	\$303

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Statement of Comprehensive Income

For the 26 Weeks Ended July 28, 2012

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$—	\$6,045	\$9,852	\$ (3,636)	\$ 12,261
Cost of sales	—	(3,739)	(7,181)	3,608	(7,312)
Gross margin	—	2,306	2,671	(28)	4,949
Selling, general and administrative expenses	(4)	(2,150)	(1,878)	28	(4,004)
Operating income (loss)	(4)	156	793	—	945
Interest (expense) income, net:					
External	1	(217)	(1)	—	(217)
Intercompany	(1)	(71)	72	—	—
Equity in earnings of subsidiaries	462	193	—	(655)	—
Income before income taxes	458	61	864	(655)	728
Federal, state and local income tax benefit (expense)	2	37	(307)	—	(268)
Net income	\$460	\$98	\$557	\$ (655)	\$460
Comprehensive income	\$507	\$145	\$577	\$ (722)	\$507

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Statement of Cash Flows

For the 26 Weeks Ended July 28, 2012

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:					
Net income	\$460	\$98	\$557	\$ (655)	\$460
Equity in earnings of subsidiaries	(462)	(193)	—	655	—
Dividends received from subsidiaries	323	—	—	(323)	—
Depreciation and amortization	—	235	278	—	513
(Increase) decrease in working capital	(87)	75	(345)	—	(357)
Other, net	(17)	41	(2)	—	22
Net cash provided by operating activities	217	256	488	(323)	638
Cash flows from investing activities:					
Purchase of property and equipment and capitalized software, net	—	(116)	(280)	—	(396)
Other, net	—	—	3	—	3
Net cash used by investing activities	—	(116)	(277)	—	(393)
Cash flows from financing activities:					
Debt repaid	—	(795)	(2)	—	(797)
Dividends paid	(165)	—	(323)	323	(165)
Common stock acquired, net of issuance of common stock	(463)	—	—	—	(463)
Intercompany activity, net	(767)	649	118	—	—
Other, net	(52)	—	9	—	(43)
Net cash used by financing activities	(1,447)	(146)	(198)	323	(1,468)
Net increase (decrease) in cash and cash equivalents	(1,230)	(6)	13	—	(1,223)
Cash and cash equivalents at beginning of period	2,533	38	256	—	2,827
Cash and cash equivalents at end of period	\$1,303	\$32	\$269	\$ —	\$1,604

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Balance Sheet

As of July 30, 2011

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$1,182	\$34	\$279	\$ —	\$1,495
Receivables	—	59	237	—	296
Merchandise inventories	—	2,609	2,339	—	4,948
Prepaid expenses and other current assets	—	101	282	—	383
Income taxes	4	—	—	(4) —
Total Current Assets	1,186	2,803	3,137	(4) 7,122
Property and Equipment – net	—	4,853	3,653	—	8,506
Goodwill	—	3,315	428	—	3,743
Other Intangible Assets – net	—	168	450	—	618
Other Assets	4	84	431	—	519
Deferred Income Tax Assets	13	—	—	(13) —
Intercompany Receivable	1,829	—	2,733	(4,562) —
Investment in Subsidiaries	3,078	2,764	—	(5,842) —
Total Assets	\$6,110	\$13,987	\$10,832	\$ (10,421) \$20,508
LIABILITIES AND SHAREHOLDERS' EQUITY:					
Current Liabilities:					
Short-term debt	\$ —	\$911	\$3	\$ —	\$914
Merchandise accounts payable	—				