

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K**

**Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

For the Fiscal Year Ended  
January 29, 2011

Commission File Number:  
1-13536



7 West Seventh Street  
Cincinnati, Ohio 45202  
(513) 579-7000  
and  
151 West 34th Street  
New York, New York 10001  
(212) 494-1602

**Incorporated in Delaware**

**I.R.S. No. 13-3324058**

**Securities Registered Pursuant to Section 12(b) of the Act:**

| <u>Title of Each Class</u>              | <u>Name of Each Exchange on Which Registered</u> |
|---|--|
| Common Stock, par value \$.01 per share | New York Stock Exchange                          |
| 7.45% Senior Debentures due 2017        | New York Stock Exchange                          |
| 6.79% Senior Debentures due 2027        | New York Stock Exchange                          |
| 7% Senior Debentures due 2028           | New York Stock Exchange                          |

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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)

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter (July 31, 2010) was approximately \$7,873,300,000.

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

| <u>Class</u>                            | <u>Outstanding at February 25, 2011</u> |
|---|---|
| Common Stock, \$.01 par value per share | 423,747,325 shares                      |

**DOCUMENTS INCORPORATED BY REFERENCE**

Document  
Proxy Statement for the Annual Meeting of Stockholders to be held May 20, 2011 (Proxy Statement)

Parts Into  
Which Incorporated  
Part III

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### **Explanatory Note**

On August 30, 2005, the Company completed the acquisition of The May Department Stores Company (“May”) by means of a merger of May with and into a wholly-owned subsidiary of the Company (the “Merger”). As a result of the Merger, May’s separate corporate existence terminated. Upon the completion of the Merger, the subsidiary was merged with and into the Company and its separate corporate existence terminated. On June 1, 2007, the Company changed its name from Federated Department Stores, Inc. to Macy’s, Inc. (“Macy’s”).

*Unless the context requires otherwise, references to “Macy’s” or the “Company” are references to Macy’s and its subsidiaries and references to “2010,” “2009,” “2008,” “2007” and “2006” are references to the Company’s fiscal years ended January 29, 2011, January 30, 2010, January 31, 2009, February 2, 2008 and February 3, 2007, respectively.*

### **Forward-Looking Statements**

*This report and other reports, statements and information previously or subsequently filed by the Company with the Securities and Exchange Commission (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, and (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, interest and exchange rates and other capital market, economic and geo-political conditions;*
- risks associated with severe weather, natural disasters 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 the Company's 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, regional health pandemics, and regional political and economic conditions;*
- *risks related to duties, taxes, other charges and quotas on imports; and*
- *risks associated with possible systems 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 expressed in or implied by such forward-looking statements.*

### **Item 1. Business.**

*General.* The Company is a corporation organized under the laws of the State of Delaware in 1985. The Company and its predecessors have been operating department stores since 1830. On June 1, 2007, the Company changed its corporate name from Federated Department Stores, Inc. to Macy's, Inc. and the Company's shares began trading under the ticker symbol "M" on the New York Stock Exchange ("NYSE"). As of January 29, 2011, the operations of the Company included approximately 850 stores in 45 states, the District of Columbia, Guam and Puerto Rico under the names "Macy's" and "Bloomingdale's" as well as macys.com and bloomingdales.com. The Company also operates four Bloomingdale's Outlet stores.

On June 1, 2005, the Company and certain of its subsidiaries entered into a Purchase, Sale and Servicing Transfer Agreement (the "Purchase Agreement") with Citibank, N.A. (together with its subsidiaries, as applicable, "Citibank"). The Purchase Agreement provided for, among other things, the purchase by Citibank of substantially all of (i) the credit card accounts and related receivables owned by FDS Bank, (ii) the "Macy's" credit card accounts and related receivables owned by GE Money Bank, immediately upon the purchase by the Company of such accounts from GE Money Bank, and (iii) the proprietary credit card accounts and related receivables owned by May (collectively, the "Credit Assets"). In connection with the sale of these assets, the Company and Citibank entered into a long-term marketing and servicing alliance pursuant to the terms of a Credit Card Program Agreement (the "Program Agreement") with an initial term of ten years expiring on July 17, 2016 and, unless terminated by either party as of the expiration of the initial term, an additional renewal term of three years. The Program Agreement provides for, among other things, (i) the ownership by Citibank of the accounts purchased by Citibank pursuant to the Purchase Agreement, (ii) the ownership by Citibank of new accounts opened by the Company's customers, (iii) the provision of credit by Citibank to the holders of the credit cards associated with the foregoing accounts, (iv) the servicing of the foregoing accounts, and (v) the allocation between Citibank and the Company of the economic benefits and burdens associated with the foregoing and other aspects of the alliance.

On August 30, 2005, upon the completion of the Merger, the Company acquired May's approximately 500 department stores and approximately 800 bridal and formalwear stores. Most of the acquired May department stores were converted to the Macy's nameplate in September 2006, resulting in a national retailer with stores in almost all major markets. 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 are presented as discontinued operations.

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In 2008, the Company announced the “My Macy’s” localization initiative which was developed with the goal of accelerating 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. My Macy’s has 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 district 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. Also as part of My Macy’s, the Company’s Macy’s branded stores are organized in a unified operating structure and division central office organizations were eliminated. 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.

During January 2010, the Company announced plans to launch a new Bloomingdale’s Outlet store concept in 2010, to initially consist of four Bloomingdale’s Outlet stores, each with approximately 25,000 square feet. All four Bloomingdale’s Outlet stores opened during 2010. Additional Bloomingdale’s Outlet stores are expected to roll out to selected locations across the country in 2011 and beyond. 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 retail stores and Internet websites 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 specific assortments vary by size of store, merchandising character and character of customers in the trade areas. Most stores are located at urban or suburban sites, principally in densely populated areas across the United States.

For 2010, 2009 and 2008, the following merchandise constituted the following percentages of sales:

|   | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|-------------|
| Feminine Accessories, Intimate Apparel, Shoes and Cosmetics | 36%         | 36%         | 36%         |
| Feminine Apparel  | 26          | 26          | 27          |
| Men’s and Children’s  | 23          | 22          | 22          |
| Home/Miscellaneous  | 15          | 16          | 15          |
|   | <u>100%</u> | <u>100%</u> | <u>100%</u> |

In 2010, the Company’s subsidiaries provided various support functions to the Company’s retail operations on an integrated, company-wide basis.

- The Company’s bank subsidiary, FDS Bank, and its financial, administrative and credit services subsidiary, Macy’s Credit and Customer Service, Inc. (“MCCS”), provide credit processing, certain collections, customer service and credit marketing services in respect of all proprietary and non-proprietary credit card accounts that are owned either by Department Stores National Bank (“DSNB”), a subsidiary of Citibank, N.A., or FDS Bank and that constitute a part of the credit programs of the Company’s retail operations.
- Macy’s Systems and Technology, Inc. (“MST”), a wholly-owned indirect subsidiary of the Company, provides operational electronic data processing and management information services to all of the Company’s operations.
- Macy’s Merchandising Group, Inc. (“MMG”), a wholly-owned direct subsidiary of the Company, is responsible for the design, development and marketing of Macy’s private label brands and certain

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licensed brands. Bloomingdale's uses MMG for only a very small portion of its private label merchandise. The Company believes that its private label merchandise further differentiates its merchandise assortments from those of its competitors and delivers exceptional value to its customers. The principal private label brands currently offered by Macy's include Alfani, American Rag, Bar III, Charter Club, Club Room, Epic Threads, first impressions, Giani Bernini, greendog, Holiday Lane, Hotel Collection, I-N-C, jenni by jennifer moore, John Ashford, JM Collection, Karen Scott, Martha Stewart Collection, Morgan Taylor, Style & Co., Tasso Elba, the cellar, Tools of the Trade, and Via Europa. The principal licensed brands managed by MMG are American Rag and Martha Stewart Collection. The trademarks associated with all of the foregoing brands, other than American Rag and Martha Stewart Collection, are owned by Macy's. The American Rag and Martha Stewart Collection brands are owned by third parties, which license the trademarks associated with such brands to Macy's pursuant to agreements which are presently scheduled to expire in 2050 and 2027, respectively.

- Macy's Logistics and Operations ("Macy's Logistics"), a division of a wholly-owned indirect subsidiary of the Company, provides warehousing and merchandise distribution services for the Company's operations.

MMG also offers their services, either directly or indirectly, to unrelated third parties.

The Company's executive offices are located at 7 West Seventh Street, Cincinnati, Ohio 45202, telephone number: (513) 579-7000 and 151 West 34th Street, New York, New York 10001, telephone number: (212) 494-1602.

*Employees.* As of January 29, 2011, the Company had approximately 166,000 regular full-time and part-time employees. Because of the seasonal nature of the retail business, the number of employees peaks in the holiday season. Approximately 10% of the Company's employees as of January 29, 2011 were represented by unions. Management considers its relations with its employees to be satisfactory.

*Seasonality.* The retail business is seasonal in nature with a high proportion of sales and operating income generated in the months of November and December. Working capital requirements fluctuate during the year, increasing in mid-summer in anticipation of the fall merchandising season and increasing substantially prior to the holiday season when the Company must carry significantly higher inventory levels.

*Purchasing.* The Company purchases merchandise from many suppliers, no one of which accounted for more than 5% of the Company's net purchases during 2010. The Company has no material long-term purchase commitments with any of its suppliers, and believes that it is not dependent on any one supplier. The Company considers its relations with its suppliers to be satisfactory.

*Competition.* The retailing industry is intensely competitive. The Company's stores and direct-to-customer business operations compete with many retailing formats in the geographic areas in which they operate, including department stores, specialty stores, general merchandise stores, off-price and discount stores, new and established forms of home shopping (including the Internet, mail order catalogs and television) and manufacturers' outlets, among others. The retailers with which the Company competes include Bed Bath & Beyond, Belk, Bon Ton, Burlington Coat Factory, Dillard's, Gap, J.C. Penney, Kohl's, Limited, Lord & Taylor, Neiman Marcus, Nordstrom, Saks, Sears, Target, TJ Maxx and Wal-Mart. The Company seeks to attract customers by offering superior selections, obvious value, and distinctive marketing in stores that are located in premier locations, and by providing an exciting shopping environment and superior service through an omnichannel experience. Other retailers may compete for customers on some or all of these bases, or on other bases, and may be perceived by some potential customers as being better aligned with their particular preferences.

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*Available Information.* The Company makes its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act available free of charge through its internet website at <http://www.macysinc.com> as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. The public also may read and copy any of these filings at the SEC's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-732-0330. The SEC also maintains an Internet site that contains the Company's filings; the address of that site is <http://www.sec.gov>. In addition, the Company has made the following available free of charge through its website at <http://www.macysinc.com>:

- Audit Committee Charter,
- Compensation and Management Development Committee Charter,
- Finance Committee Charter,
- Nominating and Corporate Governance Committee Charter,
- Corporate Governance Principles,
- Non-Employee Director Code of Business Conduct and Ethics, and
- Code of Conduct.

Any of these items are also available in print to any shareholder who requests them. Requests should be sent to the Corporate Secretary of Macy's, Inc. at 7 West 7<sup>th</sup> Street, Cincinnati, OH 45202.

### *Executive Officers of the Registrant.*

The following table sets forth certain information as of March 25, 2011 regarding the executive officers of the Company:

| <u>Name</u>         | <u>Age</u> | <u>Position with the Company</u>                                       |
|---------------------|------------|--|
| Terry J. Lundgren   | 59         | Chairman of the Board; President and Chief Executive Officer; Director |
| Janet E. Grove      | 60         | Vice Chair   |
| Timothy M. Adams    | 57         | Chief Private Brand Officer  |
| Thomas L. Cole      | 62         | Chief Administrative Officer   |
| Jeffrey Gennette    | 49         | Chief Merchandising Officer  |
| Julie Greiner       | 57         | Chief Merchandise Planning Officer                                     |
| Karen M. Hoguet     | 54         | Chief Financial Officer  |
| Ronald Klein        | 61         | Chief Stores Officer   |
| Peter Sachse        | 53         | Chief Marketing Officer  |
| Mark S. Cosby       | 52         | President - Stores   |
| Joel A. Belsky      | 57         | Executive Vice President and Controller                                |
| Dennis J. Broderick | 62         | Executive Vice President, General Counsel and Secretary                |

Terry J. Lundgren has been Chairman of the Board since January 2004 and President and Chief Executive Officer of the Company since February 2003; prior thereto he served as the President/Chief Operating Officer and Chief Merchandising Officer of the Company from April 2002 to February 2003. Mr. Lundgren served as the President and Chief Merchandising Officer of the Company from May 1997 to April 2002.

Janet E. Grove has been Vice Chair of the Company since February 2009 responsible for facilitating the transition of merchandising, planning and private brand development functions under the new Macy's organization structure and International Retail Store Development initiatives; prior thereto she served as Vice

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Chair, Merchandising, Private Brand and Product Development of the Company from February 2003 to February 2009. Ms. Grove also served as Chairman of MMG from 1998 to 2009 and Chief Executive Officer of MMG from 1999 to 2009.

Timothy M. Adams has been the Chief Private Brand Officer of the Company since February 2009; prior thereto he served as Chairman and CEO of Macy's Home Store from July 2005 to February 2009 and as Chairman of Macy's Florida from April 2001 to July 2005.

Thomas L. Cole has been Chief Administrative Officer of the Company since February 2009; prior thereto he served as Vice Chair, Support Operations of the Company from February 2003 to February 2009. Until February 2009, he also was responsible for the operations of Macy's Logistics since 1995, of MST since 2001, and of MCCA since 2002.

Jeffrey Gennette has been Chief Merchandising Officer of the Company since February 2009; prior thereto he served as Chairman and CEO of Macy's West from February 2008 to February 2009, as Chairman of Macy's Northwest from December 2005 to February 2008 and as Executive Vice President and Director of Stores of Macy's Central from March 2004 to December 2005. Mr. Gennette served as Senior Vice President/General Merchandise Manager of Macy's West from May 2001 to March 2004.

Julie Greiner has been Chief Merchandise Planning Officer of the Company since February 2009; prior thereto she served as Chairman and CEO of Macy's Florida from July 2005 to February 2009 and as Senior Executive Vice President and Director of Stores of Bloomingdale's from April 1998 to July 2005.

Karen M. Hoguet has been Chief Financial Officer of the Company since February 2009; prior thereto she served as Executive Vice President and Chief Financial Officer of the Company from June 2005 to February 2009. Mrs. Hoguet served as Senior Vice President and Chief Financial Officer of the Company from October 1997 to June 2005.

Ronald Klein has been Chief Stores Officer of the Company since February 2009; prior thereto he served as Chairman and CEO of Macy's East from February 2004 to February 2009.

Peter Sachse has been Chief Marketing Officer of the Company since February 2009 and Chairman of macys.com since April 2006; prior thereto he served as President of Macy's Corporate Marketing from May 2007 to February 2009 and as Chief Marketing Officer of the Company from June 2003 to May 2007.

Mark S. Cosby has been President – Stores of the Company since February 2009; prior thereto he served as President and Chief Operating Officer of Macy's East from May 2007 to February 2009 and as Senior Vice President – Property Development of the Company from July 2006 to May 2007.

Joel A. Belsky has been Executive Vice President and Controller of the Company since May 2009; prior thereto he served as Vice President and Controller of the Company from October 1996 through April 2009.

Dennis J. Broderick has been Secretary of the Company since July 1993 and Executive Vice President and General Counsel of the Company since May 2009; prior thereto he served as Senior Vice President and General Counsel of the Company from January 1990 to April 2009.

### **Item 1A. Risk Factors.**

In evaluating the Company, the risks described below and the matters described in "Forward-Looking Statements" should be considered carefully. Such risks and matters could significantly and adversely affect the Company's business, prospects, financial condition, results of operations and cash flows.

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*The Company faces significant competition in the retail industry.*

The Company conducts its retail merchandising business under highly competitive conditions. Although the Company is one of the nation's largest retailers, it has numerous and varied competitors at the national and local levels, including conventional and specialty department stores, other specialty stores, category killers, mass merchants, value retailers, discounters, and Internet and mail-order retailers. Competition may intensify as the Company's competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, reputation and credit availability. If the Company does not compete effectively with regard to these factors, its results of operations could be materially and adversely affected.

*The Company's sales and operating results depend on consumer preferences and consumer spending.*

The fashion and retail industries are subject to sudden shifts in consumer trends and consumer spending. The Company's sales and operating results depend in part on its ability to predict or respond to changes in fashion trends and consumer preferences in a timely manner. The Company develops new retail concepts and continuously adjusts its industry position in certain major and private-label brands and product categories in an effort to satisfy customers. Any sustained failure to anticipate, identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse effect on the Company's business. The Company's sales are impacted by discretionary spending by consumers. Consumer spending may be affected by many factors outside of the Company's control, including general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt and customer behaviors towards incurring and paying debt, the costs of basic necessities and other goods and the effects of the weather or natural disasters.

*The Company's business is subject to unfavorable economic and political conditions and other developments and risks.*

Unfavorable global, domestic or regional economic or political conditions and other developments and risks could negatively affect the Company's business. For example, unfavorable changes related to interest rates, rates of economic growth, fiscal and monetary policies of governments, inflation, deflation, consumer credit availability, consumer debt levels, consumer debt payment behaviors, tax rates and policy, unemployment trends, oil prices, and other matters that influence the availability and cost of merchandise, consumer confidence, spending and tourism could adversely impact the Company's business and results of operations. In addition, unstable political conditions or civil unrest, including terrorist activities and worldwide military and domestic disturbances and conflicts, may disrupt commerce and could have a material adverse effect on the Company's business and results of operations.

*The Company's revenues and cash requirements are affected by the seasonal nature of its business.*

The Company's business is seasonal, with a high proportion of revenues and operating cash flows generated during the second half of the fiscal year, which includes the fall and holiday selling seasons. A disproportionate amount of revenues fall in the fourth fiscal quarter, which coincides with the holiday season. In addition, the Company incurs significant additional expenses in the period leading up to the months of November and December in anticipation of higher sales volume in those periods, including for additional inventory, advertising and employees.

*The Company's business could be affected by extreme weather conditions or natural disasters.*

Extreme weather conditions in the areas in which the Company's stores are located could adversely affect the Company's business. For example, frequent or unusually heavy snowfall, ice storms, rainstorms or other extreme weather conditions over a prolonged period could make it difficult for the Company's customers to

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travel to its stores and thereby reduce the Company's sales and profitability. The Company's business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of the Company's inventory incompatible with those unseasonable conditions. Reduced sales from extreme or prolonged unseasonable weather conditions could adversely affect the Company's business.

In addition, natural disasters such as hurricanes, tornadoes and earthquakes, or a combination of these or other factors, could severely damage or destroy one or more of the Company's stores or warehouses located in the affected areas, thereby disrupting the Company's business operations.

*The Company's pension costs could increase at a higher than anticipated rate.*

Significant changes in interest rates, decreases in the fair value of plan assets and investment losses on plan assets could affect the funded status of the Company's plans and could increase future funding requirements of the pension plans. A significant increase in future funding requirements could have a negative impact on the Company's cash flows, financial condition or results of operations.

*Increases in the cost of employee benefits could impact the Company's financial results and cash flow.*

The Company's expenses relating to employee health benefits are significant. Unfavorable changes in the cost of such benefits could impact the Company's financial results and cash flow. Healthcare costs have risen significantly in recent years, and recent legislative and private sector initiatives regarding healthcare reform could result in significant changes to the U.S. healthcare system. The Company is not able at this time to determine the impact that healthcare reform could have on the Company-sponsored medical plans.

*Inability to access capital markets could adversely affect the Company's business or financial condition.*

Changes in the credit and capital markets, including market disruptions, limited liquidity and interest rate fluctuations, may increase the cost of financing or restrict the Company's access to this potential source of future liquidity. A decrease in the ratings that rating agencies assign to the Company's short and long-term debt may negatively impact the Company's access to the debt capital markets and increase the Company's cost of borrowing. In addition, the Company's bank credit agreements require the Company to maintain specified interest coverage and leverage ratios. The Company's ability to comply with the ratios may be affected by events beyond its control, including prevailing economic, financial and industry conditions. If the Company's results of operations or operating ratios deteriorate to a point where the Company is not in compliance with its debt covenants, and the Company is unable to obtain a waiver, much of the Company's debt would be in default and could become due and payable immediately. The Company's assets may not be sufficient to repay in full this indebtedness, resulting in a need for an alternate source of funding. The Company cannot make any assurances that it would be able to obtain such an alternate source of funding on satisfactory terms, if at all, and its inability to do so could cause the holders of its securities to experience a partial or total loss of their investments in the Company.

*The Company periodically reviews the carrying value of its goodwill for possible impairment; if future circumstances indicate that goodwill is impaired, the Company could be required to write down amounts of goodwill and record impairment charges.*

In the fourth quarter of fiscal 2008, the Company reduced the carrying value of its goodwill from \$9,125 million to \$3,743 million and recorded a related non-cash impairment charge of \$5,382 million. The Company continues to monitor relevant circumstances, including consumer spending levels, general economic conditions and the market prices for the Company's common stock, and the potential impact that such circumstances might have on the valuation of the Company's goodwill. It is possible that changes in such circumstances, or in the numerous variables associated with the judgments, assumptions and estimates made by the Company in assessing

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the appropriate valuation of its goodwill, could in the future require the Company to further reduce its goodwill and record related non-cash impairment charges. If the Company were required to further reduce its goodwill and record related non-cash impairment charges, the Company's financial position and results of operations would be adversely affected.

*The Company depends on its ability to attract and retain quality employees.*

The Company's business is dependent upon attracting and retaining a large number of quality employees. Many of these employees are in entry level or part-time positions with historically high rates of turnover. The Company's ability to meet its labor needs while controlling the costs associated with hiring and training new employees is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. Changes that adversely impact the Company's ability to attract and retain quality employees could adversely affect the Company's business.

*The Company depends upon designers, vendors and other sources of merchandise, goods and services.*

The Company's relationships with established and emerging designers have been a significant contributor to the Company's past success. The Company's ability to find qualified vendors and access products in a timely and efficient manner is often challenging, particularly with respect to goods sourced outside the United States. The Company's procurement of goods and services from outside the United States is subject to risks associated with political or financial instability, trade restrictions, tariffs, currency exchange rates, transport capacity and costs and other factors relating to foreign trade. In addition, the Company's procurement of all its goods and services is subject to the effects of price increases which the Company may or may not be able to pass through to its customers. All of these factors may affect the Company's ability to access suitable merchandise on acceptable terms, are beyond the Company's control and could adversely impact the Company's performance.

*The Company depends upon the success of its advertising and marketing programs.*

The Company's advertising and promotional costs, net of cooperative advertising allowances, amounted to \$1,072 million for 2010. The Company's business depends on high customer traffic in its stores and effective marketing. The Company has many initiatives in this area, and often changes its advertising and marketing programs. There can be no assurance as to the Company's continued ability to effectively execute its advertising and marketing programs, and any failure to do so could have a material adverse effect on the Company's business and results of operations.

*The benefits expected to be realized from the expansion of the Company's market localization initiatives and the changes to its operating structure are subject to various risks.*

The Company's success in fully realizing the anticipated benefits from the expansion of its market localization initiatives and the changes to its operating structure will depend in large part on achieving anticipated cost savings, business opportunities and growth prospects. The Company's ability to benefit from expanded market localization initiatives and the changes to its operating structure is subject to both the risks affecting the Company's business generally and the inherent difficulties associated with implementing these initiatives. The failure of the Company to fully realize the benefits expected to result from these initiatives could have a material adverse effect on the Company's business and results of operations.

*Parties with whom the Company does business may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to the Company.*

The Company is a party to contracts, transactions and business relationships with various third parties, including vendors, suppliers, service providers, lenders and participants in joint ventures, strategic alliances and other joint commercial relationships, pursuant to which such third parties have performance, payment and other

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obligations to the Company. In some cases, the Company depends upon such third parties to provide essential leaseholds, products, services or other benefits, including with respect to store and distribution center locations, merchandise, advertising, software development and support, logistics, other agreements for goods and services in order to operate the Company's business in the ordinary course, extensions of credit, credit card accounts and related receivables, and other vital matters. Current economic, industry and market conditions could result in increased risks to the Company associated with the potential financial distress or insolvency of such third parties. If any of these third parties were to become subject to bankruptcy, receivership or similar proceedings, the rights and benefits of the Company in relation to its contracts, transactions and business relationships with such third parties could be terminated, modified in a manner adverse to the Company, or otherwise impaired. The Company cannot make any assurances that it would be able to arrange for alternate or replacement contracts, transactions or business relationships on terms as favorable as the Company's existing contracts, transactions or business relationships, if at all. Any inability on the part of the Company to do so could negatively affect the Company's cash flows, financial condition and results of operations.

*A material disruption in the Company's computer systems could adversely affect the Company's business or results of operations.*

The Company relies extensively on its computer systems to process transactions, summarize results and manage its business. The Company's computer systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes, acts of war or terrorism, and usage errors by the Company's employees. If the Company's computer systems are damaged or cease to function properly, the Company may have to make a significant investment to fix or replace them, and the Company may suffer loss of critical data and interruptions or delays in its operations in the interim. Any material interruption in the Company's computer systems could adversely affect its business or results of operations.

*A privacy breach could result in negative publicity and adversely affect the Company's business.*

The protection of customer, employee, and company data is critical to the Company. The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements across business units. In addition, customers have a high expectation that the Company will adequately protect their personal information. A significant breach of customer, employee, or company data could attract a substantial amount of media attention, damage the Company's customer relationships and reputation and result in lost sales, fines, or lawsuits.

*A regional or global health pandemic could severely affect the Company's business.*

A health pandemic is a disease that spreads rapidly and widely by infection and affects many individuals in an area or population at the same time. If a regional or global health pandemic were to occur, depending upon its location, duration and severity, the Company's business could be severely affected. Customers might avoid public places in the event of a health pandemic, and local, regional or national governments might limit or ban public gatherings to halt or delay the spread of disease. A regional or global health pandemic might also adversely impact the Company's business by disrupting or delaying production and delivery of materials and products in its supply chain and by causing staffing shortages in its stores.

*The Company is subject to numerous regulations that could adversely affect its business.*

The Company is subject to customs, child labor, truth-in-advertising and other laws, including consumer protection regulations and zoning and occupancy ordinances that regulate retailers generally and/or govern the importation, promotion and sale of merchandise and the operation of retail stores and warehouse facilities. Although the Company undertakes to monitor changes in these laws, if these laws change without the Company's knowledge, or are violated by importers, designers, manufacturers or distributors, the Company could experience

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delays in shipments and receipt of goods or be subject to fines or other penalties under the controlling regulations, any of which could adversely affect the Company's business.

*Litigation or regulatory developments could adversely affect the Company's business or financial condition.*

The Company is subject to various federal, state and local laws, rules, regulations and initiatives, including laws and regulations with respect to the credit card industry including the Credit Card Act of 2009 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), which may change from time to time. In addition, the Company is regularly involved in various litigation matters that arise in the ordinary course of its business. Litigation or regulatory developments could adversely affect the Company's business and financial condition.

*Factors beyond the Company's control could affect the Company's stock price.*

The Company's stock price, like that of other retail companies, is subject to significant volatility because of many factors, including factors beyond the control of the Company. These factors may include:

- general economic and stock and credit market conditions;
- risks relating to the Company's business and its industry, including those discussed above;
- strategic actions by the Company or its competitors;
- variations in the Company's quarterly results of operations;
- future sales or purchases of the Company's common stock; and
- investor perceptions of the investment opportunity associated with the Company's common stock relative to other investment alternatives.

In addition, the Company may fail to meet the expectations of its stockholders or of analysts at some time in the future. If the analysts that regularly follow the Company's stock lower their rating or lower their projections for future growth and financial performance, the Company's stock price could decline. Also, sales of a substantial number of shares of the Company's common stock in the public market or the appearance that these shares are available for sale could adversely affect the market price of the Company's common stock.

### **Item 1B. Unresolved Staff Comments.**

None.

### **Item 2. Properties.**

The properties of the Company consist primarily of stores and related facilities, including warehouses and distribution and fulfillment centers. The Company also owns or leases other properties, including corporate office space in Cincinnati and New York and other facilities at which centralized operational support functions are conducted. As of January 29, 2011, the operations of the Company included 850 retail stores in 45 states, the District of Columbia, Puerto Rico and Guam, comprising a total of approximately 154,200,000 square feet. Of such stores, 467 were owned, 268 were leased and 115 stores were operated under arrangements where the Company owned the building and leased the land. Substantially all owned properties are held free and clear of mortgages. Pursuant to various shopping center agreements, the Company is obligated to operate certain stores for periods of up to 20 years. Some of these agreements require that the stores be operated under a particular name. Most leases require the Company to pay real estate taxes, maintenance and other costs; some also require additional payments based on percentages of sales and some contain purchase options. Certain of the Company's real estate leases have terms that extend for a significant number of years and provide for rental rates that increase or decrease over time.

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Additional information about the Company's stores and warehouses, distribution and fulfillment centers ("DC's") as of January 29, 2011 is as follows:

| <u>Geographic Region</u> | <u>Total Stores</u> | <u>Owned Stores</u> | <u>Leased Stores</u> | <u>Stores Subject to a Ground Lease</u> | <u>Total DC's</u> | <u>Owned DC's</u> |
|--------------------------|---------------------|---------------------|----------------------|---|-------------------|-------------------|
| Mid-Atlantic             | 107                 | 55                  | 33                   | 19                                      | 3                 | 2                 |
| North                    | 84                  | 65                  | 15                   | 4                                       | 2                 | 2                 |
| Northeast                | 104                 | 54                  | 41                   | 9                                       | 2                 | 2                 |
| Northwest                | 126                 | 39                  | 69                   | 18                                      | 3                 | 1                 |
| Southeast                | 110                 | 72                  | 17                   | 21                                      | 3                 | 2                 |
| Southwest                | 117                 | 45                  | 48                   | 24                                      | 3                 | 3                 |
| Midwest                  | 96                  | 58                  | 27                   | 11                                      | 2                 | 2                 |
| South Central            | 106                 | 79                  | 18                   | 9                                       | 3                 | 2                 |
|                          | <u>850</u>          | <u>467</u>          | <u>268</u>           | <u>115</u>                              | <u>21</u>         | <u>16</u>         |

The eight geographic regions detailed in the foregoing table are based on the Company's Macy's branded operational structure.

The Company's retail stores are located at urban or suburban sites, principally in densely populated areas across the United States. Store count activity was as follows:

|   | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|-------------|
| Store count at beginning of fiscal year | 850         | 847         | 853         |
| New stores opened and other expansions  | 7           | 9           | 11          |
| Stores closed                           | (7)         | (6)         | (17)        |
| Store count at end of fiscal year       | <u>850</u>  | <u>850</u>  | <u>847</u>  |

### **Item 3. 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 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 lawsuit has been conditionally certified as a class action. The complaint alleges that the Company, as well as members of the Company's board of directors and certain members of senior management, breached various fiduciary duties owed under the Employee Retirement Income Security Act ("ERISA") to participants in the 401(k) Plan and the May Plan, by making 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 and "imprudent investment" by the 401(k) Plan and the May Plan in Macy's stock. 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 4. Reserved.**

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

The Common Stock is listed on the NYSE under the trading symbol “M.” As of January 29, 2011, the Company had approximately 23,000 stockholders of record. The following table sets forth for each fiscal quarter during 2010 and 2009 the high and low sales prices per share of Common Stock as reported on the NYSE Composite Tape and the dividend declared with respect to each fiscal quarter on each share of Common Stock.

|             | 2010  |       |          | 2009  |       |          |
|-------------|-------|-------|----------|-------|-------|----------|
|             | Low   | High  | Dividend | Low   | High  | Dividend |
| 1st Quarter | 15.34 | 25.25 | 0.0500   | 6.27  | 14.09 | 0.0500   |
| 2nd Quarter | 16.93 | 24.84 | 0.0500   | 10.27 | 15.29 | 0.0500   |
| 3rd Quarter | 18.70 | 25.26 | 0.0500   | 13.58 | 20.84 | 0.0500   |
| 4th Quarter | 22.78 | 26.32 | 0.0500   | 15.39 | 19.77 | 0.0500   |

The declaration and payment of future dividends will be at the discretion of the Company’s Board of Directors, are subject to restrictions under the Company’s credit facility and may be affected by various other factors, including the Company’s earnings, financial condition and legal or contractual restrictions.

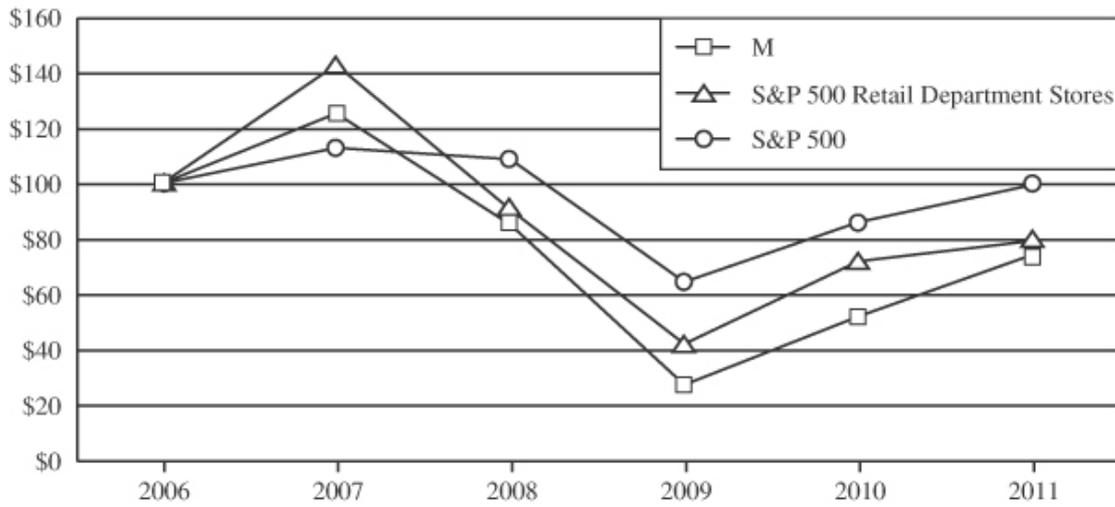
The following table provides information regarding the Company’s purchases of Common Stock during the fourth quarter of 2010.

|                                      | Total<br>Number<br>of Shares<br>Purchased<br>(thousands) | Average<br>Price per<br>Share (\$) | Number of Shares<br>Purchased under<br>Program (1)<br>(thousands) | Open<br>Authorization<br>Remaining (1)(S)<br>(millions) |
|--------------------------------------|--|------------------------------------|---|---|
| October 31, 2010 – November 27, 2010 | 0  | 0                                  | 0   | 852   |
| November 28, 2010 – January 1, 2011  | 0  | 0                                  | 0   | 852   |
| January 2, 2011 – January 29, 2011   | 0  | 0                                  | 0   | 852   |
|                                      | <u>0</u>   | <u>0</u>                           | <u>0</u>  |   |

- (1) Commencing in January 2000, the Company’s board of directors has from time to time approved authorizations to purchase, in the aggregate, up to \$9,500 million of Common Stock. All authorizations are cumulative and do not have an expiration date. As of January 29, 2011, \$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 2011, 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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The following graph compares the cumulative total stockholder return on the Common Stock with the Standard & Poor's 500 Composite Index and the Standard & Poor's Retail Department Store Index for the period from January 27, 2006 through January 28, 2011, assuming an initial investment of \$100 and the reinvestment of all dividends, if any.



The companies included in the S&P Retail Department Store Index are Dillard's, Macy's, J.C. Penney, Kohl's, Nordstrom and Sears.

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### Item 6. Selected Financial Data.

The selected financial data set forth below should be read in conjunction with the Consolidated Financial Statements and the notes thereto and the other information contained elsewhere in this report.

|   | <u>2010</u>                       | <u>2009**</u> | <u>2008**</u>     | <u>2007</u>   | <u>2006*</u>  |
|---|-----------------------------------|---------------|-------------------|---------------|---------------|
|   | (millions, except per share data) |               |                   |               |               |
| <b>Consolidated Statement of Operations Data:</b>                 |                                   |               |                   |               |               |
| Net sales   | \$ 25,003                         | \$ 23,489     | \$ 24,892         | \$ 26,313     | \$ 26,970     |
| Cost of sales   | (14,824)                          | (13,973)      | (15,009)          | (15,677)      | (16,019)      |
| Inventory valuation adjustments – May integration                 | 0                                 | 0             | 0                 | 0             | (178)         |
| Gross margin  | 10,179                            | 9,516         | 9,883             | 10,636        | 10,773        |
| Selling, general and administrative expenses                      | (8,260)                           | (8,062)       | (8,481)           | (8,554)       | (8,678)       |
| Impairments, store closing costs and division consolidation costs | (25)                              | (391)         | (398)             | 0             | 0             |
| Goodwill impairment charges                                       | 0                                 | 0             | (5,382)           | 0             | 0             |
| May integration costs   | 0                                 | 0             | 0                 | (219)         | (450)         |
| Gains on sale of accounts receivable                              | 0                                 | 0             | 0                 | 0             | 191           |
| Operating income (loss)   | 1,894                             | 1,063         | (4,378)           | 1,863         | 1,836         |
| Interest expense (a)  | (579)                             | (562)         | (588)             | (579)         | (451)         |
| Interest income   | 5                                 | 6             | 28                | 36            | 61            |
| Income (loss) from continuing operations before income taxes      | 1,320                             | 507           | (4,938)           | 1,320         | 1,446         |
| Federal, state and local income tax benefit (expense)             | (473)                             | (178)         | 163               | (411)         | (458)         |
| Income (loss) from continuing operations                          | 847                               | 329           | (4,775)           | 909           | 988           |
| Discontinued operations, net of income taxes (b)                  | 0                                 | 0             | 0                 | (16)          | 7             |
| Net income (loss)   | <u>\$ 847</u>                     | <u>\$ 329</u> | <u>\$ (4,775)</u> | <u>\$ 893</u> | <u>\$ 995</u> |
| <b>Basic earnings (loss) per share:</b>                           |                                   |               |                   |               |               |
| Income (loss) from continuing operations                          | \$ 2.00                           | \$ .78        | \$ (11.34)        | \$ 2.04       | \$ 1.83       |
| Net income (loss)   | 2.00                              | .78           | (11.34)           | 2.00          | 1.84          |
| <b>Diluted earnings (loss) per share:</b>                         |                                   |               |                   |               |               |
| Income (loss) from continuing operations                          | \$ 1.98                           | \$ .78        | \$ (11.34)        | \$ 2.01       | \$ 1.80       |
| Net income (loss)   | 1.98                              | .78           | (11.34)           | 1.97          | 1.81          |
| Average number of shares outstanding                              | 422.2                             | 420.4         | 420.0             | 445.6         | 539.0         |
| Cash dividends paid per share (c)                                 | \$ .2000                          | \$ .2000      | \$ .5275          | \$ .5175      | \$ .5075      |
| Depreciation and amortization                                     | \$ 1,150                          | \$ 1,210      | \$ 1,278          | \$ 1,304      | \$ 1,265      |
| Capital expenditures  | \$ 505                            | \$ 460        | \$ 897            | \$ 1,105      | \$ 1,392      |
| <b>Balance Sheet Data (at year end):</b>                          |                                   |               |                   |               |               |
| Cash and cash equivalents   | \$ 1,464                          | \$ 1,686      | \$ 1,385          | \$ 676        | \$ 1,294      |
| Total assets  | 20,631                            | 21,300        | 22,145            | 27,789        | 29,550        |
| Short-term debt   | 454                               | 242           | 966               | 666           | 650           |
| Long-term debt  | 6,971                             | 8,456         | 8,733             | 9,087         | 7,847         |
| Shareholders' equity  | 5,530                             | 4,653         | 4,620             | 9,907         | 12,254        |

\* 53 weeks

\*\* The Company changed its methodology for recording deferred state income taxes from a blended rate basis to a separate entity basis, and has reflected the effects of such change retroactively to fiscal 2008. Even though the Company considers the change to have had only an immaterial impact on its financial condition, results of operations and cash flows, the financial condition, results of operations and cash flows for the prior periods as previously reported have been adjusted to reflect the change.

- (a) Interest expense in 2010 includes approximately \$66 million of expenses associated with the early retirement of approximately \$1,000 million of outstanding debt. Interest expense includes a gain of approximately \$54 million in 2006 related to the completion of a debt tender offer.
- (b) Discontinued operations include (1) for 2007, the after-tax results of the After Hours Formalwear business, including an after-tax loss of \$7 million on the disposal of After Hours Formalwear, and (2) for 2006, the after-tax results of operations of the Lord & Taylor division and the Bridal Group division (including David's Bridal, After Hours Formalwear, and Priscilla of Boston), including after-tax losses of \$38 million and \$18 million on the disposals of the Lord & Taylor division and the David's Bridal and Priscilla of Boston businesses, respectively.
- (c) Cash dividends paid for 2006 have been adjusted to reflect the two-for-one stock-split effected in the form of a stock dividend distributed on June 9, 2006.

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### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

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 in 45 states, the District of Columbia, Guam and Puerto Rico. As of January 29, 2011, the Company's operations were conducted through Macy's, macys.com, Bloomingdale's, bloomingdales.com and Bloomingdale's Outlet which are aggregated into one reporting segment in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280, "Segment Reporting."

The Company is focused on four key strategies for continued growth in sales, earnings and cash flow in the years ahead: (i) maximizing the My Macy's localization initiative; (ii) developing private and exclusive brands; (iii) embracing customer centricity, including engaging customers on the selling floor; and (iv) driving the omnichannel business.

The My Macy's localization initiative was developed with the goal of accelerating 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. My Macy's has 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 district 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. Also as part of My Macy's, the Company's Macy's branded stores are organized in a unified operating structure and division central office organizations were eliminated. 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 Company's omnichannel strategy allows customers to shop seamlessly in stores, online and via mobile devices. As part of the comprehensive focus on its omnichannel business, the Company is building an efficient and resourceful organization that thrives on unrelenting creativity and innovation. Current and future expansions to the macys.com and bloomingdales.com online businesses represent investments in merchandising, marketing and site development, all of which complement ongoing improvements in systems infrastructure, fulfillment capacity and customer service.

During 2010, the Company launched a new Bloomingdale's Outlet store concept, which initially consists of four Bloomingdale's Outlet stores, each with approximately 25,000 square feet. Additional Bloomingdale's Outlet stores are expected to roll out to selected locations across the country in 2011 and beyond. Bloomingdale's Outlet stores 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.

During 2010, the Company opened two new Macy's stores, one new Bloomingdale's store, and four Bloomingdale's Outlet stores. During 2009, the Company opened five new Macy's department stores, re-opened two Macy's department stores that had been damaged in 2008 by Hurricane Ike, opened one replacement Macy's department store, and also expanded into an additional Macy's location in an existing mall. In 2011, the Company intends to open three Bloomingdale's Outlet stores and re-open a Macy's department store that had been closed in 2010 due to flood damage.

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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.

Throughout 2008 and into 2009, consumer spending levels were 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. These conditions also adversely affected the projected future cash flows attributable to the Company's operations, including the projected future cash flows assumed in connection with the acquisition of The May Department Stores Company ("May"), resulting in the Company recording in the fourth quarter of 2008 a reduction in the carrying value of its goodwill, and a related non-cash impairment charge, in the amount of \$5,382 million. The Company experienced significantly higher sales growth and steady gross margin and cash flow in 2010, and therefore is optimistic about the improvement in current and future economic conditions.

The effects of economic conditions 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 the 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 economic conditions, however, ultimately affect the Company's overall operations. Based on its assessment of current and anticipated market conditions and its recent performance, the Company is assuming that its comparable store sales in 2011 will increase approximately 3% from 2010 levels.

The discussion in this Item 7 should be read in conjunction with our Consolidated Financial Statements and the related notes included elsewhere in this report. The discussion in this Item 7 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 "Risk Factors" and "Forward-Looking Statements."

### ***Results of Operations***

Net sales include merchandise sales, leased department income, shipping and handling fees and sales to third party retailers. In 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 ("SG&A") 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 annual periods prior to fiscal 2010.

The Company changed its methodology for recording deferred state income taxes from a blended rate basis to a separate entity basis, and has reflected the effects of such change to 2010 and all prior periods. Even though the Company considers the change to have had only an immaterial impact on its financial condition, results of operations and cash flows for the periods presented, the financial condition, results of operations and cash flows for the prior periods as previously reported have been adjusted to reflect the change.

*Comparison of the 52 Weeks Ended January 29, 2011 and January 30, 2010.* Net income for 2010 was \$847 million, compared to net income of \$329 million for 2009, reflecting the benefits of the strategic initiatives at

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Macy's and the continued strong performance at Bloomingdale's. The net income for 2010 includes the impact of \$25 million of impairments and store closing costs. The net income for 2009 included the impact of \$391 million of impairments, store closing costs and division consolidation costs.

Net sales for 2010 totaled \$25,003 million, compared to net sales of \$23,489 million for 2009, an increase of \$1,514 million or 6.4%. On a comparable store basis, net sales for 2010 were up 4.6% compared to 2009. Sales from the Company's Internet businesses in 2010 increased 28.7% compared to 2009 and positively affected the Company's 2010 comparable store sales by 0.9%. The Company has realized continued success in the My Macy's localization strategy. Geographically, sales in 2010 were strongest in Florida and the upper Midwest. By family of business, sales in 2010 were strongest in updated women's apparel, particularly the Company's I-N-C brand, jewelry and watches, men's apparel and accessories, luggage, furniture and mattresses. Sales of the Company's private label brands continued to be strong and represented approximately 20% of net sales in the Macy's-branded stores in 2010. Sales in 2010 were less strong in traditional women's sportswear. The Company calculates comparable store sales as sales from stores in operation throughout 2009 and 2010 and all net 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 \$14,824 million or 59.3% of net sales for 2010, compared to \$13,973 million or 59.5% of net sales for 2009, an increase of \$851 million. The improved cost of sales rate reflects the benefit of good inventory management throughout 2010. 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 \$8,260 million or 33.0% of net sales for 2010, compared to \$8,062 million or 34.3% of net sales for 2009, an increase of \$198 million. The SG&A rate as a percent of net sales was lower in 2010, as compared to 2009, reflecting an increase in net sales. SG&A expenses in 2010 increased due to higher selling costs as a result of stronger sales, higher workers' compensation and general liability insurance costs, higher pension and supplementary retirement plan expense, and higher costs in support of the Company's omnichannel operations, partially offset by lower depreciation and amortization expense, lower stock-based compensation expense, higher income from credit operations and lower advertising expense. Workers' compensation and general liability insurance costs were \$148 million for 2010, compared to \$124 million for 2009. Pension and supplementary retirement plan expense amounted to \$144 million for 2010, compared to \$110 million for 2009. Depreciation and amortization expense was \$1,150 million for 2010, compared to \$1,210 million for 2009. Stock-based compensation expense was \$66 million for 2010, compared to \$76 million for 2009. Income from credit operations was \$332 million in 2010 as compared to \$323 million in 2009. Advertising expense, net of cooperative advertising allowances, was \$1,072 million for 2010 compared to \$1,087 million for 2009.

Impairments, store closing costs and division consolidation costs for 2010 amounted to \$25 million and included \$18 million of asset impairment charges and \$7 million of other costs and expenses related to the store closings announced in January 2011.

Impairments, store closing costs and division consolidation costs for 2009 amounted to \$391 million and included \$115 million of asset impairment charges, \$6 million of other costs and expenses related to the store closings announced in January 2010, and \$270 million of restructuring-related costs and expenses associated with the division consolidation and localization initiatives, primarily severance and other human resource-related costs.

Net interest expense was \$574 million for 2010, compared to \$556 million for 2009, an increase of \$18 million. The increase in net interest expense is primarily due to approximately \$66 million of expenses associated with the early retirement of approximately \$1,000 million of outstanding debt during 2010, partially offset by lower levels of borrowings due primarily to such early retirement of outstanding debt.

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The Company's effective tax rate of 35.8% for 2010 and 35.2% 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 and the settlement of various tax issues and tax examinations. Federal, state and local income tax expense for 2009 included a benefit of approximately \$21 million related to the settlement of federal income tax examinations, primarily attributable to the disposition of former subsidiaries.

*Comparison of the 52 Weeks Ended January 30, 2010 and January 31, 2009.* Net income for 2009 was \$329 million, compared to the net loss of \$4,775 million for 2008. The net income for 2009 included the impact of \$391 million of impairments, store closing costs and division consolidation costs. The net loss for 2008 included the impact of \$5,382 million of goodwill impairment charges and \$398 million of impairments, store closing costs and division consolidation costs.

Net sales for 2009 totaled \$23,489 million, compared to net sales of \$24,892 million for 2008, a decrease of \$1,403 million or 5.6%. On a comparable store basis, net sales for 2009 were down 5.3% compared to 2008. Sales from the Company's Internet businesses in 2009 increased 19.6% compared to 2008 and positively affected the Company's 2009 comparable store sales by 0.6%. Geographically, sales in 2009 were strong in the Midwest and weaker in Florida and California. By family of business, sales in 2009 were strongest in moderate apparel, updated better women's sportswear, women's shoes, outerwear, jewelry and watches, housewares, home textiles and mattresses. Sales of the Company's private label brands continued to be strong and represented approximately 19% of net sales in the Macy's-branded stores in 2009. The weaker businesses during 2009 included traditional better women's sportswear, men's suits, handbags, fragrances, fine china and crystal and furniture. The Company calculates comparable store sales as net sales from stores in operation throughout 2008 and 2009 and all net 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 \$13,973 million or 59.5% of net sales for 2009, compared to \$15,009 million or 60.3% of net sales for 2008, a decrease of \$1,036 million. The improved cost of sales rate reflected the benefit of good inventory management throughout 2009. 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 \$8,062 million or 34.3% of net sales for 2009, compared to \$8,481 million or 34.1% of net sales for 2008, a decrease of \$419 million. The SG&A rate as a percent of net sales was higher in 2009, as compared to 2008, primarily because of weaker sales. SG&A expenses in 2009 benefited from consolidation-related expense savings, lower depreciation and amortization expenses, lower workers' compensation and general liability insurance costs and lower advertising expense, partially offset by higher stock-based compensation expense, higher performance based incentive compensation expense, lower income from credit operations and higher costs in support of the Company's omnichannel operations. Depreciation and amortization expense was \$1,210 million for 2009, compared to \$1,278 million for 2008. Workers' compensation and general liability insurance costs were \$124 million for 2009, compared to \$164 million for 2008. Advertising expense, net of cooperative advertising allowances, was \$1,087 million for 2009 compared to \$1,239 million for 2008. Stock-based compensation expense was \$76 million for 2009, compared to \$43 million for 2008. Income from credit operations was \$323 million in 2009 as compared to \$372 million in 2008. Pension and supplementary retirement plan expense amounted to \$110 million for 2009, compared to \$114 million for 2008.

Impairments, store closing costs and division consolidation costs for 2009 amounted to \$391 million and included \$115 million of asset impairment charges, \$6 million of other costs and expenses related to the store closings announced in January 2010, and \$270 million of restructuring-related costs and expenses associated with the division consolidation and localization initiatives, primarily severance and other human resource-related costs.

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Impairments, store closing costs and division consolidation costs for 2008 amounted to \$398 million and included \$211 million of asset impairment charges, \$11 million of other costs and expenses related to the store closings announced in January 2009, and \$176 million of restructuring-related costs and expenses associated with the division consolidation and localization initiatives, primarily severance and other human resource-related costs.

Goodwill impairment charges for 2008 amounted to \$5,382 million, which represented a write down of goodwill in the amount of the excess of the previous carrying value of goodwill over the implied fair value of goodwill, as calculated under the two-step goodwill impairment process in accordance with ASC Subtopic 350-20, "Goodwill."

Net interest expense was \$556 million for 2009, compared to \$560 million for 2008, a decrease of \$4 million. The decrease in net interest expense for 2009, as compared to 2008, resulted primarily from a lower level of borrowings due to retirement of debt at maturity and the debt tender offer completed during 2009, and was partially offset by a decrease in interest income due to lower rates on invested cash.

The Company's effective income tax rate of 35.2% for 2009 differed from the federal income tax statutory rate of 35.0% principally because of the effect of state and local income taxes and the settlement of various tax issues and tax examinations. Federal, state and local income tax expense for 2009 included a benefit of approximately \$21 million related to the settlement of federal income tax examinations, primarily attributable to the disposition of former subsidiaries. The Company's effective income tax rate for 2008 differed from the federal income tax statutory rate of 35.0%, principally because of the impact of non-deductible goodwill impairment charges, the effect of state and local income taxes and the settlement of various tax issues and tax examinations.

### ***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 \$1,506 million, compared to \$1,750 million provided in 2009. The decrease in cash provided by operating activities in 2010 compared to 2009 includes a greater decrease in other liabilities not separately identified, primarily accelerated pension contributions. During 2010, the Company made pension funding contributions totaling approximately \$825 million, compared to pension funding contributions made during 2009 of approximately \$370 million.

Net cash used by investing activities was \$465 million for 2010, compared to net cash used by investing activities of \$377 million for 2009. Investing activities for 2010 include purchases of property and equipment totaling \$339 million and capitalized software of \$166 million, compared to purchases of property and equipment totaling \$355 million and capitalized software of \$105 million for 2009. Cash flows from investing activities included \$74 million and \$60 million from the disposition of property and equipment for 2010 and 2009, respectively.

The Company's budgeted capital expenditures are approximately \$800 million for 2011, primarily related to store remodels, maintenance, technology and omnichannel investments, and distribution network improvements, including construction of a new fulfillment center. Management presently anticipates funding such expenditures with cash on hand and cash from operations.

Net cash used by the Company for all financing activities was \$1,263 million for 2010, including the repayment of \$1,245 million of debt and the payment of \$84 million of cash dividends, partially offset by an increase in outstanding checks of \$24 million and the issuance of \$43 million of common stock, primarily related

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to the exercise of stock options. The debt repaid during 2010 includes the early retirement of approximately \$1,000 million of outstanding debt with various stated maturities, and payment at maturity of \$76 million of 8.5% senior notes due June 1, 2010 and \$150 million of 10.625% senior debentures due November 1, 2010.

Net cash used by the Company for all financing activities was \$1,072 million for 2009, including the repayment of \$966 million of debt, a decrease in outstanding checks of \$29 million, and the payment of \$84 million of cash dividends. The debt repaid during 2009 included \$350 million of 6.30% senior notes due April 1, 2009 and \$600 million of 4.80% senior notes due July 15, 2009.

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 amount 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 January 29, 2011 and throughout all of 2010, the Company had no borrowings outstanding under this agreement.

The credit agreement requires the Company to maintain a specified interest coverage ratio for the latest four quarters of no less than 3.25 and a specified leverage ratio as of and for the latest four quarters of no more than 4.50. The Company's interest coverage ratio for 2010 was 5.64 and its leverage ratio at January 29, 2011 was 2.34, in each case as calculated in accordance with the credit agreement. The interest coverage ratio is defined as EBITDA (earnings before interest, taxes, depreciation and amortization) over net interest expense and the leverage ratio is defined as debt over EBITDA. For purposes of these calculations EBITDA is calculated as net income plus interest expense, taxes, depreciation, amortization, non-cash impairment of goodwill, intangibles and real estate, non-recurring cash charges not to exceed in the aggregate \$500 million from the date of the agreement and extraordinary losses less interest income and non-recurring or extraordinary gains. Debt and net interest are adjusted to exclude the premium on acquired debt and the resulting amortization, respectively.

A breach of a restrictive covenant in the Company's credit agreement or the inability of the Company to maintain the financial ratios described above could result in an event of default under the credit agreement. In addition, an event of default would occur under the credit agreement if any indebtedness of the Company in excess of an aggregate principal amount of \$150 million becomes due prior to its stated maturity or the holders of such indebtedness become able to cause it to become due prior to its stated maturity. Upon the occurrence of an event of default, the lenders could, subject to the terms and conditions of the credit agreement, elect to declare the outstanding principal, together with accrued interest, to be immediately due and payable.

Moreover, most of the Company's senior notes and debentures contain cross-default provisions based on the non-payment at maturity, or other default after an applicable grace period, of any other debt, the unpaid principal amount of which is not less than \$100 million, that could be triggered by an event of default under the credit agreement. In such an event, the Company's senior notes and debentures that contain cross-default provisions would also be subject to acceleration.

At January 29, 2011, no notes or debentures contain provisions requiring acceleration of payment upon a debt rating downgrade. However, the terms of approximately \$3,000 million in aggregate principal amount of the Company's senior notes outstanding at that date require the Company to offer to purchase such notes at a price equal to 101% of their principal amount plus accrued and unpaid interest in specified circumstances involving both a change of control (as defined in the applicable indenture) of the Company and the rating of the notes by specified rating agencies at a level below investment grade.

The rate of interest payable in respect of \$612 million in aggregate principal amount of the Company's senior notes outstanding at January 29, 2011 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

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these senior notes outstanding at January 29, 2011 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.

During 2010, the Company repurchased no shares of its common stock under its share repurchase program. The Company's share repurchase program is currently suspended. As of January 29, 2011, the Company had approximately \$850 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.

On February 25, 2011, the Company's board of directors declared a quarterly dividend of 5 cents per share on its common stock, payable April 1, 2011 to Macy's shareholders of record at the close of business on March 15, 2011.

At January 29, 2011, the Company had contractual obligations (within the scope of Item 303(a)(5) of Regulation S-K) as follows:

|                             | Obligations Due, by Period |                     |                              |                |                      |
|-----------------------------|----------------------------|---------------------|------------------------------|----------------|----------------------|
|                             | Total                      | Less than<br>1 Year | 1 – 3<br>Years<br>(millions) | 3 – 5<br>Years | More than<br>5 Years |
| Short-term debt             | \$ 451                     | \$ 451              | \$ 0                         | \$ 0           | \$ 0                 |
| Long-term debt              | 6,702                      | 0                   | 1,219                        | 1,179          | 4,304                |
| Interest on debt            | 5,082                      | 472                 | 814                          | 685            | 3,111                |
| Capital lease obligations   | 58                         | 6                   | 10                           | 7              | 35                   |
| Other long-term liabilities | 1,354                      | 26                  | 375                          | 245            | 708                  |
| Operating leases            | 2,612                      | 245                 | 446                          | 340            | 1,581                |
| Letters of credit           | 38                         | 38                  | 0                            | 0              | 0                    |
| Other obligations           | 2,320                      | 1,988               | 265                          | 61             | 6                    |
|                             | <u>\$18,617</u>            | <u>\$ 3,226</u>     | <u>\$3,129</u>               | <u>\$2,517</u> | <u>\$ 9,745</u>      |

"Other obligations" in the foregoing table consist primarily of merchandise purchase obligations and obligations under outsourcing arrangements, construction contracts, employment contracts, group medical/dental/life insurance programs, energy and other supply agreements identified by the Company and liabilities for unrecognized tax benefits that the Company expects to settle in cash in the next year. The Company's merchandise purchase obligations fluctuate on a seasonal basis, typically being higher in the summer and early fall and being lower in the late winter and early spring. The Company purchases a substantial portion of its merchandise inventories and other goods and services otherwise than through binding contracts. Consequently, the amounts shown as "Other obligations" in the foregoing table do not reflect the total amounts that the Company would need to spend on goods and services in order to operate its businesses in the ordinary course.

The Company has not included in the contractual obligations table approximately \$170 million of long-term liabilities for unrecognized tax benefits for various tax positions taken or approximately \$76 million of related accrued federal, state and local interest and penalties. These liabilities may increase or decrease over time as a result of tax examinations, and given the status of examinations, the Company cannot reliably estimate the period of any cash settlement with the respective taxing authorities. The Company has included in the contractual obligations table \$11 million of liabilities for unrecognized tax benefits that the Company expects to settle in cash in the next year. The Company has not included in the contractual obligation table the \$220 million Pension Plan liability. The Company's funding policy is to contribute amounts necessary to satisfy pension funding requirements, including requirements of the Pension Protection Act of 2006, plus such additional amounts from time to time as are determined to be appropriate to improve the Pension Plan's funded status. The Pension Plan's

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funded status is affected by many factors including discount rates and the performance of Pension Plan assets. On March 28, 2011, the Company made a voluntary funding contribution to the Pension Plan of \$225 million. The Company does not presently anticipate making any additional funding contributions to the Pension Plan during 2011, but may choose to do so in its discretion.

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.

### ***Critical Accounting Policies***

#### *Merchandise Inventories*

Merchandise inventories are valued at the lower of cost or market using the last-in, first-out (LIFO) retail inventory method. Under the retail inventory method, inventory is segregated into departments of merchandise having similar characteristics, and is stated at its current retail selling value. Inventory retail values are converted to a cost basis by applying specific average cost factors for each merchandise department. Cost factors represent the average cost-to-retail ratio for each merchandise department based on beginning inventory and the fiscal year purchase activity. The retail inventory method inherently requires management judgments and contains estimates, such as the amount and timing of permanent markdowns to clear unproductive or slow-moving inventory, which may impact the ending inventory valuation as well as gross margins.

Permanent markdowns designated for clearance activity are recorded when the utility of the inventory has diminished. Factors considered in the determination of permanent markdowns include current and anticipated demand, customer preferences, age of the merchandise and fashion trends. When a decision is made to permanently mark down merchandise, the resulting gross profit reduction is recognized in the period the markdown is recorded.

The Company receives certain allowances from various vendors in support of the merchandise it purchases for resale. The Company receives certain allowances as reimbursement for markdowns taken and/or to support the gross margins earned in connection with the sales of merchandise. These allowances are generally credited to cost of sales at the time the merchandise is sold in accordance with ASC Subtopic 605-50, "Customer Payments and Incentives." The Company also receives advertising allowances from more than 1,000 of its merchandise vendors pursuant to cooperative advertising programs, with some vendors participating in multiple programs. These allowances represent reimbursements by vendors of costs incurred by the Company to promote the

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vendors' merchandise and are netted against advertising and promotional costs when the related costs are incurred in accordance with ASC Subtopic 605-50. Advertising allowances in excess of costs incurred are recorded as a reduction of merchandise costs. The arrangements pursuant to which the Company's vendors provide allowances, while binding, are generally informal in nature and one year or less in duration. The terms and conditions of these arrangements vary significantly from vendor to vendor and are influenced by, among other things, the type of merchandise to be supported. Although it is highly unlikely that there will be any significant reduction in historical levels of vendor support, if such a reduction were to occur, the Company could experience higher costs of sales and higher advertising expense, or reduce the amount of advertising that it uses, depending on the specific vendors involved and market conditions existing at the time.

Physical inventories are generally taken within each merchandise department annually, and inventory records are adjusted accordingly, resulting in the recording of actual shrinkage. While it is not possible to quantify the impact from each cause of shrinkage, the Company has loss prevention programs and policies that are intended to minimize shrinkage. Physical inventories are taken at all store locations for substantially all merchandise categories approximately three weeks before the end of the fiscal year. Shrinkage is estimated as a percentage of sales at interim periods and for this approximate three-week period, based on historical shrinkage rates.

### *Long-Lived Asset Impairment and Restructuring Charges*

The carrying values of long-lived assets are periodically reviewed by the Company whenever events or changes in circumstances indicate that a potential impairment has occurred. For long-lived assets held for use, a potential impairment has occurred if projected future undiscounted cash flows are less than the carrying value of the assets. The estimate of cash flows includes management's assumptions of cash inflows and outflows directly resulting from the use of those assets in operations. When a potential impairment has occurred, an impairment write-down is recorded if the carrying value of the long-lived asset exceeds its fair value. The Company believes its estimated cash flows are sufficient to support the carrying value of its long-lived assets. If estimated cash flows significantly differ in the future, the Company may be required to record asset impairment write-downs.

If the Company commits to a plan to dispose of a long-lived asset before the end of its previously estimated useful life, estimated cash flows are revised accordingly, and the Company may be required to record an asset impairment write-down. Additionally, related liabilities arise such as severance, contractual obligations and other accruals associated with store closings from decisions to dispose of assets. The Company estimates these liabilities based on the facts and circumstances in existence for each restructuring decision. The amounts the Company will ultimately realize or disburse could differ from the amounts assumed in arriving at the asset impairment and restructuring charge recorded.

The Company classifies certain long-lived assets as held for disposal by sale and ceases depreciation when the particular criteria for such classification are met, including the probable sale within one year. For long-lived assets to be disposed of by sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimations of fair values and incremental direct costs to transact a sale.

### *Goodwill and Intangible Assets*

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 goodwill impairment test involves a two-step process. The first step involves estimating the fair value of

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each reporting unit based on its estimated discounted cash flows and comparing the estimated fair value of each reporting unit to its carrying value. If this comparison indicates that a reporting unit's estimated fair value is less than its carrying value, a second step is required. If applicable, the second step requires the Company to allocate the fair value of the reporting unit to the estimated fair value of the reporting unit's net assets, with any fair value in excess of amounts allocated to such net assets representing the implied fair value of goodwill for that reporting unit. If the carrying value of an individual indefinite-lived intangible asset exceeds its fair value, such individual indefinite-lived intangible asset is written down by an amount equal to such excess.

The Company uses judgment in assessing whether assets may have become impaired between annual impairment tests. The occurrence of a change in circumstances, such as continued adverse business conditions or other economic factors, would determine the need for impairment testing between annual impairment tests. Due to deterioration in the general economic environment during 2008 (and the impact thereof on the Company's then-most recently completed annual business plan) and the resultant decline in the Company's market capitalization, the Company believed that an additional goodwill impairment test was required as of January 31, 2009. In performing the first step of this impairment test, the Company estimated the fair value of its reporting units by discounting their projected future cash flows to present value, and reconciling the aggregate estimated fair value of the Company's reporting units to the trading value of the Company's common stock (together with an implied control premium). The Company believes that this reconciliation process represents a market participant approach to valuation. Based on this analysis, the Company determined that the carrying value of each of the Company's reporting units exceeded its fair value at January 31, 2009, which resulted in all of the Company's reporting units failing the first step of the goodwill impairment test. The Company then undertook the second step of the goodwill impairment test, which involved, among other things, obtaining third-party appraisals of substantially all of the Company's tangible and intangible assets. Based on the results of its goodwill impairment testing as of January 31, 2009, the Company recorded a pre-tax goodwill impairment charge of \$5,382 million (\$5,083 million after income taxes) in the fourth quarter of 2008. As a result of the 2008 goodwill impairment charge, the Macy's retail operating division is the only reporting unit with goodwill.

Based on the results of the most recent annual impairment test of goodwill and indefinite-lived intangible assets completed during the second quarter of 2010, 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 goodwill impairment testing process involves the use of 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 SG&A rates, capital expenditures, cash flows and the selection and use of an appropriate discount rate. Projected sales, gross margin and SG&A expense rate assumptions and 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. The allocation of the estimated fair value of the Company's reporting units to the estimated fair value of their net assets also involves the use of significant assumptions, estimates and judgments. Both the estimates of the fair value of the Company's reporting units and the allocation of the estimated fair value of the reporting units to their net assets are based on the best information available to the Company's management as of the date of the assessment.

The use of different assumptions, estimates or judgments in either step of 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, the reasonableness of the resultant implied control premium relative to the Company's market capitalization, and the appraised fair value of the reporting units' tangible and intangible assets and liabilities, could materially increase or decrease the fair value of the reporting unit and/or its net assets and, accordingly, could materially increase or decrease any related impairment charge.

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### *Income Taxes*

Income taxes are estimated based on the tax statutes, regulations and case law of the various jurisdictions in which the Company operates. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and net operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets are evaluated for recoverability based on all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. Deferred income tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred income tax assets will not be realized.

The Company changed its methodology for recording deferred state income taxes from a blended rate basis to a separate entity basis, and has reflected the effects of such change to 2010 and all prior periods. Even though the Company considers the change to have had only an immaterial impact on its financial condition, results of operations and cash flows for the periods presented, the financial condition, results of operations and cash flows for the prior periods as previously reported have been adjusted to reflect the change.

Uncertain tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Uncertain tax positions meeting the more-likely-than-not recognition threshold are then measured to determine the amount of benefit eligible for recognition in the financial statements. Each uncertain tax position is measured at the largest amount of benefit that is more likely than not to be realized upon ultimate settlement. Uncertain tax positions are evaluated and adjusted as appropriate, while taking into account the progress of audits of various taxing jurisdictions. The Company does not anticipate that resolution of these matters will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Significant judgment is required in evaluating the Company's uncertain tax positions, provision for income taxes, and any valuation allowance recorded against deferred tax assets. Although the Company believes that its judgments are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in the Company's historical income provisions and accruals.

### *Self-Insurance Reserves*

The Company, through its insurance subsidiaries, is self-insured for workers' compensation and general liability claims up to certain maximum liability amounts. Although the amounts accrued are actuarially determined by third parties based on analysis of historical trends of losses, settlements, litigation costs and other factors, the amounts the Company will ultimately disburse could differ from such accrued amounts.

### *Pension and Supplementary Retirement Plans*

The Company has a funded defined benefit pension plan (the "Pension Plan") and an unfunded defined benefit supplementary retirement plan (the "SERP"). The Company accounts for these plans in accordance with ASC Topic 715, "Compensation – Retirement Benefits." Under ASC Topic 715, an employer recognizes the funded status of a defined benefit postretirement plan as an asset or liability on the balance sheet and recognizes changes in that funded status in the year in which the changes occur through comprehensive income. Additionally, pension expense is recognized on an accrual basis over employees' approximate service periods. The pension expense calculation is generally independent of funding decisions or requirements. The Company anticipates that Pension and SERP expense, which was approximately \$144 million in 2010, will remain comparable in 2011.

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The Pension Protection Act of 2006 provides the funding requirements for the Pension Plan which are different from the employer's accounting for the plan as outlined in ASC Topic 715. During 2010, the Company made funding contributions to the Pension Plan totaling approximately \$825 million. On March 28, 2011, the Company made a voluntary funding contribution to the Pension Plan of \$225 million. The Company does not presently anticipate making any additional funding contributions to the Pension Plan during 2011, but may choose to do so in its discretion. Management believes that, with respect to the Company's current operations, cash on hand and funds from operations, together with available borrowing under its credit facility and other capital resources, will be sufficient to cover the Company's Pension Plan cash requirements in both the near term and also over the longer term.

At January 29, 2011, the Company had unrecognized actuarial losses of \$1,116 million for the Pension Plan and \$113 million for the SERP. The unrecognized losses for the Pension Plan and the SERP will be recognized as a component of pension expense in future years in accordance with ASC Topic 715, and is expected to impact 2011 Pension and SERP expense by approximately \$90 million.

The calculation of pension expense and pension liabilities requires the use of a number of assumptions. Changes in these assumptions can result in different expense and liability amounts, and future actual experience may differ significantly from current expectations. The Company believes that the most critical assumptions relate to the long-term rate of return on plan assets (in the case of the Pension Plan), the discount rate used to determine the present value of projected benefit obligations and the weighted average rate of increase of future compensation levels.

As of January 29, 2011, the Company lowered the assumed annual long-term rate of return for the Pension Plan's assets from 8.75% to 8.00% based on expected future returns on the portfolio. The Company develops its expected long-term rate of return assumption by evaluating input from several professional advisors taking into account the asset allocation of the portfolio and long-term asset class return expectations, as well as long-term inflation assumptions. Pension expense increases or decreases as the expected rate of return on the assets of the Pension Plan decreases or increases, respectively. Lowering the expected long-term rate of return on the Pension Plan's assets by 0.25% (from 8.00% to 7.75%) would increase the estimated 2011 pension expense by approximately \$8 million and raising the expected long-term rate of return on the Pension Plan's assets by 0.25% (from 8.00% to 8.25%) would decrease the estimated 2011 pension expense by approximately \$8 million.

The Company discounted its future pension obligations using a rate of 5.40% at January 29, 2011, compared to 5.65% at January 30, 2010. The discount rate used to determine the present value of the Company's Pension Plan and SERP obligations is based on a yield curve constructed from a portfolio of high quality corporate debt securities with various maturities. Each year's expected future benefit payments are discounted to their present value at the appropriate yield curve rate, thereby generating the overall discount rate for Pension Plan and SERP obligations. Pension liability and future pension expense both increase or decrease as the discount rate is reduced or increased, respectively. Lowering the discount rate by 0.25% (from 5.40% to 5.15%) would increase the projected benefit obligation at January 29, 2011 by approximately \$98 million and would increase estimated 2011 pension expense by approximately \$11 million. Increasing the discount rate by 0.25% (from 5.40% to 5.65%) would decrease the projected benefit obligation at January 29, 2011 by approximately \$89 million and would decrease estimated 2011 pension expense by approximately \$10 million.

The assumed weighted average age-graded rate of increase in future compensation levels was 4.5% at January 29, 2011 and January 30, 2010 for the Pension Plan, and 4.9% at January 29, 2011 and January 30, 2010 for the SERP. The Company develops its rate of compensation increase assumption on an age-graded basis based on recent experience and reflects an estimate of future compensation levels taking into account general increase levels, seniority, promotions and other factors. This assumption was revised during 2009 based on the completion of a third-party assumption study reflecting more recent experience. Pension liabilities and future pension expense both increase or decrease as the weighted average rate of increase of future compensation levels is

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increased or decreased, respectively. Increasing or decreasing the assumed weighted average rate of increase of future compensation levels by 0.25% would increase or decrease the projected benefit obligation at January 29, 2011 by approximately \$16 million and change estimated 2011 pension expense by approximately \$4 million.

### *New Pronouncements*

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, which provides amendments and requires new disclosures relating to 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 the Company adopted on January 30, 2011. This guidance is limited to the form and content of disclosures, and the portion thereof that has been adopted did not have a material 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.

In July 2010, the FASB issued Accounting Standard Update No. 2010-20, which amends various sections of ASC Topic 310, "Receivables," relating to a company's allowance for credit losses and the credit quality of its financing receivables. The amendment requires companies to provide disaggregated levels of disclosure by portfolio segment and class of financing receivable to enable users of the financial statements to understand the nature of credit risk, how the risk is analyzed in determining the related allowance for credit losses and changes to the allowance during the reporting period. The Company adopted this guidance as of January 29, 2011, except as it relates to disclosures regarding activities during a reporting period, which is effective for interim and annual periods beginning on or after December 31, 2010. This guidance is limited to the form and content of disclosures. The initial adoption did not have, and the full adoption is not expected to have, an impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2010, the FASB issued Accounting Standard Update No. 2010-28, which amends ASC Topic 350, "Goodwill and Other," relating to the goodwill impairment test of a reporting unit with zero or negative carrying amounts. This guidance is effective for interim and annual periods beginning after December 15, 2010. The Company does not anticipate that the adoption of this guidance will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

The Company is exposed to market risk from changes in interest rates that may adversely affect its financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposures through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company does not use financial instruments for trading or other speculative purposes and is not a party to any leveraged financial instruments.

The Company is exposed to interest rate risk through its borrowing activities, which are described in Note 8 to the Consolidated Financial Statements. The majority of the Company's borrowings are under fixed rate instruments. However, the Company, from time to time, may use interest rate swap and interest rate cap agreements to help manage its exposure to interest rate movements and reduce borrowing costs. At January 29, 2011, the Company was not a party to any derivative financial instruments and based on the Company's lack of market risk sensitive instruments outstanding at January 29, 2011, the Company has determined that there was no material market risk exposure to the Company's consolidated financial position, results of operations or cash flows as of such date.

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**Item 8. Consolidated Financial Statements and Supplementary Data.**

Information called for by this item is set forth in the Company's Consolidated Financial Statements and supplementary data contained in this report and is incorporated herein by this reference. Specific financial statements and supplementary data can be found at the pages listed in the following index:

**INDEX**

|   | <u>Page</u> |
|---|-------------|
| <a href="#">Report of Management</a>  | F-2         |
| <a href="#">Report of Independent Registered Public Accounting Firm</a>   | F-3         |
| <a href="#">Consolidated Statements of Operations for the fiscal years ended<br/>January 29, 2011, January 30, 2010 and January 31, 2009</a>                      | F-4         |
| <a href="#">Consolidated Balance Sheets at January 29, 2011 and January 30, 2010</a>  | F-5         |
| <a href="#">Consolidated Statements of Changes in Shareholders' Equity for the fiscal years ended<br/>January 29, 2011, January 30, 2010 and January 31, 2009</a> | F-6         |
| <a href="#">Consolidated Statements of Cash Flows for the fiscal years ended<br/>January 29, 2011, January 30, 2010 and January 31, 2009</a>                      | F-7         |
| <a href="#">Notes to Consolidated Financial Statements</a>  | F-8         |

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**a. Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer have carried out, as of January 29, 2011, 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.

**b. Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). The Company's management conducted an assessment of the Company's internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*. Based on this assessment, the Company's management has concluded that, as of January 29, 2011, the Company's internal control over financial reporting is effective.

The Company's independent registered public accounting firm, KPMG LLP, has audited the effectiveness of the Company's internal control over financial reporting as of January 29, 2011 and has issued an attestation report expressing an unqualified opinion on the effectiveness of the Company's internal control over financial reporting, as stated in their report located on page F-3.

**c. Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal controls 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.

**d. Certifications**

The certifications of the Company's Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act are filed as Exhibits 31.1 and 31.2 to this report. Additionally, in 2010 the Company's Chief Executive Officer certified to the NYSE that he was not aware of any violation by the Company of the NYSE corporate governance listing standards.

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**Item 9B. Other Information.**

In January 2011, the Company determined that the performance restricted stock unit agreements issued to participants in the Company's long-term incentive program (including the Company's principal executive officer, principal financial officer and other named executive officers) on March 19, 2010 contained an erroneous definition of "Net Sales" in the definition of the EBITDA Margin performance goal. On February 25, 2011, the Compensation and Management Development Committee of the Board of Directors authorized the Company to include language in the form of the performance restricted stock unit agreement to be used for 2011 grants, which is filed as Exhibit 10.23 to this report, correcting the definition of Net Sales in the 2010 agreement. Additional information regarding the performance restricted stock units granted to the Company's named executive officers in fiscal 2010 is set forth under "Compensation Discussion & Analysis" and "Compensation of the Named Executives for 2010" in the Proxy Statement to be delivered to shareholders in connection with our 2011 Annual Meeting of Shareholders and incorporated herein by reference.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant.**

Information called for by this item is set forth under “Item 1 – Election of Directors” and “Further Information Concerning the Board of Directors – Committees of the Board” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement to be delivered to stockholders in connection with our 2011 Annual Meeting of Shareholders (the “Proxy Statement”), and “Item 1. Business – Executive Officers of the Registrant” in this report and incorporated herein by reference.

**Item 11. Executive Compensation.**

Information called for by this item is set forth under “Compensation Discussion & Analysis,” “Compensation of the Named Executives for 2010,” “Compensation Committee Report” and “Compensation Committee Interlocks and Insider Participation” in the Proxy Statement and incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Information called for by this item is set forth under “Stock Ownership – Certain Beneficial Owners” and “Stock Ownership – Stock Ownership of Directors and Executive Officers” in the Proxy Statement and incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions.**

Information called for by this item is set forth under “Further Information Concerning the Board of Directors – Director Independence” and “Policy on Related Person Transactions” in the Proxy Statement and incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services.**

Information called for by this item is set forth under “Item 2 – Appointment of Independent Registered Public Accounting Firm” in the Proxy Statement and incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

(a) The following documents are filed as part of this report:

**1. Financial Statements:**

The list of financial statements required by this item is set forth in Item 8 “Consolidated Financial Statements and Supplementary Data” and is incorporated herein by reference.

**2. Financial Statement Schedules:**

All schedules are omitted because they are inapplicable, not required, or the information is included elsewhere in the Consolidated Financial Statements or the notes thereto.

**3. Exhibits:**

| <u>Exhibit Number</u> | <u>Description</u>  | <u>Document if Incorporated by Reference</u>   |
|-----------------------|---|--|
| 3.1                   | Amended and Restated Certificate of Incorporation   | Exhibit 3.1 to the Company’s Current Report on Form 8-K dated May 18, 2010 (the “May 18, 2010 Form 8-K”)             |
| 3.1.1                 | Certificate of Designations of Series A Junior Participating Preferred Stock  | Exhibit 3.1.1 to the Company’s Annual Report on Form 10-K for the fiscal year ended January 28, 1995                 |
| 3.2                   | Amended and Restated By-Laws  | Exhibit 3.2 to the May 18, 2010 Form 8-K   |
| 4.1                   | Amended and Restated Certificate of Incorporation   | See Exhibits 3.1 and 3.1.1   |
| 4.2                   | Amended and Restated By-Laws  | See Exhibit 3.2  |
| 4.3                   | Indenture, dated as of January 15, 1991, among the Company (as successor to The May Department Stores Company (“May Delaware”)), Macy’s Retail Holdings, Inc. (“Macy’s Retail”) (f/k/a The May Department Stores Company (NY) or “May New York”) and The Bank of New York Mellon Trust Company, N.A. (“BNY Mellon”, successor to J.P. Morgan Trust Company and as successor to The First National Bank of Chicago), as Trustee (the “1991 Indenture”) | Exhibit 4(2) to May New York’s Current Report on Form 8-K filed on January 15, 1991                                  |
| 4.3.1                 | Guarantee of Securities, dated as of August 30, 2005, by the Company relating to the 1991 Indenture   | Exhibit 10.13 to the Company’s Current Report on Form 8-K filed on August 30, 2005 (the “August 30, 2005 Form 8-K”)  |
| 4.4                   | Indenture, dated as of December 15, 1994, between the Company and U.S. Bank National Association (successor to State Street Bank and Trust Company and The First National Bank of Boston), as Trustee (the “1994 Indenture”)  | Exhibit 4.1 to the Company’s Registration Statement on Form S-3 (Registration No. 33-88328) filed on January 9, 1995 |

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| <u>Exhibit Number</u> | <u>Description</u>   | <u>Document if Incorporated by Reference</u>   |
|-----------------------|--|--|
| 4.4.1                 | Eighth Supplemental Indenture to the 1994 Indenture, dated as of July 14, 1997, between the Company and U.S. Bank National Association (successor to State Street Bank and Trust Company and The First National Bank of Boston), as Trustee                                  | Exhibit 2 to the Company's Current Report on Form 8-K filed on July 15, 1997 (the "July 1997 Form 8-K")              |
| 4.4.2                 | Ninth Supplemental Indenture to the 1994 Indenture, dated as of July 14, 1997, between the Company and U.S. Bank National Association (successor to State Street Bank and Trust Company and The First National Bank of Boston), as Trustee                                   | Exhibit 3 to the July 1997 Form 8-K  |
| 4.4.3                 | Tenth Supplemental Indenture to the 1994 Indenture, dated as of August 30, 2005, among the Company, Macy's Retail and U.S. Bank National Association (as successor to State Street Bank and Trust Company and as successor to The First National Bank of Boston), as Trustee | Exhibit 10.14 to the August 30, 2005 Form 8-K  |
| 4.4.4                 | Guarantee of Securities, dated as of August 30, 2005, by the Company relating to the 1994 Indenture  | Exhibit 10.16 to the August 30, 2005 Form 8-K  |
| 4.5                   | Indenture, dated as of September 10, 1997, between the Company and U.S. Bank National Association (successor to Citibank, N.A.), as Trustee (the "1997 Indenture")   | Exhibit 4.4 to the Company's Amendment No. 1 to Form S-3 (Registration No. 333-34321) filed on September 11, 1997    |
| 4.5.1                 | First Supplemental Indenture to the 1997 Indenture, dated as of February 6, 1998, between the Company and U.S. Bank National Association (successor to Citibank, N.A.), as Trustee   | Exhibit 2 to the Company's Current Report on Form 8-K filed on February 6, 1998                                      |
| 4.5.2                 | Third Supplemental Indenture to the 1997 Indenture, dated as of March 24, 1999, between the Company and U.S. Bank National Association (successor to Citibank, N.A.), as Trustee   | Exhibit 4.2 to the Company's Registration Statement on Form S-4 (Registration No. 333-76795) filed on April 22, 1999 |
| 4.5.3                 | Fifth Supplemental Trust Indenture dated as of March 27, 2001, between the Company and U.S. Bank National Association (successor to Citibank, N.A.), as Trustee  | Exhibit 4 to the Company's Current Report on Form 8-K filed on March 26, 2001  |
| 4.5.4                 | Seventh Supplemental Indenture to the 1997 Indenture, dated as of August 30, 2005 among the Company, Macy's Retail and U.S. Bank National Association (successor to Citibank, N.A.), as Trustee  | Exhibit 10.15 to the August 30, 2005 Form 8-K  |

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| <u>Exhibit Number</u> | <u>Description</u>   | <u>Document if Incorporated by Reference</u>   |
|-----------------------|--|--|
| 4.5.5                 | Guarantee of Securities, dated as of August 30, 2005, by the Company relating to the 1997 Indenture  | Exhibit 10.17 to the August 30, 2005 Form 8-K  |
| 4.6                   | Indenture, dated as of June 17, 1996, among the Company (as successor to May Delaware), Macy's Retail (f/k/a May New York) and The Bank of New York Mellon Trust Company, N.A. ("BNY Mellon", successor to J.P. Morgan Trust Company), as Trustee (the "1996 Indenture") | Exhibit 4.1 to the Registration Statement on Form S-3 (Registration No. 333-06171) filed on June 18, 1996 by May Delaware  |
| 4.6.1                 | First Supplemental Indenture to the 1996 Indenture, dated as of August 30, 2005, by and among the Company (as successor to May Delaware), Macy's Retail (f/k/a May New York) and BNY Mellon, as Trustee  | Exhibit 10.9 to the August 30, 2005 Form 8-K   |
| 4.7                   | Indenture, dated as of July 20, 2004, among the Company (as successor to May Delaware), Macy's Retail (f/k/a May New York) and BNY Mellon, as Trustee (the "2004 Indenture")   | Exhibit 4.1 to the Current Report on Form 8-K (File No. 001-00079) filed July 21, 2004 by May Delaware                     |
| 4.7.1                 | First Supplemental Indenture to the 2004 Indenture, dated as of August 30, 2005 among the Company (as successor to May Delaware), Macy's Retail and BNY Mellon, as Trustee   | Exhibit 10.10 to the August 30, 2005 Form 8-K  |
| 4.8                   | Indenture, dated as of November 2, 2006, by and among Macy's Retail, the Company and U.S. Bank National Association, as Trustee (the "2006 Indenture")   | Exhibit 4.6 to the Company's Registration Statement on Form S-3ASR (Registration No. 333-138376) filed on November 2, 2006 |
| 4.8.1                 | First Supplemental Indenture to the 2006 Indenture, dated November 29, 2006, among Macy's Retail, the Company and U.S. Bank National Association, as Trustee   | Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 29, 2006   |
| 4.8.2                 | Second Supplemental Indenture to the 2006 Indenture, dated March 12, 2007, among Macy's Retail, the Company and U.S. Bank National Association, as Trustee   | Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 12, 2007 (the "March 12, 2007 Form 8-K")            |
| 4.8.3                 | Third Supplemental Indenture to the 2006 Indenture, dated March 12, 2007, among Macy's Retail, the Company and U.S. Bank National Association, as Trustee  | Exhibit 4.2 to the March 12, 2007 Form 8-K   |
| 4.8.4                 | Fourth Supplemental Indenture to the 2006 Indenture, dated as of August 31, 2007, among Macy's Retail, as issuer, the Company, as guarantor, and U.S. Bank National Association, as trustee  | Exhibit 4.1 to the Company's Current Report on Form 8-K filed on August 31, 2007   |

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| <u>Exhibit Number</u> | <u>Description</u>  | <u>Document if Incorporated by Reference</u>   |
|-----------------------|---|--|
| 4.8.5                 | Fifth Supplemental Trust Indenture to the 2006 Indenture, dated as of June 26, 2008, among Macy's Retail, as issuer, Macy's, Inc., as guarantor, and U.S. Bank National Association, as trustee   | Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 26, 2008   |
| 10.1+                 | Amendment and Restatement Agreement dated as of dated as of December 18, 2008, among Macy's, Inc., Macy's Retail, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent and paying agent, and Bank of America, N.A., as administrative agent, which includes as an exhibit the Amended and Restated Credit Agreement dated as of January 5, 2009, among Macy's, Inc., Macy's Retail, the lenders from time to time parties thereto, JPMorgan Chase Bank, N.A. and Bank of America, N.A., as administrative agents, JPMorgan Chase Bank, N.A., as paying agent, and J.P. Morgan Securities Inc. and Banc of America Securities LLC, as joint bookrunners and joint lead arrangers | Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on September 8, 2009 (the "September 8, 2009 Form 10-Q") |
| 10.2                  | Amended and Restated Guarantee Agreement, dated as of January 5, 2009, among the Company, Macy's Retail, certain subsidiary guarantors and JPMorgan Chase Bank, N.A., as paying agent   | Exhibit 10.2 to the September 8, 2009 Form 10-Q  |
| 10.3                  | Commercial Paper Dealer Agreement, dated as of August 30, 2005, among the Company, Macy's Retail and Banc of America Securities LLC   | Exhibit 10.6 to the August 30, 2005 Form 8-K   |
| 10.4                  | Commercial Paper Dealer Agreement, dated as of August 30, 2005, among the Company, Macy's Retail and Goldman, Sachs & Co.   | Exhibit 10.7 to the August 30, 2005 Form 8-K   |
| 10.5                  | Commercial Paper Dealer Agreement, dated as of August 30, 2005, among the Company, Macy's Retail and J.P. Morgan Securities Inc.  | Exhibit 10.8 to the August 30, 2005 Form 8-K   |
| 10.6                  | Commercial Paper Dealer Agreement, dated as of October 4, 2006, among the Company and Loop Capital Markets, LLC   | Exhibit 10.6 to the 2006 Form 10-K   |
| 10.7                  | Tax Sharing Agreement   | Exhibit 10.10 to the Company's Registration Statement on Form 10, filed on November 27, 1991, as amended (the "Form 10")   |

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| <u>Exhibit Number</u> | <u>Description</u>  | <u>Document if Incorporated by Reference</u>   |
|-----------------------|---|--|
| 10.8+                 | Purchase, Sale and Servicing Transfer Agreement, effective as of June 1, 2005, among the Company, FDS Bank, Prime II Receivables Corporation (“Prime II”) and Citibank, N.A. (“Citibank”)   | Exhibit 10.3 to the September 8, 2009 Form 10-Q  |
| 10.8.1                | Letter Agreement, dated August 22, 2005, among the Company, FDS Bank, Prime II and Citibank   | Exhibit 10.17.1 to the Company’s Annual Report on Form 10-K (File No. 1-13536) for the fiscal year ended January 28, 2006 (the “2005 Form 10-K”) |
| 10.8.2+               | Second Amendment to Purchase, Sale and Servicing Transfer Agreement, dated October 24, 2005, between the Company and Citibank   | Exhibit 10.4 to the September 8, 2009 Form 10-Q  |
| 10.8.3                | Third Amendment to Purchase, Sale and Servicing Transfer Agreement, dated May 1, 2006, between the Company and Citibank   | Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on May 3, 2006  |
| 10.8.4+               | Fourth Amendment to Purchase, Sale and Servicing Transfer Agreement, dated May 22, 2006, between the Company and Citibank   | Exhibit 10.5 to the September 8, 2009 Form 10-Q  |
| 10.9+                 | Credit Card Program Agreement, effective as of June 1, 2005, among the Company, FDS Bank, Macy’s Credit and Customer Services, Inc. (“MCCS”) (f/k/a FACS Group, Inc.) and Citibank  | Exhibit 10.6 to the September 8, 2009 Form 10-Q  |
| 10.9.1+               | First Amendment to Credit Card Program Agreement, dated October 24, 2005, between the Company and Citibank  | Exhibit 10.7 to the September 8, 2009 Form 10-Q  |
| 10.9.2+               | Second Amendment to Credit Card Program Agreement, dated May 22, 2006, between the Company, FDS Bank, MCCS, Macy’s West Stores, Inc. (f/k/a Macy’s Department Stores, Inc.) (“MWSI”), Bloomingdale’s, Inc. (“Bloomingdale’s”) and Department Stores National Bank (“DSNB”) and Citibank | Exhibit 10.8 to the September 8, 2009 Form 10-Q  |
| 10.9.3                | Restated Letter Agreement, dated May 30, 2008 and effective as of December 18, 2006, among the Company, FDS Bank, MCCS, MWSI, Bloomingdale’s, Inc. (“Bloomingdale’s”), and DSNB (as assignee of Citibank, N.A.)   | Exhibit 10.6 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended May 3, 2008 (the “May 3, 2008 Form 10-Q”)             |
| 10.9.4                | Restated Letter Agreement, dated May 30, 2008 and effective as of March 22, 2007, among the Company, FDS Bank, MCCS, MWSI, Bloomingdale’s and DSNB  | Exhibit 10.7 to the May 3, 2008 Form 10-Q  |

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| <u>Exhibit Number</u> | <u>Description</u>   | <u>Document if Incorporated by Reference</u>  |
|-----------------------|--|---|
| 10.9.5                | Restated Letter Agreement, dated May 30, 2008 and effective as of April 6, 2007, among the Company, FDS Bank, MCCA, MWSI, Bloomingdale's and DSNB                                    | Exhibit 10.8 to the May 3, 2008 Form 10-Q   |
| 10.9.6                | Restated Letter Agreement, dated May 30, 2008 and effective as of June 1, 2007, among the Company, FDS Bank, MCCA, MWSI, Bloomingdale's and DSNB                                     | Exhibit 10.9 to the May 3, 2008 Form 10-Q   |
| 10.9.7                | Restated Third Amendment to Credit Card Program Agreement, dated May 31, 2008 and effective as of February 3, 2008, among the Company, FDS Bank, MCCA, MWSI, Bloomingdale's and DSNB | Exhibit 10.10 to the May 3, 2008 Form 10-Q  |
| 10.9.8+               | Fourth Amendment to Credit Card Program Agreement, effective as of August 1, 2008, among the Company, FDS Bank, MCCA, MWSI, Bloomingdale's and DSNB.                                 | Exhibit 10.9 to the September 8, 2009 Form 10-Q   |
| 10.9.9+               | Fifth Amendment to Credit Card Program Agreement, effective as of January 1, 2009, among the Company, FDS Bank, MCCA, MWSI, Bloomingdale's and DSNB                                  | Exhibit 10.10 to the September 8, 2009 Form 10-Q  |
| 10.9.10+              | Sixth Amendment to Credit Card Program Agreement, effective as of June 1, 2009, among the Company, FDS Bank, MCCA, MWSI, Bloomingdale's and DSNB                                     | Exhibit 10.11 to the September 8, 2009 Form 10-Q  |
| 10.9.11+              | Seventh Amendment to Credit Card Program Agreement, effective as of February 26, 2010, among the Company, FDS Bank, MCCA, MWSI, Bloomingdale's and DSNB                              | Exhibit 10.9.11 to the Company's Annual Report on Form 10-K (File No. 1-13536) for the fiscal year ended January 30, 2010   |
| 10.10                 | 1995 Executive Equity Incentive Plan, as amended and restated as of June 1, 2007 (the "1995 Plan") *   | Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009 (the "2008 Form 10-K") |
| 10.11                 | 1992 Incentive Bonus Plan, as amended and restated as of February 3, 2007 *  | Appendix B to the Company's Proxy Statement dated April 4, 2007   |
| 10.12                 | 1994 Stock Incentive Plan, as amended and restated as of June 1, 2007 *  | Exhibit 10.13 to the 2008 Form 10-K   |
| 10.13                 | Form of Indemnification Agreement *  | Exhibit 10.14 to the Form 10  |
| 10.14                 | Employment Agreement, dated as of March 8, 2007, between Terry J. Lundgren and the Company (the "Lundgren Employment Agreement") *   | Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 9, 2007   |
| 10.14.1               | Amendment to Employment Agreement, dated March 19, 2010, between Terry J. Lundgren and the Company   | Exhibit 10.5 to the March 25, 2010 Form 8-K (the "March 25, 2010 Form 8-K") *   |

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| <u>Exhibit Number</u> | <u>Description</u>  | <u>Document if Incorporated by Reference</u>  |
|-----------------------|---|---|
| 10.15                 | Employment Agreement, dated as of April 21, 2008, between Thomas L. Cole and Macy's Corporate Services, Inc. *                      | Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 22, 2008 (the "April 22, 2008 Form 8-K")                            |
| 10.16                 | Employment Agreement, dated as of April 21, 2008, between Janet Grove and Macy's Merchandising Group, Inc. *                        | Exhibit 10.2 to the April 22, 2008 Form 8-K   |
| 10.17                 | Employment Agreement, dated as of April 21, 2008, between Karen M. Hogue and Macy's Corporate Services, Inc. *                      | Exhibit 10.3 to the April 22, 2008 Form 8-K   |
| 10.18                 | Form of Employment Agreement for Executives and Key Employees *   | Exhibit 10.31 the Company's Annual Report on Form 10-K (File No. 001-10951) for fiscal year ended January 29, 1994                          |
| 10.19                 | Executive Severance Plan, effective November 1, 2009 *  | Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on December 7, 2009 (the "December 7, 2009 Form 10-Q")                    |
| 10.20                 | Form of Non-Qualified Stock Option Agreement for the 1995 Plan (for Executives and Key Employees) *                                 | Exhibit 10.2 to the Company's Current Report on Form 8-K dated March 25, 2005   |
| 10.20.1               | Form of Non-Qualified Stock Option Agreement for the 1995 Plan (for Executives and Key Employees), as amended *                     | Exhibit 10.33.1 to the 2005 Form 10-K   |
| 10.20.2               | Form of Non-Qualified Stock Option Agreement for the 1994 Stock Incentive Plan *  | Exhibit 10.7 to the Current Report on Form 8-K (File No. 001-00079) filed on March 23, 2005 by May Delaware (the "March 23, 2005 Form 8-K") |
| 10.20.3               | Form of Nonqualified Stock Option Agreement under the 2009 Omnibus Incentive Compensation Plan (for Executives and Key Employees) * |   |
| 10.21                 | Nonqualified Stock Option Agreement, dated as of October 26, 2007, by and between the Company and Terry Lundgren *                  | Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 1, 2007  |
| 10.22                 | Form of Restricted Stock Agreement for the 1994 Stock Incentive Plan *  | Exhibit 10.4 to the March 23, 2005 Form 8-K   |
| 10.22.1               | Form of Time-Based Restricted Stock Agreement under the 2009 Omnibus Incentive Compensation Plan *                                  | Exhibit 10.3 to the March 25, 2010 Form 8-K   |
| 10.23                 | Form of Performance-Based Restricted Stock Unit Agreement under the 2009 Omnibus Incentive Compensation Plan *                      |   |
| 10.24                 | Form of Performance-Based Restricted Stock Unit Agreement under the 2009 Omnibus Incentive Compensation Plan (Founders Award) *     | Exhibit 10.1 to the Company's Quarterly Report on Form 8-K dated March 24, 2009   |
| 10.25                 | Form of Time-Based Restricted Stock Unit Agreement under the 2009 Omnibus Incentive Compensation Plan *                             | Exhibit 10.4 to the March 25, 2010 Form 8-K   |
| 10.26                 | Supplementary Executive Retirement Plan *   | Exhibit 10.29 to the 2008 Form 10-K   |

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| <u>Exhibit Number</u> | <u>Description</u>   | <u>Document if Incorporated by Reference</u>                    |
|-----------------------|--|---|
| 10.27                 | Executive Deferred Compensation Plan *   | Exhibit 10.30 to the 2008 Form 10-K                             |
| 10.28                 | Macy's, Inc. Profit Sharing 401(k) Investment Plan (the "Plan") (amending and restating the Macy's, Inc. Profit Sharing 401(k) Investment Plan and The May Department Stores Company Profit Sharing Plan), effective as of September 1, 2008 * | Exhibit 10.31 to the 2008 Form 10-K                             |
| 10.28.1               | First Amendment to the Plan regarding matching rate with respect to the Plan's 2009 plan year, effective as of January 1, 2009 *   |   |
| 10.28.2               | Second Amendment to the Plan regarding certain rollover requirements added by the Pension Protection Act of 2006, restated effective as of January 1, 2008 *   |   |
| 10.28.3               | Third Amendment to the Plan regarding matching rate with respect to the Plan's 2010 plan year, effective January 1, 2010 *   |   |
| 10.28.4               | Fourth Amendment to the Plan regarding deferral percentage and average actual contribution limits, effective January 1, 2010 *   |   |
| 10.28.5               | Fifth Amendment to the Plan regarding the Heroes Earnings Assistance and Relief Tax Act of 2008, effective as of January 1, 2008 *   |   |
| 10.28.6               | Sixth Amendment to the Plan regarding matching rate with respect to the Plan's plan year on or after January 1, 2011, effective as of January 1, 2011 *  |   |
| 10.28.7               | Seventh Amendment to the Plan regarding name change of the Plan effective as of April 1, 2011 *  |   |
| 10.29                 | Director Deferred Compensation Plan *  | Exhibit 10.33 to the 2008 Form 10-K                             |
| 10.30                 | Stock Credit Plan for 2006 – 2007 of Federated Department Stores, Inc. *   | Exhibit 10.43 to the 2005 Form 10-K                             |
| 10.30.1               | Stock Credit Plan for 2008 – 2009 of Macy's, Inc. (as amended as of August 22, 2008) *   | Exhibit 10.1 to the August 2, 2008 Form 10-Q                    |
| 10.31                 | Macy's, Inc. 2009 Omnibus Incentive Compensation Plan *  | Appendix B to the Company's Proxy Statement dated April 1, 2009 |
| 10.32                 | Change in Control Plan, effective November 1, 2009 *   | Exhibit 10.2 to the December 7, 2009 Form 10-Q                  |
| 10.33                 | Time Sharing Agreement between Macy's, Inc. and Terry J. Lundgren, dated March 25, 2011 *  |   |
| 21                    | Subsidiaries   |   |
| 23                    | Consent of KPMG LLP  |   |
| 24                    | Powers of Attorney   |   |
| 31.1                  | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)  |   |

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| <u>Exhibit Number</u> | <u>Description</u>  | <u>Document if Incorporated by Reference</u> |
|-----------------------|---|--|
| 31.2                  | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)   |  |
| 32.1                  | Certifications by Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act   |  |
| 32.2                  | Certifications by Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act   |  |
| 101**                 | The following financial statements from Macy's, Inc.'s Annual Report on Form 10-K for the year ended January 29, 2011, filed on March 30, 2011, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Changes in Shareholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail. |  |
| +                     | Portions of the exhibit have been omitted pursuant to a request for confidential treatment. The confidential portions have been provided to the SEC.  |  |
| *                     | Constitutes a compensatory plan or arrangement.   |  |
| **                    | 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.   |  |



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## REPORT OF MANAGEMENT

To the Shareholders of  
Macy's, Inc.:

The integrity and consistency of the Consolidated Financial Statements of Macy's, Inc. and subsidiaries, which were prepared in accordance with accounting principles generally accepted in the United States of America, are the responsibility of management and properly include some amounts that are based upon estimates and judgments.

The Company maintains a system of internal accounting controls, which is supported by a program of internal audits with appropriate management follow-up action, to provide reasonable assurance, at appropriate cost, that the Company's assets are protected and transactions are properly recorded. Additionally, the integrity of the financial accounting system is based on careful selection and training of qualified personnel, organizational arrangements which provide for appropriate division of responsibilities and communication of established written policies and procedures.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f) and has issued Management's Report on Internal Control over Financial Reporting.

The Consolidated Financial Statements of the Company have been audited by KPMG LLP. Their report expresses their opinion as to the fair presentation, in all material respects, of the financial statements and is based upon their independent audits.

The Audit Committee, composed solely of outside directors, meets periodically with KPMG LLP, the internal auditors and representatives of management to discuss auditing and financial reporting matters. In addition, KPMG LLP and the Company's internal auditors meet periodically with the Audit Committee without management representatives present and have free access to the Audit Committee at any time. The Audit Committee is responsible for recommending to the Board of Directors the engagement of the independent registered public accounting firm, which is subject to shareholder approval, and the general oversight review of management's discharge of its responsibilities with respect to the matters referred to above.

Terry J. Lundgren  
Chairman, President and Chief Executive Officer

Karen M. Hoguet  
Chief Financial Officer

Joel A. Belsky  
Executive Vice President and Controller

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
Macy's, Inc.:

We have audited the accompanying consolidated balance sheets of Macy's, Inc. and subsidiaries as of January 29, 2011 and January 30, 2010, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended January 29, 2011. We also have audited Macy's, Inc.'s internal control over financial reporting as of January 29, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Macy's, Inc.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A(b), "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Macy's, Inc. and subsidiaries as of January 29, 2011 and January 30, 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended January 29, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Macy's, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 29, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

Cincinnati, Ohio  
March 30, 2011

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**MACY'S, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(millions, except per share data)**

|   | <u>2010</u>    | <u>2009</u>   | <u>2008</u>       |
|---|----------------|---------------|-------------------|
| Net sales   | \$ 25,003      | \$ 23,489     | \$ 24,892         |
| Cost of sales   | (14,824)       | (13,973)      | (15,009)          |
| Gross margin  | 10,179         | 9,516         | 9,883             |
| Selling, general and administrative expenses                      | (8,260)        | (8,062)       | (8,481)           |
| Impairments, store closing costs and division consolidation costs | (25)           | (391)         | (398)             |
| Goodwill impairment charges                                       | 0              | 0             | (5,382)           |
| Operating income (loss)   | 1,894          | 1,063         | (4,378)           |
| Interest expense  | (579)          | (562)         | (588)             |
| Interest income   | 5              | 6             | 28                |
| Income (loss) before income taxes                                 | 1,320          | 507           | (4,938)           |
| Federal, state and local income tax benefit (expense)             | (473)          | (178)         | 163               |
| Net income (loss)   | <u>\$ 847</u>  | <u>\$ 329</u> | <u>\$ (4,775)</u> |
| Basic earnings (loss) per share                                   | <u>\$ 2.00</u> | <u>\$ .78</u> | <u>\$ (11.34)</u> |
| Diluted earnings (loss) per share                                 | <u>\$ 1.98</u> | <u>\$ .78</u> | <u>\$ (11.34)</u> |

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

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**MACY'S, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(millions)

|   | <u>January 29, 2011</u> | <u>January 30, 2010</u> |
|---|-------------------------|-------------------------|
| <b>ASSETS</b>                                     |                         |                         |
| Current Assets:                                   |                         |                         |
| Cash and cash equivalents                         | \$ 1,464                | \$ 1,686                |
| Receivables                                       | 392                     | 358                     |
| Merchandise inventories                           | 4,758                   | 4,615                   |
| Prepaid expenses and other current assets         | 285                     | 223                     |
| Total Current Assets                              | <u>6,899</u>            | <u>6,882</u>            |
| Property and Equipment – net                      | 8,813                   | 9,507                   |
| Goodwill  | 3,743                   | 3,743                   |
| Other Intangible Assets – net                     | 637                     | 678                     |
| Other Assets                                      | 539                     | 490                     |
| Total Assets                                      | <u>\$ 20,631</u>        | <u>\$ 21,300</u>        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                         |                         |
| Current Liabilities:                              |                         |                         |
| Short-term debt                                   | \$ 454                  | \$ 242                  |
| Merchandise accounts payable                      | 1,421                   | 1,312                   |
| Accounts payable and accrued liabilities          | 2,644                   | 2,626                   |
| Income taxes                                      | 182                     | 68                      |
| Deferred income taxes                             | 364                     | 214                     |
| Total Current Liabilities                         | <u>5,065</u>            | <u>4,462</u>            |
| Long-Term Debt                                    | 6,971                   | 8,456                   |
| Deferred Income Taxes                             | 1,245                   | 1,132                   |
| Other Liabilities                                 | 1,820                   | 2,597                   |
| Shareholders' Equity:                             |                         |                         |
| Common stock (423.3 and 420.8 shares outstanding) | 5                       | 5                       |
| Additional paid-in capital                        | 5,696                   | 5,689                   |
| Accumulated equity                                | 2,990                   | 2,227                   |
| Treasury stock                                    | (2,431)                 | (2,515)                 |
| Accumulated other comprehensive loss              | (730)                   | (753)                   |
| Total Shareholders' Equity                        | <u>5,530</u>            | <u>4,653</u>            |
| Total Liabilities and Shareholders' Equity        | <u>\$ 20,631</u>        | <u>\$ 21,300</u>        |

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

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**MACY'S, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(millions)

|   | Common<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Equity | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Shareholders'<br>Equity |
|---|-----------------|----------------------------------|-----------------------|-------------------|--|----------------------------------|
| Balance at February 2, 2008   | \$ 5            | \$ 5,609                         | \$ 7,032              | \$ (2,557)        | \$ (182)   | \$ 9,907                         |
| Cumulative effect of change in methodology of deferred state income taxes   |                 |                                  | (54)                  |                   |  | (54)                             |
| Balance at February 2, 2008, as revised   | 5               | 5,609                            | 6,978                 | (2,557)           | (182)  | 9,853                            |
| Net loss  |                 |                                  | (4,775)               |                   |  | (4,775)                          |
| Actuarial loss on post employment and postretirement benefit plans, net of income tax effect of \$183 million     |                 |                                  |                       |                   | (294)  | (294)                            |
| Unrealized loss on marketable securities, net of income tax effect of \$11 million                                |                 |                                  |                       |                   | (17)   | (17)                             |
| Reclassifications to net loss:  |                 |                                  |                       |                   |  |                                  |
| Realized loss on marketable securities, net of income tax effect of \$5 million                                   |                 |                                  |                       |                   | 7  | 7                                |
| Net actuarial loss on post employment and postretirement benefit plans, net of income tax effect of \$1 million   |                 |                                  |                       |                   | 1  | 1                                |
| Prior service credit on post employment and postretirement benefit plans, net of income tax effect of \$1 million |                 |                                  |                       |                   | (1)  | (1)                              |
| Total comprehensive loss  |                 |                                  |                       |                   |  | (5,079)                          |
| Common stock dividends (\$.5275 per share)  |                 |                                  | (221)                 |                   |  | (221)                            |
| Stock repurchases   |                 |                                  |                       | (1)               |  | (1)                              |
| Stock-based compensation expense  |                 | 61                               |                       |                   |  | 61                               |
| Stock issued under stock plans  |                 | (7)                              |                       | 13                |  | 6                                |
| Deferred compensation plan distributions  |                 |                                  |                       | 1                 |  | 1                                |
| Balance at January 31, 2009   | 5               | 5,663                            | 1,982                 | (2,544)           | (486)  | 4,620                            |
| Net income  |                 |                                  | 329                   |                   |  | 329                              |
| Actuarial loss on post employment and postretirement benefit plans, net of income tax effect of \$166 million     |                 |                                  |                       |                   | (266)  | (266)                            |
| Unrealized gain on marketable securities, net of income tax effect of \$3 million                                 |                 |                                  |                       |                   | 5  | 5                                |
| Reclassifications to net income:  |                 |                                  |                       |                   |  |                                  |
| Net actuarial gain on postretirement benefit plans, net of income tax effect of \$3 million                       |                 |                                  |                       |                   | (4)  | (4)                              |
| Prior service credit on post employment benefit plans, net of income tax effect of \$1 million                    |                 |                                  |                       |                   | (2)  | (2)                              |
| Total comprehensive income  |                 |                                  |                       |                   |  | 62                               |
| Common stock dividends (\$.20 per share)  |                 |                                  | (84)                  |                   |  | (84)                             |
| Stock repurchases   |                 |                                  |                       | (1)               |  | (1)                              |
| Stock-based compensation expense  |                 | 50                               |                       |                   |  | 50                               |
| Stock issued under stock plans  |                 | (24)                             |                       | 29                |  | 5                                |
| Deferred compensation plan distributions  |                 |                                  |                       | 1                 |  | 1                                |
| Balance at January 30, 2010   | 5               | 5,689                            | 2,227                 | (2,515)           | (753)  | 4,653                            |
| Net income  |                 |                                  | 847                   |                   |  | 847                              |
| Actuarial loss on post employment and postretirement benefit plans, net of income tax effect of \$4 million       |                 |                                  |                       |                   | (17)   | (17)                             |
| Unrealized gain on marketable securities, net of income tax effect of \$3 million                                 |                 |                                  |                       |                   | 5  | 5                                |
| Reclassifications to net income:  |                 |                                  |                       |                   |  |                                  |
| Net actuarial loss on postretirement benefit plans, net of income tax effect of \$23 million                      |                 |                                  |                       |                   | 36   | 36                               |
| Prior service credit on post employment benefit plans, net of income tax effect of \$1 million                    |                 |                                  |                       |                   | (1)  | (1)                              |
| Total comprehensive income  |                 |                                  |                       |                   |  | 870                              |
| Common stock dividends (\$.20 per share)  |                 |                                  | (84)                  |                   |  | (84)                             |
| Stock repurchases   |                 |                                  |                       | (1)               |  | (1)                              |
| Stock-based compensation expense  |                 | 47                               |                       |                   |  | 47                               |
| Stock issued under stock plans  |                 | (40)                             |                       | 82                |  | 42                               |
| Deferred compensation plan distributions  |                 |                                  |                       | 3                 |  | 3                                |
| Balance at January 29, 2011   | \$ 5            | \$ 5,696                         | \$ 2,990              | \$ (2,431)        | \$ (730)   | \$ 5,530                         |

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

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

|  | <u>2010</u>     | <u>2009</u>     | <u>2008</u>     |
|--|-----------------|-----------------|-----------------|
| <b>Cash flows from operating activities:</b>   |                 |                 |                 |
| Net income (loss)  | \$ 847          | \$ 329          | \$(4,775)       |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                 |                 |                 |
| Impairments, store closing costs and division consolidation costs                        | 25              | 391             | 398             |
| Goodwill impairment charges  | 0               | 0               | 5,382           |
| Depreciation and amortization  | 1,150           | 1,210           | 1,278           |
| Stock-based compensation expense   | 66              | 76              | 43              |
| Amortization of financing costs and premium on acquired debt                             | (25)            | (23)            | (27)            |
| Changes in assets and liabilities:   |                 |                 |                 |
| (Increase) decrease in receivables   | (51)            | 7               | (1)             |
| (Increase) decrease in merchandise inventories   | (143)           | 154             | 291             |
| (Increase) decrease in supplies and prepaid expenses                                     | (10)            | 3               | (7)             |
| (Increase) decrease in other assets not separately identified                            | 2               | (16)            | 1               |
| Increase (decrease) in merchandise accounts payable                                      | 91              | 29              | (90)            |
| Decrease in accounts payable and accrued liabilities not separately identified           | (45)            | (201)           | (228)           |
| Increase (decrease) in current income taxes  | 115             | 40              | (146)           |
| Increase (decrease) in deferred income taxes   | 241             | 123             | (315)           |
| Increase (decrease) in other liabilities not separately identified                       | (757)           | (372)           | 62              |
| Net cash provided by operating activities  | <u>1,506</u>    | <u>1,750</u>    | <u>1,866</u>    |
| <b>Cash flows from investing activities:</b>   |                 |                 |                 |
| Purchase of property and equipment   | (339)           | (355)           | (761)           |
| Capitalized software   | (166)           | (105)           | (136)           |
| Proceeds from property insurance claims  | 6               | 26              | 68              |
| Disposition of property and equipment  | 74              | 60              | 38              |
| Other, net   | (40)            | (3)             | (1)             |
| Net cash used by investing activities  | <u>(465)</u>    | <u>(377)</u>    | <u>(792)</u>    |
| <b>Cash flows from financing activities:</b>   |                 |                 |                 |
| Debt issued  | 0               | 0               | 650             |
| Financing costs  | 0               | 0               | (18)            |
| Debt repaid  | (1,245)         | (966)           | (666)           |
| Dividends paid   | (84)            | (84)            | (221)           |
| Increase (decrease) in outstanding checks  | 24              | (29)            | (116)           |
| Acquisition of treasury stock  | (1)             | (1)             | (1)             |
| Issuance of common stock   | 43              | 8               | 7               |
| Net cash used by financing activities  | <u>(1,263)</u>  | <u>(1,072)</u>  | <u>(365)</u>    |
| Net increase (decrease) in cash and cash equivalents                                     | (222)           | 301             | 709             |
| Cash and cash equivalents beginning of period  | 1,686           | 1,385           | 676             |
| Cash and cash equivalents end of period  | <u>\$ 1,464</u> | <u>\$ 1,686</u> | <u>\$ 1,385</u> |
| <b>Supplemental cash flow information:</b>   |                 |                 |                 |
| Interest paid  | \$ 627          | \$ 601          | \$ 642          |
| Interest received  | 5               | 9               | 26              |
| Income taxes paid (net of refunds received)  | 108             | 35              | 323             |

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

**MACY'S, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and 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 in 45 states, the District of Columbia, Guam and Puerto Rico. As of January 29, 2011, the Company's operations were conducted through Macy's, macys.com, Bloomingdale's, bloomingdales.com and Bloomingdale's Outlet, which are aggregated into one reporting segment in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280, "Segment Reporting." The metrics used by management to assess the performance of the Company's operating divisions include sales trends, gross margin rates, expense rates, and rates of earnings before interest and taxes ("EBIT") and earnings before interest, taxes, depreciation and amortization ("EBITDA"). The Company's operating divisions have historically had similar economic characteristics and are expected to have similar economic characteristics and long-term financial performance in future periods.

For 2010, 2009 and 2008, the following merchandise constituted the following percentages of sales:

|   | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|-------------|
| Feminine Accessories, Intimate Apparel, Shoes and Cosmetics | 36%         | 36%         | 36%         |
| Feminine Apparel  | 26          | 26          | 27          |
| Men's and Children's  | 23          | 22          | 22          |
| Home/Miscellaneous  | 15          | 16          | 15          |
|   | <u>100%</u> | <u>100%</u> | <u>100%</u> |

The Company's fiscal year ends on the Saturday closest to January 31. Fiscal years 2010, 2009 and 2008 ended on January 29, 2011, January 30, 2010 and January 31, 2009, respectively. References to years in the Consolidated Financial Statements relate to fiscal years rather than calendar years.

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. The Company from time to time invests in companies engaged in complementary businesses. Investments in companies in which the Company has the ability to exercise significant influence, but not control, are accounted for by the equity method. All marketable equity and debt securities held by the Company are accounted for under ASC Topic 320, "Investments – Debt and Equity Securities," with unrealized gains and losses on available-for-sale securities being included as a separate component of accumulated other comprehensive income, net of income tax effect. All other investments are carried at cost. All significant intercompany transactions have been eliminated.

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Net sales include merchandise sales, leased department income and shipping and handling fees. In 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 (“SG&A”). 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 annual periods prior to fiscal 2010. The Company licenses third parties to operate certain departments in its stores. The Company receives commissions from these licensed departments based on a percentage of net sales. Commissions are recognized as income at the time merchandise is sold to customers. Sales taxes collected from customers are not considered revenue and are included in accounts payable and accrued liabilities until remitted to the taxing authorities. Cost of sales consists of the cost of merchandise, including inbound freight, and shipping and handling costs. Sales of merchandise are recorded at the time of delivery and reported net of merchandise returns. An estimated allowance for future sales returns is recorded and cost of sales is adjusted accordingly.

Cash and cash equivalents include cash and liquid investments with original maturities of three months or less. Cash and cash equivalents also includes credit card sales transactions that are settled early in the following period and amounted to \$104 million at January 29, 2011 and \$98 million at January 30, 2010.

In connection with the sale of the Company’s credit assets, the Company and Citibank, N.A. entered into a long-term marketing and servicing alliance pursuant to the terms of a Credit Card Program Agreement (the “Program Agreement”) (see Note 4, “Receivables”). Income earned under the Program Agreement is treated as a reduction of SG&A expenses on the Consolidated Statements of Operations. Under the Program Agreement, Citibank offers proprietary and non-proprietary credit to the Company’s customers through previously existing and newly opened accounts.

The Company maintains customer loyalty programs in which customers are awarded certificates based on their spending. Upon reaching certain levels of qualified spending, customers automatically receive certificates to apply toward future purchases. The Company recognizes the estimated net amount of the certificates that will be earned and redeemed as a reduction to net sales.

Merchandise inventories are valued at lower of cost or market using the last-in, first-out (LIFO) retail inventory method. Under the retail inventory method, inventory is segregated into departments of merchandise having similar characteristics, and is stated at its current retail selling value. Inventory retail values are converted to a cost basis by applying specific average cost factors for each merchandise department. Cost factors represent the average cost-to-retail ratio for each merchandise department based on beginning inventory and the fiscal year purchase activity. The retail inventory method inherently requires management judgments and estimates, such as the amount and timing of permanent markdowns to clear unproductive or slow-moving inventory, which may impact the ending inventory valuation as well as gross margins.

Permanent markdowns designated for clearance activity are recorded when the utility of the inventory has diminished. Factors considered in the determination of permanent markdowns include current and anticipated demand, customer preferences, age of the merchandise and fashion trends. When a decision is made to permanently mark down merchandise, the resulting gross margin reduction is recognized in the period the markdown is recorded.

Physical inventories are generally taken within each merchandise department annually, and inventory records are adjusted accordingly, resulting in the recording of actual shrinkage. While it is not possible to quantify the impact from each cause of shrinkage, the Company has loss prevention programs and policies that

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

are intended to minimize shrinkage. Physical inventories are taken at all store locations for substantially all merchandise categories approximately three weeks before the end of the fiscal year. Shrinkage is estimated as a percentage of sales at interim periods and for this approximate three-week period, based on historical shrinkage rates.

The Company receives certain allowances from various vendors in support of the merchandise it purchases for resale. The Company receives certain allowances as reimbursement for markdowns taken and/or to support the gross margins earned in connection with the sales of merchandise. These allowances are generally credited to cost of sales at the time the merchandise is sold in accordance with ASC Subtopic 605-50, "Customer Payments and Incentives." The Company also receives advertising allowances from more than 1,000 of its merchandise vendors pursuant to cooperative advertising programs, with some vendors participating in multiple programs. These allowances represent reimbursements by vendors of costs incurred by the Company to promote the vendors' merchandise and are netted against advertising and promotional costs when the related costs are incurred in accordance with ASC Subtopic 605-50. Advertising allowances in excess of costs incurred are recorded as a reduction of merchandise costs and, ultimately, through cost of sales when the merchandise is sold.

Advertising and promotional costs, net of cooperative advertising allowances, amounted to \$1,072 million for 2010, \$1,087 million for 2009 and \$1,239 million for 2008. Cooperative advertising allowances that offset advertising and promotional costs were approximately \$345 million for 2010, \$298 million for 2009 and \$372 million for 2008. Department store non-direct response advertising and promotional costs are expensed either as incurred or the first time the advertising occurs. Direct response advertising and promotional costs are deferred and expensed over the period during which the sales are expected to occur, generally one to four months.

The arrangements pursuant to which the Company's vendors provide allowances, while binding, are generally informal in nature and one year or less in duration. The terms and conditions of these arrangements vary significantly from vendor to vendor and are influenced by, among other things, the type of merchandise to be supported.

Depreciation of owned properties is provided primarily on a straight-line basis over the estimated asset lives, which range from fifteen to fifty years for buildings and building equipment and three to fifteen years for fixtures and equipment. Real estate taxes and interest on construction in progress and land under development are capitalized. Amounts capitalized are amortized over the estimated lives of the related depreciable assets. The Company receives contributions from developers and merchandise vendors to fund building improvement and the construction of vendor shops. Such contributions are netted against the capital expenditures.

Buildings on leased land and leasehold improvements are amortized over the shorter of their economic lives or the lease term, beginning on the date the asset is put into use. The Company receives contributions from landlords to fund buildings and leasehold improvements. Such contributions are recorded as deferred rent and amortized as reductions to lease expense over the lease term.

The Company recognizes operating lease minimum rentals on a straight-line basis over the lease term. Executory costs such as real estate taxes and maintenance, and contingent rentals such as those based on a percentage of sales are recognized as incurred.

The lease term, which includes all renewal periods that are considered to be reasonably assured, begins on the date the Company has access to the leased property.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The carrying value of long-lived assets is periodically reviewed by the Company whenever events or changes in circumstances indicate that a potential impairment has occurred. For long-lived assets held for use, a potential impairment has occurred if projected future undiscounted cash flows are less than the carrying value of the assets. The estimate of cash flows includes management's assumptions of cash inflows and outflows directly resulting from the use of those assets in operations. When a potential impairment has occurred, an impairment write-down is recorded if the carrying value of the long-lived asset exceeds its fair value. The Company believes its estimated cash flows are sufficient to support the carrying value of its long-lived assets. If estimated cash flows significantly differ in the future, the Company may be required to record asset impairment write-downs.

If the Company commits to a plan to dispose of a long-lived asset before the end of its previously estimated useful life, estimated cash flows are revised accordingly, and the Company may be required to record an asset impairment write-down. Additionally, related liabilities arise such as severance, contractual obligations and other accruals associated with store closings from decisions to dispose of assets. The Company estimates these liabilities based on the facts and circumstances in existence for each restructuring decision. The amounts the Company will ultimately realize or disburse could differ from the amounts assumed in arriving at the asset impairment and restructuring charge recorded.

The Company classifies certain long-lived assets as held for disposal by sale and ceases depreciation when the particular criteria for such classification are met, including the probable sale within one year. For long-lived assets to be disposed of by sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimations of fair values and incremental direct costs to transact a sale.

The carrying value of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment in accordance with ASC Subtopic 350-20 "Goodwill." 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 Company estimates fair value based on discounted cash flows. The goodwill impairment test involves a two-step process. The first step is a comparison of each reporting unit's fair value to its carrying value. The reporting unit's discounted cash flows require significant management judgment with respect to sales, gross margin and SG&A rates, capital expenditures and the selection and use of an appropriate discount rate. The projected sales, gross margin and SG&A expense rate assumptions and 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 directly resulting from the use of those assets in operations. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. If the carrying value of a reporting unit exceeds its estimated fair value in the first step, a second step is performed, in which the reporting unit's goodwill is written down to its implied fair value. The second step requires the Company to allocate the fair value of the reporting unit derived in the first step to the fair value of the reporting unit's net assets, with any fair value in excess of amounts allocated to such net assets representing the implied fair value of goodwill for that reporting unit. If the carrying value of an individual indefinite-lived intangible asset exceeds its fair value, such individual indefinite-lived intangible asset is written down by an amount equal to such excess.

The Company capitalizes purchased and internally developed software and amortizes such costs to expense on a straight-line basis over two to five years. Capitalized software is included in other assets on the Consolidated Balance Sheets.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Historically, the Company offered both expiring and non-expiring gift cards to its customers. At the time gift cards are sold, no revenue is recognized; rather, the Company records an accrued liability to customers. The liability is relieved and revenue is recognized equal to the amount redeemed at the time gift cards are redeemed for merchandise. The Company records income from unredeemed gift cards (breakage) as a reduction of SG&A expenses. For expiring gift cards, income is recorded at the end of two years (expiration date) when there is no longer a legal obligation. For non-expiring gift cards, income is recorded in proportion and over the time period gift cards are actually redeemed. At least three years of historical data, updated annually, is used to determine actual redemption patterns. Since February 2, 2008, the Company sells only non-expiring gift cards.

The Company, through its insurance subsidiaries, is self-insured for workers compensation and general liability claims up to certain maximum liability amounts. Although the amounts accrued are actuarially determined based on analysis of historical trends of losses, settlements, litigation costs and other factors, the amounts the Company will ultimately disburse could differ from such accrued amounts.

The Company, through its actuaries, utilizes assumptions when estimating the liabilities for pension and other employee benefit plans. These assumptions, where applicable, include the discount rates used to determine the actuarial present value of projected benefit obligations, the rate of increase in future compensation levels, the long-term rate of return on assets and the growth in health care costs. The cost of these benefits is recognized in the Consolidated Financial Statements over an employee's term of service with the Company, and the accrued benefits are reported in accounts payable and accrued liabilities and other liabilities on the Consolidated Balance Sheets, as appropriate.

Financing costs are amortized using the effective interest method over the life of the related debt.

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and net operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the Consolidated Statements of Operations in the period that includes the enactment date. Deferred income tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred income tax assets will not be realized.

The Company changed its methodology for recording deferred state income taxes from a blended rate basis to a separate entity basis, and has reflected the effects of such change to 2010 and all prior periods. Even though the Company considers the change to have had only an immaterial impact on its financial condition, results of operations and cash flows for the periods presented, the financial condition, results of operations and cash flows for the prior periods as previously reported have been adjusted to reflect the change.

The Company records derivative transactions according to the provisions of ASC Topic 815 "Derivatives and Hedging," which establishes accounting and reporting standards for derivative instruments and hedging activities and requires recognition of all derivatives as either assets or liabilities and measurement of those instruments at fair value. The Company makes limited use of derivative financial instruments. The Company does not use financial instruments for trading or other speculative purposes and is not a party to any leveraged financial instruments. On the date that the Company enters into a derivative contract, the Company designates the derivative instrument as either a fair value hedge, a cash flow hedge or as a free-standing derivative instrument, each of which would receive different accounting treatment. Prior to entering into a hedge transaction, the

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Company formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. Derivative instruments that the Company may use as part of its interest rate risk management strategy include interest rate swap and interest rate cap agreements and Treasury lock agreements. At January 29, 2011, the Company was not a party to any derivative financial instruments.

The Company records stock-based compensation expense according to the provisions of ASC Topic 718, "Compensation – Stock Compensation." ASC Topic 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Under the provisions of ASC Topic 718, the Company must determine the appropriate fair value model to be used for valuing share-based payments and the amortization method for compensation cost. See Note 13, "Stock Based Compensation," for further information.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, which provides amendments and requires new disclosures relating to 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 the Company adopted on January 30, 2011. This guidance is limited to the form and content of disclosures, and the portion thereof that has been adopted did not have a material 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.

In July 2010, the FASB issued Accounting Standard Update No. 2010-20, which amends various sections of ASC Topic 310, "Receivables," relating to a company's allowance for credit losses and the credit quality of its financing receivables. The amendment requires companies to provide disaggregated levels of disclosure by portfolio segment and class of financing receivable to enable users of the financial statements to understand the nature of credit risk, how the risk is analyzed in determining the related allowance for credit losses and changes to the allowance during the reporting period. The Company adopted this guidance as of January 29, 2011, except as it relates to disclosures regarding activities during a reporting period, which is effective for interim and annual periods beginning on or after December 31, 2010. This guidance is limited to the form and content of disclosures. The initial adoption did not have, and the full adoption is not expected to have, an impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2010, the FASB issued Accounting Standard Update No. 2010-28, which amends ASC Topic 350, "Goodwill and Other," relating to the goodwill impairment test of a reporting unit with zero or negative carrying amounts. This guidance is effective for interim and annual periods beginning after December 15, 2010. The Company does not anticipate that the adoption of this guidance will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**2. Impairments, Store Closing Costs and Division Consolidation Costs**

Impairments, store closing costs, and division consolidation costs consist of the following:

|  | <u>2010</u> | <u>2009</u><br>(millions) | <u>2008</u>  |
|--|-------------|---------------------------|--------------|
| <b>Impairments:</b>                                |             |                           |              |
| Properties held and used                           | \$18        | \$115                     | \$136        |
| Acquired indefinite-lived private brand tradenames | 0           | 0                         | 63           |
| Marketable securities                              | 0           | 0                         | 12           |
| <b>Store closing costs:</b>                        |             |                           |              |
| Severance  | 1           | 2                         | 4            |
| Other  | 6           | 4                         | 7            |
| <b>Division consolidation costs</b>                | <u>0</u>    | <u>270</u>                | <u>176</u>   |
|  | <u>\$25</u> | <u>\$391</u>              | <u>\$398</u> |

Long-lived assets held for use are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability of long-lived assets is based on an estimate of undiscounted future cash flows resulting from the use of those assets in operation. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value. As a result of the Company's projected undiscounted future cash flows related to certain store locations being less than the carrying value of those assets, the Company recorded the impairment charges reflected in the table above relating to properties held and used, including properties that were the subject of announced store closings. The fair values of these locations were calculated based on the projected cash flows and an estimated risk-adjusted rate of return that would be used by market participants in valuing these assets or based on prices of similar assets.

During January 2011, the Company announced the closure of three underperforming Macy's stores; during January 2010, the Company announced the closure of five underperforming Macy's stores; and during January 2009, the Company announced the closure of eleven underperforming Macy's stores. In connection with these announcements and the plans to dispose of these locations, the Company incurred severance costs and other costs related to lease obligations and other store liabilities. For 2010, these costs also included a loss on the sale of one property to be disposed.

The following table shows for 2010, 2009 and 2008, the beginning and ending balance of, and the activity associated with, the severance accruals established in connection with announced store closings:

|                                | <u>2010</u> | <u>2009</u><br>(millions) | <u>2008</u> |
|--------------------------------|-------------|---------------------------|-------------|
| Balance, beginning of year     | \$ 2        | \$ 4                      | \$ 0        |
| Charged to store closing costs | 1           | 2                         | 4           |
| Payments                       | <u>(2)</u>  | <u>(4)</u>                | <u>0</u>    |
| Balance, end of year           | <u>\$ 1</u> | <u>\$ 2</u>               | <u>\$ 4</u> |

The Company expects to pay out the 2010 accrued severance costs, which are included in accounts payable and accrued liabilities on the Consolidated Balance Sheets, prior to April 30, 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In February 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 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 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 costs and expenses associated with the division consolidations and localization initiatives consisted primarily of severance costs and other human resource-related costs.

The following table shows for 2010, 2009 and 2008, the beginning and ending balance of, and the activity associated with, the severance accruals established in connection with the division consolidations and localization initiatives:

|   | <u>2010</u> | <u>2009</u><br>(millions) | <u>2008</u>  |
|---|-------------|---------------------------|--------------|
| Balance, beginning of year              | \$ 69       | \$ 30                     | \$ 0         |
| Charged to division consolidation costs | 0           | 166                       | 99           |
| Payments                                | (69)        | (127)                     | (69)         |
| Balance, end of year                    | <u>\$ 0</u> | <u>\$ 69</u>              | <u>\$ 30</u> |

The Company performed both an annual and an interim impairment test of goodwill and indefinite-lived intangible assets during 2008 (see Note 3, “Goodwill Impairment Charges”). As a result of the then-current economic environment and expectations regarding future operating performance of the Karen Scott, John Ashford and Frango private brand tradenames, it was determined that the carrying values exceeded the estimated fair values, which were based on discounted cash flows, and management concluded that asset impairment charges were required.

The Company accounts for its investment in available-for-sale marketable equity securities with unrealized gains and losses being included as a separate component of accumulated other comprehensive income. During 2008, based on the then-current economic environment, it was determined that the carrying value of certain marketable equity securities exceeded the current fair value on an “other-than-temporary” basis, and the previously unrecognized losses in accumulated other comprehensive income were reclassified into the Consolidated Statements of Operations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****3. Goodwill Impairment Charges**

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 goodwill impairment test involves a two-step process. The first step involves estimating the fair value of each reporting unit based on its estimated discounted cash flows and comparing the estimated fair value of each reporting unit to its carrying value. If this comparison indicates that a reporting unit's estimated fair value is less than its carrying value, a second step is required. If applicable, the second step requires the Company to allocate the fair value of the reporting unit to the estimated fair value of the reporting unit's net assets, with any fair value in excess of amounts allocated to such net assets representing the implied fair value of goodwill for that reporting unit. If the carrying value of an individual indefinite-lived intangible asset exceeds its fair value, such individual indefinite-lived intangible asset is written down by an amount equal to such excess.

The Company uses judgment in assessing whether assets may have become impaired between annual impairment tests. The occurrence of a change in circumstances, such as continued adverse business conditions or other economic factors, would determine the need for impairment testing between annual impairment tests. Due to deterioration in the general economic environment in 2008 (and the impact thereof on the Company's then-most recently completed annual business plan) and the resultant decline in the Company's market capitalization, the Company believed that an additional goodwill impairment test was required as of January 31, 2009. In performing the first step of this impairment test, the Company estimated the fair value of its reporting units by discounting their projected future cash flows to present value, and reconciling the aggregate estimated fair value of the Company's reporting units to the trading value of the Company's common stock (together with an implied control premium). The Company believes that this reconciliation process represents a market participant approach to valuation. Based on this analysis, the Company determined that the carrying value of each of the Company's reporting units exceeded its fair value at January 31, 2009, which resulted in all of the Company's reporting units failing the first step of the goodwill impairment test. The Company then undertook the second step of the goodwill impairment test, which involved, among other things, obtaining third-party appraisals of substantially all of the Company's tangible and intangible assets. Based on the results of its goodwill impairment testing as of January 31, 2009, the Company recorded a pre-tax goodwill impairment charge of \$5,382 million (\$5,083 million after income taxes) in the fourth quarter of 2008. As a result of the 2008 goodwill impairment charge, Macy's is the only retail operating division with goodwill.

Based on the results of the most recent annual impairment test of goodwill and indefinite-lived intangible assets completed during the second quarter of 2010, 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 reporting unit substantially exceeded its carrying value.

The goodwill impairment testing process involves the use of 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 SG&A rates, capital expenditures, cash flows and the selection and use of an appropriate discount rate. Projected sales, gross margin and expense rate assumptions and capital expenditures are based on the Company's 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. The allocation of the estimated fair value of the Company's reporting units to the estimated fair value of their net assets also involves the use of significant assumptions,

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

estimates and judgments. Both the estimates of the fair value of the Company's reporting units and the allocation of the estimated fair value of the reporting units to their net assets are based on the best information available to the Company's management as of the date of the assessment.

The use of different assumptions, estimates or judgments in either step of 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, the reasonableness of the resultant implied control premium relative to the Company's market capitalization, and the appraised fair value of the reporting units' tangible and intangible assets and liabilities, could materially increase or decrease the fair value of the reporting unit and/or its net assets and, accordingly, could materially increase or decrease any related impairment charge.

**4. Receivables**

Receivables were \$392 million at January 29, 2011, compared to \$358 million at January 30, 2010.

In connection with the sales of credit card accounts and related receivable balances, the Company and Citibank entered into a long-term marketing and servicing alliance pursuant to the terms of a Credit Card Program Agreement (the "Program Agreement") with an initial term of 10 years expiring on July 17, 2016 and, unless terminated by either party as of the expiration of the initial term, an additional renewal term of three years. The Program Agreement provides for, among other things, (i) the ownership by Citibank of the accounts purchased by Citibank, (ii) the ownership by Citibank of new accounts opened by the Company's customers, (iii) the provision of credit by Citibank to the holders of the credit cards associated with the foregoing accounts, (iv) the servicing of the foregoing accounts, and (v) the allocation between Citibank and the Company of the economic benefits and burdens associated with the foregoing and other aspects of the alliance.

Pursuant to the Program Agreement, the Company continues to provide certain servicing functions related to the accounts and related receivables owned by Citibank and receives compensation from Citibank for these services. The amounts earned under the Program Agreement related to the servicing functions are deemed adequate compensation and, accordingly, no servicing asset or liability has been recorded on the Consolidated Balance Sheets.

Amounts received under the Program Agreement were \$528 million for 2010, \$525 million for 2009 and \$594 million for 2008, and are treated as reductions of SG&A expenses on the Consolidated Statements of Operations. The Company's earnings from credit operations, net of servicing expenses, were \$332 million for 2010, \$323 million for 2009, and \$372 million for 2008.

**5. Inventories**

Merchandise inventories were \$4,758 million at January 29, 2011, compared to \$4,615 million at January 30, 2010. At these dates, the cost of inventories using the LIFO method approximated the cost of such inventories using the FIFO method. The application of the LIFO method did not impact cost of sales for 2010, 2009 or 2008.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 6. Properties and Leases

|   | January 29,<br>2011 | (millions) | January 30,<br>2010 |
|---|---------------------|------------|---------------------|
| Land  | \$ 1,702            |            | \$ 1,719            |
| Buildings on owned land                             | 5,148               |            | 5,160               |
| Buildings on leased land and leasehold improvements | 2,227               |            | 2,232               |
| Fixtures and equipment                              | 5,752               |            | 6,129               |
| Leased properties under capitalized leases          | 33                  |            | 49                  |
|   | <u>14,862</u>       |            | <u>15,289</u>       |
| Less accumulated depreciation and amortization      | 6,049               |            | 5,782               |
|   | <u>\$ 8,813</u>     |            | <u>\$ 9,507</u>     |

In connection with various shopping center agreements, the Company is obligated to operate certain stores within the centers for periods of up to twenty years. Some of these agreements require that the stores be operated under a particular name.

The Company leases a portion of the real estate and personal property used in its operations. Most leases require the Company to pay real estate taxes, maintenance and other executory costs; some also require additional payments based on percentages of sales and some contain purchase options. Certain of the Company's real estate leases have terms that extend for significant numbers of years and provide for rental rates that increase or decrease over time. In addition, certain of these leases contain covenants that restrict the ability of the tenant (typically a subsidiary of the Company) to take specified actions (including the payment of dividends or other amounts on account of its capital stock) unless the tenant satisfies certain financial tests.

Minimum rental commitments (excluding executory costs) at January 29, 2011, for noncancellable leases are:

|   | Capitalized<br>Leases | Operating<br>Leases<br>(millions) | Total          |
|---|-----------------------|-----------------------------------|----------------|
| Fiscal year:  |                       |                                   |                |
| 2011  | \$ 6                  | \$ 245                            | \$ 251         |
| 2012  | 6                     | 233                               | 239            |
| 2013  | 4                     | 213                               | 217            |
| 2014  | 4                     | 190                               | 194            |
| 2015  | 3                     | 150                               | 153            |
| After 2015  | <u>35</u>             | <u>1,581</u>                      | <u>1,616</u>   |
| Total minimum lease payments                            | 58                    | <u>\$ 2,612</u>                   | <u>\$2,670</u> |
| Less amount representing interest                       | <u>25</u>             |                                   |                |
| Present value of net minimum capitalized lease payments | <u>\$ 33</u>          |                                   |                |

Capitalized leases are included in the Consolidated Balance Sheets as property and equipment while the related obligation is included in short-term (\$3 million) and long-term (\$30 million) debt. Amortization of assets subject to capitalized leases is included in depreciation and amortization expense. Total minimum lease payments shown above have not been reduced by minimum sublease rentals of approximately \$80 million on operating leases.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company is a guarantor with respect to certain lease obligations associated with The May Department Stores Company and previously disposed subsidiaries or businesses. The leases, one of which includes potential extensions to 2070, have future minimum lease payments aggregating approximately \$389 million and are offset by payments from existing tenants and subtenants. In addition, the Company is liable for other expenses related to the above leases, such as property taxes and common area maintenance, which are also payable by existing tenants and subtenants. Potential liabilities related to these guarantees are subject to certain defenses by the Company. The Company believes that the risk of significant loss from the guarantees of these lease obligations is remote.

Rental expense consists of:

|   | <u>2010</u>  | <u>2009</u>  | <u>2008</u>  |
|---|--------------|--------------|--------------|
|   |              | (millions)   |              |
| Real estate (excluding executory costs) |              |              |              |
| Capitalized leases –                    |              |              |              |
| Contingent rentals                      | \$ 0         | \$ 0         | \$ 1         |
| Operating leases –                      |              |              |              |
| Minimum rentals                         | 234          | 230          | 230          |
| Contingent rentals                      | <u>16</u>    | <u>15</u>    | <u>16</u>    |
|   | <u>250</u>   | <u>245</u>   | <u>247</u>   |
| Less income from subleases –            |              |              |              |
| Operating leases                        | <u>(15)</u>  | <u>(16)</u>  | <u>(15)</u>  |
|   | <u>\$235</u> | <u>\$229</u> | <u>\$232</u> |
| Personal property – Operating leases    | <u>\$ 10</u> | <u>\$ 12</u> | <u>\$ 19</u> |

Included as a reduction to the expense above is deferred rent amortization of \$7 million, \$7 million and \$6 million for 2010, 2009 and 2008, respectively, related to contributions received from landlords.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**7. Goodwill and Other Intangible Assets**

The following summarizes the Company's goodwill and other intangible assets:

|   | <u>January 29,<br/>2011</u> | <u>January 30,<br/>2010</u> |
|---|-----------------------------|-----------------------------|
|   | (millions)                  |                             |
| <b>Non-amortizing intangible assets</b> |                             |                             |
| Goodwill                                | \$ 9,125                    | \$ 9,125                    |
| Accumulated impairment losses           | <u>(5,382)</u>              | <u>(5,382)</u>              |
|   | 3,743                       | 3,743                       |
| Tradenames                              | <u>414</u>                  | <u>414</u>                  |
|   | <u>\$ 4,157</u>             | <u>\$ 4,157</u>             |
| <b>Amortizing intangible assets</b>     |                             |                             |
| Favorable leases                        | \$ 250                      | \$ 256                      |
| Customer relationships                  | <u>188</u>                  | <u>188</u>                  |
|   | <u>438</u>                  | <u>444</u>                  |
| <b>Accumulated amortization</b>         |                             |                             |
| Favorable leases                        | (113)                       | (97)                        |
| Customer relationships                  | <u>(102)</u>                | <u>(83)</u>                 |
|   | <u>(215)</u>                | <u>(180)</u>                |
|   | <u>\$ 223</u>               | <u>\$ 264</u>               |

During 2008, the Company recorded a goodwill impairment charge based on the results of goodwill impairment testing as of January 31, 2009. See Note 3, "Goodwill Impairment Charges," for further information. Also during 2008, the Company recorded an impairment charge associated with acquired indefinite-lived private brand tradenames. See Note 2, "Impairments, Store Closing Costs and Division Consolidation Costs," for further information.

Intangible amortization expense amounted to \$41 million for 2010, \$41 million for 2009 and \$42 million for 2008.

Future estimated intangible amortization expense is shown below:

|                     | (millions) |
|---------------------|------------|
| <b>Fiscal year:</b> |            |
| 2011                | \$ 39      |
| 2012                | 37         |
| 2013                | 34         |
| 2014                | 31         |
| 2015                | 21         |

Favorable lease intangible assets are being amortized over their respective lease terms (weighted average life of approximately twelve years) and customer relationship intangible assets are being amortized over their estimated useful lives of ten years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. Financing

The Company's debt is as follows:

|   | January 29,<br>2011 | January 30,<br>2010 |
|---|---------------------|---------------------|
|   | (millions)          |                     |
| Short-term debt:  |                     |                     |
| 6.625% Senior notes due 2011  | \$ 330              | \$ 0                |
| 7.45% Senior debentures due 2011  | 109                 | 0                   |
| 10.625% Senior debentures due 2010  | 0                   | 150                 |
| 8.5% Senior notes due 2010  | 0                   | 76                  |
| Capital lease and current portion of other long-term obligations                | 15                  | 16                  |
|   | <u>\$ 454</u>       | <u>\$ 242</u>       |
| Long-term debt:   |                     |                     |
| 5.9% Senior notes due 2016  | \$ 977              | \$ 1,100            |
| 5.35% Senior notes due 2012   | 616                 | 1,100               |
| 7.875% Senior notes due 2015 *  | 612                 | 650                 |
| 6.375% Senior notes due 2037  | 500                 | 500                 |
| 5.75% Senior notes due 2014   | 453                 | 500                 |
| 6.9% Senior debentures due 2029   | 400                 | 400                 |
| 6.7% Senior debentures due 2034   | 400                 | 400                 |
| 7.45% Senior debentures due 2017  | 300                 | 300                 |
| 6.65% Senior debentures due 2024  | 300                 | 300                 |
| 7.0% Senior debentures due 2028   | 300                 | 300                 |
| 5.875% Senior notes due 2013  | 298                 | 350                 |
| 6.9% Senior debentures due 2032   | 250                 | 250                 |
| 6.7% Senior debentures due 2028   | 200                 | 200                 |
| 8.0% Senior debentures due 2012   | 173                 | 200                 |
| 6.79% Senior debentures due 2027  | 165                 | 165                 |
| 7.45% Senior debentures due 2016  | 123                 | 125                 |
| 7.625% Senior debentures due 2013   | 109                 | 125                 |
| 7.875% Senior debentures due 2036   | 108                 | 108                 |
| 7.5% Senior debentures due 2015   | 100                 | 100                 |
| 8.125% Senior debentures due 2035   | 76                  | 76                  |
| 8.75% Senior debentures due 2029  | 61                  | 61                  |
| 9.5% amortizing debentures due 2021   | 37                  | 41                  |
| 8.5% Senior debentures due 2019   | 36                  | 36                  |
| 10.25% Senior debentures due 2021   | 33                  | 33                  |
| 7.6% Senior debentures due 2025   | 24                  | 24                  |
| 9.75% amortizing debentures due 2021  | 20                  | 22                  |
| 7.875% Senior debentures due 2030   | 18                  | 18                  |
| 6.625% Senior notes due 2011  | 0                   | 500                 |
| 7.45% Senior debentures due 2011  | 0                   | 150                 |
| Premium on acquired debt, using an effective interest yield of 4.854% to 6.165% | 239                 | 275                 |
| Capital lease and other long-term obligations                                   | 43                  | 47                  |
|   | <u>\$ 6,971</u>     | <u>\$ 8,456</u>     |

\* The rate of interest payable in respect of these senior notes was increased by one percent per annum to 8.875% in April 2009 as a result of a downgrade of the notes by specified rating agencies and was decreased by 0.50 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 could increase by up to 1.50 percent per annum or decrease by up to 0.50 percent per annum from its current level in the event of one or more downgrades or upgrades of the notes by specified rating agencies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Interest expense is as follows:

|   | <u>2010</u>  | <u>2009</u><br>(millions) | <u>2008</u>  |
|---|--------------|---------------------------|--------------|
| Interest on debt                              | \$535        | \$587                     | \$621        |
| Premium on early retirement of long-term debt | 66           | 0                         | 0            |
| Amortization of debt premium                  | (31)         | (33)                      | (34)         |
| Amortization of financing costs               | 11           | 10                        | 7            |
| Interest on capitalized leases                | <u>3</u>     | <u>3</u>                  | <u>5</u>     |
|   | 584          | 567                       | 599          |
| Less interest capitalized on construction     | <u>5</u>     | <u>5</u>                  | <u>11</u>    |
|   | <u>\$579</u> | <u>\$562</u>              | <u>\$588</u> |

Future maturities of long-term debt, other than capitalized leases and premium on acquired debt, are shown below:

|              | (millions) |
|--------------|------------|
| Fiscal year: |            |
| 2012         | \$ 1,098   |
| 2013         | 121        |
| 2014         | 461        |
| 2015         | 718        |
| 2016         | 1,105      |
| After 2016   | 3,199      |

During 2010, consistent with its strategy to reduce indebtedness, the Company used approximately \$1,067 million of cash to repurchase approximately \$1,000 million of indebtedness prior to maturity. In connection with these repurchases, the Company recognized additional interest expense of approximately \$66 million in 2010 due to the expenses associated with the early retirement of this debt.

In 2009, the Company completed a cash tender offer pursuant to which it purchased approximately \$680 million of its outstanding debt for aggregate consideration, including accrued and unpaid interest, of approximately \$686 million.

On June 23, 2008, the Company issued \$650 million aggregate principal amount of 7.875% senior notes due 2015. The net proceeds of the debt issuance were used for the repayment of amounts due on debt maturing in 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table shows the detail of debt repayments:

|                                      | <u>2010</u>    | <u>2009</u><br>(millions) | <u>2008</u>  |
|--------------------------------------|----------------|---------------------------|--------------|
| 10.625% Senior debentures due 2010   | \$ 150         | \$ 0                      | \$ 0         |
| 8.5% Senior notes due 2010           | 76             | 0                         | 0            |
| 6.625% Senior notes due 2011         | 170            | 0                         | 0            |
| 7.45% Senior debentures due 2011     | 41             | 0                         | 0            |
| 5.35% Senior notes due 2012          | 484            | 0                         | 0            |
| 8.0% Senior debentures due 2012      | 27             | 0                         | 0            |
| 5.875% Senior notes due 2013         | 52             | 0                         | 0            |
| 7.625% Senior debentures due 2013    | 16             | 0                         | 0            |
| 5.75% Senior notes due 2014          | 47             | 0                         | 0            |
| 7.875% Senior notes due 2015         | 38             | 0                         | 0            |
| 5.90% Senior notes due 2016          | 123            | 0                         | 0            |
| 7.45% Senior debentures due 2016     | 2              | 0                         | 0            |
| 4.8% Senior notes due 2009           | 0              | 600                       | 0            |
| 6.3% Senior notes due 2009           | 0              | 350                       | 0            |
| 6.625% Senior notes due 2008         | 0              | 0                         | 500          |
| 5.95% Senior notes due 2008          | 0              | 0                         | 150          |
| 9.5% amortizing debentures due 2021  | 4              | 4                         | 4            |
| 9.75% amortizing debentures due 2021 | 2              | 2                         | 2            |
| Capital leases and other obligations | 13             | 10                        | 10           |
|                                      | <u>\$1,245</u> | <u>\$966</u>              | <u>\$666</u> |

The following summarizes certain components of the Company's debt:

**Bank Credit Agreement**

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 amount 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 credit agreement is set to expire August 30, 2012.

As of January 29, 2011, and January 30, 2010, there were no revolving credit loans outstanding under the credit agreement. However, there were less than \$1 million and approximately \$52 million, respectively, of standby letters of credit outstanding at January 29, 2011 and January 30, 2010. There were no borrowings under this agreement throughout all of 2010 and 2009. Revolving loans under the credit agreement bear interest based on various published rates.

This agreement, which is an obligation of a wholly-owned subsidiary of Macy's, Inc. ("Parent"), is not secured. However, Parent and each direct and indirect subsidiary of such wholly owned subsidiary of Macy's, Inc. have fully and unconditionally guaranteed this obligation, subject to specified limitations.

The Company's interest coverage ratio for 2010 was 5.64 and its leverage ratio at January 29, 2011 was 2.34, in each case as calculated in accordance with the credit agreement. The credit agreement requires the

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Company to maintain a specified interest coverage ratio for the latest four quarters of no less than 3.25 and a specified leverage ratio as of and for the latest four quarters of no more than 4.50. The interest coverage ratio is defined as EBITDA (earnings before interest, taxes, depreciation and amortization) over net interest expense and the leverage ratio is defined as debt over EBITDA. For purposes of these calculations EBITDA is calculated as net income plus interest expense, taxes, depreciation, amortization, non-cash impairment of goodwill, intangibles and real estate, non-recurring cash charges not to exceed in the aggregate \$500 million from the date of the amended agreement and extraordinary losses less interest income and non-recurring or extraordinary gains. Debt and net interest are adjusted to exclude the premium on acquired debt and the resulting amortization, respectively.

A breach of a restrictive covenant in the Company's credit agreement or the inability of the Company to maintain the financial ratios described above could result in an event of default under the credit agreement. In addition, an event of default would occur under the credit agreement if any indebtedness of the Company in excess of an aggregate principal amount of \$150 million becomes due prior to its stated maturity or the holders of such indebtedness become able to cause it to become due prior to its stated maturity. Upon the occurrence of an event of default, the lenders could, subject to the terms and conditions of the credit agreement, elect to declare the outstanding principal, together with accrued interest, to be immediately due and payable. Moreover, most of the Company's senior notes and debentures contain cross-default provisions based on the non-payment at maturity, or other default after an applicable grace period, of any other debt, the unpaid principal amount of which is not less than \$100 million that could be triggered by an event of default under the credit agreement. In such an event, the Company's senior notes and debentures that contain cross-default provisions would also be subject to acceleration.

**Commercial Paper**

The Company is a party to a \$2,000 million unsecured commercial paper program. The Company may issue and sell commercial paper in an aggregate amount outstanding at any particular time not to exceed its then-current combined borrowing availability under the bank credit agreement described above. The issuance of commercial paper will have the effect, while such commercial paper is outstanding, of reducing the Company's borrowing capacity under the bank credit agreement by an amount equal to the principal amount of such commercial paper. The Company had no commercial paper outstanding under its commercial paper program throughout all of 2010 and 2009.

This program, which is an obligation of a wholly-owned subsidiary of Macy's, Inc., is not secured. However, Parent has fully and unconditionally guaranteed the obligations.

**Senior Notes and Debentures**

The senior notes and the senior debentures are unsecured obligations of a wholly-owned subsidiary of Macy's, Inc. and Parent has fully and unconditionally guaranteed these obligations (see Note 18, "Condensed Consolidating Financial Information").

**Other Financing Arrangements**

At January 29, 2011, the Company had dedicated approximately \$52 million of cash, included in prepaid expenses and other current assets, which is used to collateralize the Company's issuances of standby letters of credit. There were approximately \$38 million of other standby letters of credit outstanding at January 29, 2011 and none outstanding at January 30, 2010.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**9. Accounts Payable and Accrued Liabilities**

|   | <u>January 29,<br/>2011</u> | (millions) | <u>January 30,<br/>2010</u> |
|---|-----------------------------|------------|-----------------------------|
| Accounts payable  | \$ 559                      |            | \$ 484                      |
| Gift cards and customer award certificates                              | 654                         |            | 594                         |
| Accrued wages and vacation  | 311                         |            | 307                         |
| Lease related liabilities   | 271                         |            | 265                         |
| Taxes other than income taxes   | 186                         |            | 199                         |
| Current portion of workers' compensation and general liability reserves | 144                         |            | 141                         |
| Accrued interest  | 98                          |            | 122                         |
| Current portion of post employment and postretirement benefits          | 88                          |            | 94                          |
| Allowance for future sales returns                                      | 67                          |            | 65                          |
| Severance and relocation  | 1                           |            | 71                          |
| Other   | 265                         |            | 284                         |
|   | <u>\$ 2,644</u>             |            | <u>\$ 2,626</u>             |

Adjustments to the allowance for future sales returns, which amounted to a charge of \$2 million for 2010, a charge of \$6 million for 2009, and a credit of \$14 million for 2008 are reflected in cost of sales.

Changes in workers' compensation and general liability reserves, including the current portion, are as follows:

|                               | <u>2010</u>   | (millions) | <u>2009</u>   | <u>2008</u>   |
|-------------------------------|---------------|------------|---------------|---------------|
| Balance, beginning of year    | \$ 478        |            | \$ 495        | \$ 471        |
| Charged to costs and expenses | 148           |            | 124           | 164           |
| Payments, net of recoveries   | (138)         |            | (141)         | (140)         |
| Balance, end of year          | <u>\$ 488</u> |            | <u>\$ 478</u> | <u>\$ 495</u> |

The non-current portion of workers' compensation and general liability reserves is included in other liabilities on the Consolidated Balance Sheets. At January 29, 2011 and January 30, 2010, workers' compensation and general liability reserves included \$93 million and \$90 million, respectively, of liabilities which are covered by deposits and receivables included in current assets on the Consolidated Balance Sheets.

**10. Taxes**

The Company changed its methodology for recording deferred state income taxes from a blended rate basis to a separate entity basis, and has reflected the effects of such change to 2010 and all prior periods. Even though the Company considers the change to have had only an immaterial impact on its financial condition, results of operations and cash flows for the periods presented, the financial condition, results of operations and cash flows for the prior periods as previously reported have been adjusted to reflect the change.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Income tax expense (benefit) is as follows:

|                 | 2010          |               |              | 2009         |               |              | 2008         |                 |                |
|-----------------|---------------|---------------|--------------|--------------|---------------|--------------|--------------|-----------------|----------------|
|                 | Current       | Deferred      | Total        | Current      | Deferred      | Total        | Current      | Deferred        | Total          |
| Federal         | \$ 217        | \$ 234        | \$451        | \$ 48        | \$ 84         | \$132        | \$ 6         | \$ (109)        | \$(103)        |
| State and local | 12            | 10            | 22           | 9            | 37            | 46           | 8            | (68)            | (60)           |
|                 | <u>\$ 229</u> | <u>\$ 244</u> | <u>\$473</u> | <u>\$ 57</u> | <u>\$ 121</u> | <u>\$178</u> | <u>\$ 14</u> | <u>\$ (177)</u> | <u>\$(163)</u> |

The income tax expense (benefit) reported differs from the expected tax computed by applying the federal income tax statutory rate of 35% for 2010, 2009 and 2008 to income (loss) before income taxes. The reasons for this difference and their tax effects are as follows:

|   | 2010         | 2009         | 2008            |
|---|--------------|--------------|-----------------|
|   |              | (millions)   |                 |
| Expected tax  | \$462        | \$177        | \$(1,728)       |
| State and local income taxes, net of federal income tax benefit | 14           | 30           | (40)            |
| Settlement of federal tax examinations                          | 0            | (21)         | 0               |
| Non-deductibility of goodwill impairment charges                | 0            | 0            | 1,611           |
| Other   | (3)          | (8)          | (6)             |
|   | <u>\$473</u> | <u>\$178</u> | <u>\$ (163)</u> |

During the fourth quarter of 2009, the Company settled Internal Revenue Service (“IRS”) examinations for fiscal years 2008, 2007 and 2006. As a result of the settlement, the Company recognized previously unrecognized tax benefits and related accrued interest, primarily attributable to the disposition of former subsidiaries.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

|  | <u>January 29,<br/>2011</u> | <u>January 30,<br/>2010</u> |
|--|-----------------------------|-----------------------------|
|  | (millions)                  |                             |
| Deferred tax assets:   |                             |                             |
| Post employment and postretirement benefits                        | \$ 473                      | \$ 667                      |
| Accrued liabilities accounted for on a cash basis for tax purposes | 195                         | 316                         |
| Long-term debt   | 117                         | 132                         |
| Unrecognized state tax benefits and accrued interest               | 91                          | 91                          |
| State operating loss carryforwards                                 | 61                          | 55                          |
| Other  | 144                         | 114                         |
| Valuation allowance  | <u>(35)</u>                 | <u>(33)</u>                 |
| Total deferred tax assets  | <u>1,046</u>                | <u>1,342</u>                |
| Deferred tax liabilities:  |                             |                             |
| Excess of book basis over tax basis of property and equipment      | (1,793)                     | (1,919)                     |
| Merchandise inventories  | (483)                       | (456)                       |
| Intangible assets  | (162)                       | (129)                       |
| Other  | <u>(217)</u>                | <u>(184)</u>                |
| Total deferred tax liabilities                                     | <u>(2,655)</u>              | <u>(2,688)</u>              |
| Net deferred tax liability   | <u>\$ (1,609)</u>           | <u>\$ (1,346)</u>           |

The valuation allowance at January 29, 2011 and January 30, 2010 relates to net deferred tax assets for state net operating loss carryforwards. The net change in the valuation allowance amounted to an increase of \$2 million for 2010 and no change for 2009.

As of January 29, 2011, the Company had no federal net operating loss carryforwards and state net operating loss carryforwards of approximately \$1,301 million, which will expire between 2011 and 2031.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

|   | <u>January 29,<br/>2011</u> | (millions) | <u>January 30,<br/>2010</u> |
|---|-----------------------------|------------|-----------------------------|
| Balance, beginning of period  | \$ 207                      |            | \$ 237                      |
| Additions based on tax positions related to the current year                                      | 19                          |            | 23                          |
| Additions for tax positions of prior years  | 0                           |            | 0                           |
| Reductions for tax positions of prior years   | (8)                         |            | (34)                        |
| Settlements   | (4)                         |            | (8)                         |
| Statute expirations   | (9)                         |            | (11)                        |
| Balance, end of period  | <u>\$ 205</u>               |            | <u>\$ 207</u>               |
| Amounts recognized in the Consolidated Balance Sheets at<br>January 29, 2011 and January 30, 2010 |                             |            |                             |
| Other liabilities   | \$ 170                      |            | \$ 169                      |
| Long-term deferred income taxes   | 24                          |            | 24                          |
| Current income taxes  | 11                          |            | 14                          |
|   | <u>\$ 205</u>               |            | <u>\$ 207</u>               |

As of January 29, 2011 and January 30, 2010, the amount of unrecognized tax benefits, net of deferred tax assets, that, if recognized would affect the effective income tax rate, was \$133 million and \$135 million, respectively.

The Company classifies unrecognized tax benefits not expected to be settled within one year as other liabilities on the Consolidated Balance Sheets.

The Company classifies federal, state and local interest and penalties not expected to be settled within one year as other liabilities on the Consolidated Balance Sheets and follows a policy of recognizing all interest and penalties related to unrecognized tax benefits in income tax expense. During 2010, 2009 and 2008, the Company recognized charges of \$5 million, \$4 million and \$16 million, respectively, in income tax expense for federal, state and local interest and penalties.

The Company had approximately \$80 million and \$78 million accrued for the payment of federal, state and local interest and penalties at January 29, 2011 and January 30, 2010, respectively. The accrued federal, state and local interest and penalties primarily relates to state tax issues and the amount of penalties paid in prior periods, and the amount of penalties accrued at January 29, 2011 and January 30, 2010 are insignificant. At January 29, 2011, approximately \$76 million of federal, state and local interest and penalties is included in other liabilities and \$4 million is included in current income taxes on the Consolidated Balance Sheets.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2007. With respect to state and local jurisdictions, with limited exceptions, the Company and its subsidiaries are no longer subject to income tax audits for years before 2000. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties have been accrued for any adjustments that are expected to result from the years still subject to examination.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**11. Retirement Plans**

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

**Pension Plan**

The following provides a reconciliation of benefit obligations, plan assets, and funded status of the Pension Plan as of January 29, 2011 and January 30, 2010:

|   | <u>2010</u>     | <u>2009</u>       |
|---|-----------------|-------------------|
|   | (millions)      |                   |
| Change in projected benefit obligation  |                 |                   |
| Projected benefit obligation, beginning of year   | \$2,879         | \$ 2,444          |
| Service cost  | 99              | 81                |
| Interest cost   | 158             | 173               |
| Actuarial loss  | 103             | 401               |
| Benefits paid   | (215)           | (220)             |
| Projected benefit obligation, end of year   | <u>\$3,024</u>  | <u>\$ 2,879</u>   |
| Changes in plan assets  |                 |                   |
| Fair value of plan assets, beginning of year  | \$1,865         | \$ 1,438          |
| Actual return on plan assets  | 329             | 277               |
| Company contributions   | 825             | 370               |
| Benefits paid   | (215)           | (220)             |
| Fair value of plan assets, end of year  | <u>\$2,804</u>  | <u>\$ 1,865</u>   |
| Funded status at end of year  | <u>\$ (220)</u> | <u>\$ (1,014)</u> |
| Amounts recognized in the Consolidated Balance Sheets at<br>January 29, 2011 and January 30, 2010               |                 |                   |
| Other liabilities   | <u>\$ (220)</u> | <u>\$ (1,014)</u> |
| Amounts recognized in accumulated other comprehensive (income) loss at January 29, 2011 and<br>January 30, 2010 |                 |                   |
| Net actuarial loss  | \$1,116         | \$ 1,186          |
| Prior service credit  | (2)             | (3)               |
|   | <u>\$1,114</u>  | <u>\$ 1,183</u>   |

The accumulated benefit obligation for the Pension Plan was \$2,791 million as of January 29, 2011 and \$2,657 million as of January 30, 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net pension costs and other amounts recognized in other comprehensive income for the Pension Plan included the following actuarially determined components:

|   | <u>2010</u>  | <u>2009</u><br>(millions) | <u>2008</u>   |
|---|--------------|---------------------------|---------------|
| <b>Net Periodic Pension Cost</b>  |              |                           |               |
| Service cost  | \$ 99        | \$ 81                     | \$ 97         |
| Interest cost   | 158          | 173                       | 159           |
| Expected return on assets   | (218)        | (187)                     | (192)         |
| Amortization of net actuarial loss  | 61           | 0                         | 5             |
| Amortization of prior service credit  | (1)          | (1)                       | 0             |
|   | <u>99</u>    | <u>66</u>                 | <u>69</u>     |
| <b>Other Changes in Plan Assets and Projected Benefit Obligation</b>                |              |                           |               |
| Recognized in Other Comprehensive Income  |              |                           |               |
| Net actuarial (gain) loss   | (9)          | 311                       | 604           |
| Amortization of net actuarial loss  | (61)         | 0                         | (5)           |
| Amortization of prior service credit  | 1            | 1                         | 0             |
|   | <u>(69)</u>  | <u>312</u>                | <u>599</u>    |
| <b>Total recognized in net periodic pension cost and other comprehensive income</b> | <u>\$ 30</u> | <u>\$ 378</u>             | <u>\$ 668</u> |

The estimated net actuarial loss and prior service credit for the Pension Plan that will be amortized from accumulated other comprehensive (income) loss into net periodic benefit cost during 2011 are \$84 million and \$(1) million, respectively.

As permitted under ASC Subtopic 715-30, "Defined Benefit Plans – Pension," the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive the benefits under the Pension Plan.

The following weighted average assumptions were used to determine the projected benefit obligations for the Pension Plan at January 29, 2011 and January 30, 2010:

|                                | <u>2010</u> | <u>2009</u> |
|--------------------------------|-------------|-------------|
| Discount rate                  | 5.40%       | 5.65%       |
| Rate of compensation increases | 4.50%       | 4.50%       |

The following weighted average assumptions were used to determine the net periodic pension cost for the Pension Plan:

|  | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-------------|-------------|-------------|
| Discount rate                            | 5.65%       | 7.45%       | 6.25%       |
| Expected long-term return on plan assets | 8.75%       | 8.75%       | 8.75%       |
| Rate of compensation increases           | 4.50%       | 5.40%       | 5.40%       |

The Pension Plan's assumptions are evaluated annually and updated as necessary.

The discount rate used to determine the present value of the projected benefit obligation for the Pension Plan is based on a yield curve constructed from a portfolio of high quality corporate debt securities with various

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

maturities. Each year's expected future benefit payments are discounted to their present value at the appropriate yield curve rate, thereby generating the overall discount rate for the projected benefit obligation.

The Company develops its expected long-term rate of return on plan asset assumption by evaluating input from several professional advisors taking into account the asset allocation of the portfolio and long-term asset class return expectations, as well as long-term inflation assumptions. Expected returns for each major asset class are considered along with their volatility and the expected correlations among them. These expectations are based upon historical relationships as well as forecasts of how future returns may vary from historical returns. Returns by asset class and correlations among asset classes are combined using the target asset allocation to derive an expected return for the portfolio as a whole. Long-term historical returns of the portfolio are also considered. Portfolio returns are calculated net of all expenses, therefore, the Company also analyzes expected costs and expenses, including investment management fees, administrative expenses, Pension Benefit Guaranty Corporation premiums and other costs and expenses.

The Company develops its rate of compensation increase assumption on an age-graded basis based on recent experience and reflects an estimate of future compensation levels taking into account general increase levels, seniority, promotions and other factors. The salary increase assumption is used to project employees' pay in future years and its impact on the projected benefit obligation for the Pension Plan. This assumption was revised during 2009 based on the completion of a third-party assumption study reflecting more recent experience.

The assets of the Pension Plan are managed by investment specialists with the primary objectives of payment of benefit obligations to Plan participants and an ultimate realization of investment returns over longer periods in excess of inflation. The Company employs a total return investment approach whereby a mix of domestic and foreign equity securities, fixed income securities and other investments is used to maximize the long-term return on the assets of the Pension Plan for a prudent level of risk. Risks are mitigated through the asset diversification and the use of multiple investment managers. The target allocation for plan assets is currently 60% equity securities, 25% debt securities, 10% real estate and 5% private equities.

The Company generally employs investment managers to specialize in a specific asset class. These managers are chosen and monitored with the assistance of professional advisors, using criteria that include organizational structure, investment philosophy, investment process, performance compared to market benchmarks and peer groups.

The Company periodically conducts an analysis of the behavior of the Pension Plan's assets and liabilities under various economic and interest rate scenarios to ensure that the long-term target asset allocation is appropriate given the liabilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair values of the Pension Plan assets as of January 29, 2011, excluding interest and dividend receivables and pending investment purchases and sales, by asset category are as follows:

|   | Fair Value Measurements |   |  |  |
|---|-------------------------|---|--|--|
|   | Total                   | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|   | (millions)              |   |  |  |
| Cash and cash equivalents               | \$ 381                  | \$ 0  | \$ 381   | \$ 0   |
| Equity securities:                      |                         |   |  |  |
| U.S.                                    | 814                     | 238   | 576  | 0  |
| International                           | 517                     | 0   | 517  | 0  |
| Fixed income securities:                |                         |   |  |  |
| U. S. Treasury bonds                    | 54                      | 0   | 54   | 0  |
| Other Government bonds                  | 28                      | 0   | 28   | 0  |
| Agency backed bonds                     | 11                      | 0   | 11   | 0  |
| Corporate bonds                         | 267                     | 0   | 267  | 0  |
| Mortgage-backed securities and forwards | 107                     | 0   | 107  | 0  |
| Asset-backed securities                 | 19                      | 0   | 19   | 0  |
| Pooled funds                            | 180                     | 0   | 180  | 0  |
| Other types of investments:             |                         |   |  |  |
| Real estate                             | 201                     | 0   | 0  | 201  |
| Hedge funds                             | 143                     | 0   | 0  | 143  |
| Private equity                          | 144                     | 0   | 0  | 144  |
| <b>Total</b>                            | <b>\$2,866</b>          | <b>\$ 238</b>   | <b>\$ 2,140</b>                                  | <b>\$ 488</b>                                      |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair values of the Pension Plan assets as of January 30, 2010, excluding interest and dividend receivables and pending investment purchases and sales, by asset category are as follows:

|   | Fair Value Measurements |   |  |  |
|---|-------------------------|---|--|--|
|   | Total                   | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|   | (millions)              |   |  |  |
| Cash and cash equivalents               | \$ 184                  | \$ 0  | \$ 184   | \$ 0   |
| Equity securities:                      |                         |   |  |  |
| U.S.                                    | 613                     | 163   | 450  | 0  |
| International                           | 262                     | 0   | 262  | 0  |
| Fixed income securities:                |                         |   |  |  |
| U. S. Treasury bonds                    | 41                      | 0   | 41   | 0  |
| Other Government bonds                  | 11                      | 0   | 11   | 0  |
| Agency backed bonds                     | 15                      | 0   | 15   | 0  |
| Corporate bonds                         | 91                      | 0   | 91   | 0  |
| Mortgage-backed securities and forwards | 91                      | 0   | 91   | 0  |
| Asset-backed securities                 | 20                      | 0   | 20   | 0  |
| Pooled funds                            | 164                     | 0   | 164  | 0  |
| Other types of investments:             |                         |   |  |  |
| Real estate                             | 156                     | 0   | 0  | 156  |
| Hedge funds                             | 133                     | 0   | 0  | 133  |
| Private equity                          | 124                     | 0   | 0  | 124  |
| <b>Total</b>                            | <b>\$1,905</b>          | <b>\$ 163</b>   | <b>\$ 1,329</b>                                  | <b>\$ 413</b>                                      |

Corporate bonds consist primarily of investment grade bonds of U.S. issuers from diverse industries.

The fair value of the real estate, hedge funds and private equity investments represents the reported net asset value of shares or underlying assets of the investment. Private equity and real estate investments are valued using fair values per the most recent financial reports provided by the investment sponsor, adjusted as appropriate for any lag between the date of the financial reports and the Company's reporting date. The real estate investments are diversified across property types and geographical areas primarily in the United States of America. Private equity investments generally invest in limited partnerships in the United States of America and Europe. The hedge fund investments are through a fund of funds approach.

Due to the nature of the underlying assets of the real estate, hedge funds and private equity investments, changes in market conditions and the economic environment may significantly impact the net asset value of these investments and, consequently, the fair value of the Pension Plan's investments. These investments are redeemable at net asset value to the extent provided in the documentation governing the investments. However, these redemption rights may be restricted in accordance with the governing documents. Redemption of these investments is subject to restrictions including lock-up periods where no redemptions are allowed, restrictions on redemption frequency and advance notice periods for redemptions. As of January 29, 2011 and January 30, 2010, certain of these investments are generally subject to lock-up periods, ranging from three to fifteen years, certain of these investments are subject to restrictions on redemption frequency, ranging from daily to twice per year, and certain of these investments are subject to advance notice requirements, ranging from sixty-day notification to ninety-day notification. As of January 29, 2011 and January 30, 2010, the Pension Plan had unfunded

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

commitments related to certain of these investments totaling approximately \$133 million and \$78 million, respectively.

The following table sets forth a summary of changes in fair value of the Pension Plan's level 3 assets for 2010 and 2009:

|   | <u>2010</u>  | <u>2009</u>  |
|---|--------------|--------------|
|   | (millions)   |              |
| Balance, beginning of year                          | \$413        | \$419        |
| Actual gain (loss) on plan assets:                  |              |              |
| Relating to assets still held at the reporting date | 28           | (13)         |
| Relating to assets sold during the period           | 18           | (21)         |
| Purchases, sales, issuances and settlements, net    | <u>29</u>    | <u>28</u>    |
| Balance, end of year                                | <u>\$488</u> | <u>\$413</u> |

During 2010 and 2009, the Company made funding contributions to the Pension Plan totaling approximately \$825 million and \$370 million, respectively. On March 28, 2011, the Company made a voluntary funding contribution to the Pension Plan of \$225 million. The Company does not presently anticipate making any additional funding contributions to the Pension Plan during 2011, but may choose to do so in its discretion.

The following benefit payments are estimated to be paid from the Pension Plan:

|              | (millions) |
|--------------|------------|
| Fiscal year: |            |
| 2011         | \$ 233     |
| 2012         | 230        |
| 2013         | 230        |
| 2014         | 234        |
| 2015         | 239        |
| 2016-2020    | 1,234      |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Supplementary Retirement Plan**

The following provides a reconciliation of benefit obligations, plan assets and funded status of the supplementary retirement plan as of January 29, 2011 and January 30, 2010:

|   | <u>2010</u>           | <u>2009</u>           |
|---|-----------------------|-----------------------|
|   | (millions)            |                       |
| <b>Change in projected benefit obligation</b>   |                       |                       |
| Projected benefit obligation, beginning of year   | \$ 680                | \$ 599                |
| Service cost  | 6                     | 4                     |
| Interest cost   | 37                    | 42                    |
| Actuarial loss  | 22                    | 113                   |
| Benefits paid   | (57)                  | (78)                  |
| Projected benefit obligation, end of year   | <u>\$ 688</u>         | <u>\$ 680</u>         |
| <b>Change in plan assets</b>  |                       |                       |
| Fair value of plan assets, beginning of year  | \$ 0                  | \$ 0                  |
| Company contributions   | 57                    | 78                    |
| Benefits paid   | (57)                  | (78)                  |
| Fair value of plan assets, end of year  | <u>\$ 0</u>           | <u>\$ 0</u>           |
| <b>Funded status at end of year</b>   | <u><u>\$(688)</u></u> | <u><u>\$(680)</u></u> |
| <b>Amounts recognized in the Consolidated Balance Sheets at<br/>January 29, 2011 and January 30, 2010</b>               |                       |                       |
| Accounts payable and accrued liabilities  | \$ (52)               | \$ (54)               |
| Other liabilities   | (636)                 | (626)                 |
|   | <u><u>\$(688)</u></u> | <u><u>\$(680)</u></u> |
| <b>Amounts recognized in accumulated other comprehensive (income) loss at January 29, 2011 and<br/>January 30, 2010</b> |                       |                       |
| Net actuarial loss  | \$ 113                | \$ 94                 |
| Prior service credit  | (2)                   | (3)                   |
|   | <u><u>\$ 111</u></u>  | <u><u>\$ 91</u></u>   |

The accumulated benefit obligation for the supplementary retirement plan was \$645 million as of January 29, 2011 and \$643 million as of January 30, 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net pension costs and other amounts recognized in other comprehensive income for the supplementary retirement plan included the following actuarially determined components:

|  | <u>2010</u> | <u>2009</u><br>(millions) | <u>2008</u>   |
|--|-------------|---------------------------|---------------|
| <b>Net Periodic Pension Cost</b>   |             |                           |               |
| Service cost   | \$ 6        | \$ 4                      | \$ 8          |
| Interest cost  | 37          | 42                        | 39            |
| Amortization of net actuarial loss   | 3           | 0                         | 0             |
| Amortization of prior service credit   | <u>(1)</u>  | <u>(2)</u>                | <u>(2)</u>    |
|  | 45          | 44                        | 45            |
| <b>Other Changes in Plan Assets and Projected Benefit Obligation</b>         |             |                           |               |
| <b>Recognized in Other Comprehensive Income</b>                              |             |                           |               |
| Net actuarial (gain) loss  | 22          | 113                       | (57)          |
| Amortization of net actuarial loss   | (3)         | 0                         | 0             |
| Amortization of prior service credit   | <u>1</u>    | <u>2</u>                  | <u>2</u>      |
|  | <u>20</u>   | <u>115</u>                | <u>(55)</u>   |
| Total recognized in net periodic pension cost and other comprehensive income | <u>\$65</u> | <u>\$159</u>              | <u>\$(10)</u> |

The estimated net actuarial loss and prior service credit for the supplementary retirement plan that will be amortized from accumulated other comprehensive (income) loss into net periodic benefit cost during 2011 are \$7 million and \$(1) million, respectively.

As permitted under ASC Subtopic 715-30, "Defined Benefit Plans – Pension," the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive the benefits under the plans.

The following weighted average assumptions were used to determine the projected benefit obligations for the supplementary retirement plan at January 29, 2011 and January 30, 2010:

|                                | <u>2010</u> | <u>2009</u> |
|--------------------------------|-------------|-------------|
| Discount rate                  | 5.40%       | 5.65%       |
| Rate of compensation increases | 4.90%       | 4.90%       |

The following weighted average assumptions were used to determine net pension costs for the supplementary retirement plan:

|                                | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--------------------------------|-------------|-------------|-------------|
| Discount rate                  | 5.65%       | 7.45%       | 6.25%       |
| Rate of compensation increases | 4.90%       | 7.20%       | 7.20%       |

The supplementary retirement plan's assumptions are evaluated annually and updated as necessary.

The discount rate used to determine the present value of the projected benefit obligation for the supplementary retirement plan is based on a yield curve constructed from a portfolio of high quality corporate debt securities with various maturities. Each year's expected future benefit payments are discounted to their present value at the appropriate yield curve rate, thereby generating the overall discount rate for the projected benefit obligation.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The Company develops its rate of compensation increase assumption on an age-graded basis based on recent experience and reflects an estimate of future compensation levels taking into account general increase levels, seniority, promotions and other factors. The salary increase assumption is used to project employees' pay in future years and its impact on the projected benefit obligation for the supplementary retirement plan. This assumption was revised during 2009 based on the completion of a third-party assumption study reflecting more recent experience.

The following benefit payments are estimated to be funded by the Company and paid from the supplementary retirement plan:

| Fiscal year: | (millions) |
|--------------|------------|
| 2011         | \$ 52      |
| 2012         | 50         |
| 2013         | 50         |
| 2014         | 54         |
| 2015         | 54         |
| 2016-2020    | 264        |

**Retirement Plan**

The Retirement Plan includes a voluntary savings feature for eligible employees. The Company's contribution was historically based on the Company's annual earnings including a minimum contribution rate based on an employee's eligible savings and more recently based on a stated matching contribution rate based on an employee's eligible savings. Expense for the Retirement Plan amounted to \$9 million for 2010, \$9 million for 2009 and \$37 million for 2008.

**Deferred Compensation Plan**

The Company has a deferred compensation plan wherein eligible executives may elect to defer a portion of their compensation each year as either stock credits or cash credits. The Company transfers shares to a trust to cover the number management estimates will be needed for distribution on account of stock credits currently outstanding. At January 29, 2011 and January 30, 2010, the liability under the plan, which is reflected in other liabilities on the Consolidated Balance Sheets, was \$46 million and \$51 million, respectively. Expense for 2010, 2009 and 2008 was immaterial.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**12. Postretirement Health Care and Life Insurance Benefits**

In addition to pension and other supplemental benefits, certain retired employees currently are provided with specified health care and life insurance benefits. 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 following provides a reconciliation of benefit obligations, plan assets, and funded status of the postretirement obligations as of January 29, 2011 and January 30, 2010:

|  | <u>2010</u>    | <u>2009</u>    |
|--|----------------|----------------|
|  | (millions)     |                |
| <b>Change in accumulated postretirement benefit obligation</b>                                     |                |                |
| Accumulated postretirement benefit obligation, beginning of year                                   | \$ 278         | \$ 277         |
| Service cost   | 0              | 0              |
| Interest cost  | 15             | 19             |
| Actuarial loss   | 8              | 8              |
| Medicare Part D subsidy  | 2              | 2              |
| Benefits paid  | <u>(25)</u>    | <u>(28)</u>    |
| Accumulated postretirement benefit obligation, end of year   | \$ 278         | \$ 278         |
| <b>Change in plan assets</b>   |                |                |
| Fair value of plan assets, beginning of year   | \$ 0           | \$ 0           |
| Company contributions  | 25             | 28             |
| Benefits paid  | <u>(25)</u>    | <u>(28)</u>    |
| Fair value of plan assets, end of year   | \$ 0           | \$ 0           |
| Funded status at end of year   | <u>\$(278)</u> | <u>\$(278)</u> |
| <b>Amounts recognized in the Consolidated Balance Sheets at</b>                                    |                |                |
| <b>January 29, 2011 and January 30, 2010</b>   |                |                |
| Accounts payable and accrued liabilities   | \$ (30)        | \$ (31)        |
| Other liabilities  | <u>(248)</u>   | <u>(247)</u>   |
|  | <u>\$(278)</u> | <u>\$(278)</u> |
| <b>Amounts recognized in accumulated other comprehensive (income) loss at January 29, 2011 and</b> |                |                |
| <b>January 30, 2010</b>  |                |                |
| Net actuarial gain   | <u>\$ (25)</u> | <u>\$ (38)</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net postretirement benefit costs and other amounts recognized in other comprehensive income included the following actuarially determined components:

|  | <u>2010</u> | <u>2009</u> | <u>2008</u>   |
|--|-------------|-------------|---------------|
|  |             | (millions)  |               |
| <b>Net Periodic Postretirement Benefit Cost</b>  |             |             |               |
| Service cost   | \$ 0        | \$ 0        | \$ 0          |
| Interest cost  | 15          | 19          | 19            |
| Amortization of net actuarial gain   | (5)         | (7)         | (3)           |
| Amortization of prior service credit   | <u>0</u>    | <u>0</u>    | <u>0</u>      |
|  | 10          | 12          | 16            |
| <b>Other Changes in Plan Assets and Projected Benefit Obligation</b>                               |             |             |               |
| Recognized in Other Comprehensive Income   |             |             |               |
| Net actuarial (gain) loss  | 8           | 8           | (70)          |
| Amortization of net actuarial gain   | 5           | 7           | 3             |
| Amortization of prior service credit   | <u>0</u>    | <u>0</u>    | <u>0</u>      |
|  | <u>13</u>   | <u>15</u>   | <u>(67)</u>   |
| <b>Total recognized in net periodic postretirement benefit cost and other comprehensive income</b> | <u>\$23</u> | <u>\$27</u> | <u>\$(51)</u> |

The estimated net actuarial gain of the postretirement obligations that will be amortized from accumulated other comprehensive (income) loss into net postretirement benefit cost during 2011 is \$(3) million.

As permitted under ASC Subtopic 715-60, "Defined Benefit Plans – Other Postretirement," the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive the benefits under the plans.

The following weighted average assumptions were used to determine the accumulated postretirement benefit obligations at January 29, 2011 and January 30, 2010:

|               | <u>2010</u> | <u>2009</u> |
|---------------|-------------|-------------|
| Discount rate | 5.40%       | 5.65%       |

The following weighted average assumptions were used to determine the net postretirement benefit costs for the postretirement obligations:

|               | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---------------|-------------|-------------|-------------|
| Discount rate | 5.65%       | 7.45%       | 6.25%       |

The postretirement benefit obligation assumptions are evaluated annually and updated as necessary.

The discount rate used to determine the present value of the Company's accumulated postretirement benefit obligations is based on a yield curve constructed from a portfolio of high quality corporate debt securities with various maturities. Each year's expected future benefit payments are discounted to their present value at the appropriate yield curve rate, thereby generating the overall discount rate for the accumulated postretirement benefit obligations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The future medical benefits provided by the Company for certain employees are based on a fixed amount per year of service, and the accumulated postretirement benefit obligation is not affected by increases in health care costs. However, the future medical benefits provided by the Company for certain other employees are affected by increases in health care costs.

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. During 2010, 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 2010.

The following provides the assumed health care cost trend rates related to the Company’s accumulated postretirement benefit obligations at January 29, 2011 and January 30, 2010:

|   | <u>2010</u>    | <u>2009</u>    |
|---|----------------|----------------|
| Health care cost trend rates assumed for next year                                    | 8.38% – 10.08% | 8.69% – 10.54% |
| Rates to which the cost trend rate is assumed to decline<br>(the ultimate trend rate) | 5.0%           | 5.0%           |
| Year that the rate reaches the ultimate trend rate                                    | 2022           | 2022           |

The assumed health care cost trend rates have a significant effect on the amounts reported for the accumulated postretirement benefit obligations. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

|  | <u>1 – Percentage<br/>Point Increase</u> | (millions) | <u>1 – Percentage<br/>Point Decrease</u> |
|--|--|------------|--|
| Effect on total of service and interest cost             | \$ 1                                     |            | \$ (1)                                   |
| Effect on accumulated postretirement benefit obligations | \$ 15                                    |            | \$ (14)                                  |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following table reflects the benefit payments estimated to be funded by the Company and paid from the accumulated postretirement benefit obligations and estimated federal subsidies expected to be received under the Medicare Prescription Drug Improvement and Modernization Act of 2003:

| Fiscal Year: | Expected<br>Benefit<br>Payments | Expected<br>Federal<br>Subsidy |
|--------------|---------------------------------|--------------------------------|
|              | (millions)                      |                                |
| 2011         | \$ 28                           | \$ 1                           |
| 2012         | 28                              | 1                              |
| 2013         | 27                              | 1                              |
| 2014         | 26                              | 1                              |
| 2015         | 25                              | 1                              |
| 2016-2020    | 109                             | 5                              |

**13. Stock Based Compensation**

During 2009, the Company obtained shareholder approval for the Macy's 2009 Omnibus Incentive Compensation Plan under which up to fifty-one million shares of Common Stock may be issued. This plan is intended to help the Company attract and retain directors, officers, other key executives and employees and is also intended to provide incentives and rewards relating to the Company's business plans to encourage such persons to devote themselves to the business of the Company. Prior to 2009, the Company had two equity plans. As a result of the August 30, 2005 acquisition of The May Department Stores Company ("May"), the Company assumed May's equity plan, which was subsequently amended to have identical terms and provisions of the Company's other equity plan. At August 30, 2005, all outstanding May options under May's equity plan were fully vested and were converted into options to acquire common stock of the Company in accordance with the merger agreement. The following disclosures present the Company's equity plans prior to 2009 on a combined basis. The equity plan is administered by the Compensation and Management Development Committee of the Board of Directors (the "CMD Committee"). The CMD Committee is authorized to grant options, stock appreciation rights, restricted stock and restricted stock units to officers and key employees of the Company and its subsidiaries and to non-employee directors.

Stock option grants have an exercise price at least equal to the market value of the underlying common stock on the date of grant, have ten-year terms and typically vest ratably over four years of continued employment. Restricted stock and time-based restricted stock unit awards generally vest one to four years from the date of grant. Performance-based restricted stock units vest based on the results attained during the performance period.

As of January 29, 2011, 41.7 million shares of common stock were available for additional grants pursuant to the Company's equity plan. Common stock is delivered out of treasury stock upon the exercise of stock options and grant of restricted stock.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Stock-based compensation expense included the following components:

|                        | <u>2010</u> | <u>2009</u><br>(millions) | <u>2008</u>  |
|------------------------|-------------|---------------------------|--------------|
| Stock options          | \$34        | \$43                      | \$ 55        |
| Stock credits          | 19          | 26                        | (18)         |
| Restricted stock       | 2           | 3                         | 6            |
| Restricted stock units | 11          | 4                         | 0            |
|                        | <u>\$66</u> | <u>\$76</u>               | <u>\$ 43</u> |

All stock-based compensation expense is recorded in SG&A expense in the Consolidated Statements of Operations. Stock-based compensation expense for 2008 included a credit, reflecting a decrease in the stock price used to calculate the settlement amount of stock credits. The income tax benefit recognized in the Consolidated Statements of Operations related to stock-based compensation was approximately \$24 million, approximately \$28 million, and approximately \$16 million, for 2010, 2009 and 2008, respectively.

During 2010, the CMD Committee approved awards of performance-based restricted stock units to certain senior executives of the Company. Each award reflects a target number of shares (“Target Shares”) that may be issued to the award recipient. These awards may be earned upon the completion of a three-year performance period ending February 2, 2013. Whether units are earned at the end of the performance period will be determined based on the achievement of certain performance objectives set by the CMD Committee in connection with the issuance of the units. The performance objectives are based on the Company’s business plan covering the performance period and include an EBITDA as a percent to sales ratio and a return on invested capital ratio. Depending on the results achieved during the three-year performance period, the actual number of shares that a grant recipient receives at the end of the period may range from 0% to 150% of the Target Shares granted.

Also during 2010, the CMD Committee approved awards of time-based restricted stock to certain senior executives of the Company and awards of time-based restricted stock units to the non-employee members of the Company’s board of directors.

During 2009, the CMD Committee approved awards of performance-based restricted stock units to certain senior executives of the Company (the “Founders Awards”). The Founders Awards may be earned upon the completion of a three-year performance period ending January 28, 2012. Whether units are earned at the end of the performance period will be determined based on the achievement of relative total shareholder return (“TSR”) performance objectives set by the CMD Committee in connection with the issuance of the units. Relative TSR reflects the change in the value of the Company’s common stock over the performance period in relation to the change in the value of the common stock of a ten-company executive compensation peer group over the performance period, assuming the reinvestment of dividends. If the Company’s TSR for the performance period is equal to or less than the median TSR for the peer group, the entire Founders Award opportunity will be forfeited. If the Company’s TSR for the performance period is above the median but equal to or below the 66<sup>th</sup> percentile for the peer group, 75% of the award opportunity will vest. If the Company’s TSR for the performance period is above the 66<sup>th</sup> percentile for the peer group, 100% of the award opportunity will vest.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value of stock-options granted during 2010, 2009 and 2008 and the weighted average assumptions used to estimate the fair value are as follows:

|   | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|-------------|
| Weighted average grant date fair value of stock options granted during the period | \$ 7.34     | \$ 2.51     | \$ 7.42     |
| Dividend yield  | 1.0%        | 2.3%        | 2.2%        |
| Expected volatility   | 37.6%       | 36.4%       | 36.2%       |
| Risk-free interest rate   | 2.7%        | 1.9%        | 2.7%        |
| Expected life   | 5.5 years   | 5.4 years   | 5.3 years   |

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The Company estimates the expected volatility and expected option life assumption consistent with ASC Topic 718, "Compensation – Stock Compensation." The expected volatility of the Company's common stock at the date of grant is estimated based on a historic volatility rate and the expected option life is calculated based on historical stock option experience as the best estimate of future exercise patterns. The dividend yield assumption is based on historical and anticipated dividend payouts. The risk-free interest rate assumption is based on observed interest rates consistent with the expected life of each stock option grant. The Company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest. Compensation expense is recorded for all stock options expected to vest based on the amortization of the fair value at the date of grant on a straight-line basis primarily over the vesting period of the options.

Stock option activity for 2010 is as follows:

|                                  | <u>Shares</u><br>(thousands) | <u>Weighted<br/>Average<br/>Exercise<br/>Price</u> | <u>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life</u><br>(years) | <u>Aggregate<br/>Intrinsic<br/>Value</u><br>(millions) |
|----------------------------------|------------------------------|--|---|--|
| Outstanding, beginning of period | 38,804.9                     | \$ 25.47   |   |  |
| Granted                          | 3,908.6                      | \$ 20.88   |   |  |
| Canceled or forfeited            | (2,285.2)                    | \$ 24.46   |   |  |
| Exercised                        | (2,327.0)                    | \$ 16.70   |   |  |
| Outstanding, end of period       | <u>38,101.3</u>              | <u>\$ 25.59</u>                                    |   |  |
| Exercisable, end of period       | <u>26,404.5</u>              | <u>\$ 27.92</u>                                    | 4.0   | \$ (130)   |
| Options expected to vest         | <u>10,293.1</u>              | <u>\$ 20.35</u>                                    | 8.0   | \$ 27  |

Additional information relating to stock options is as follows:

|  | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-------------|-------------|-------------|
|  | (millions)  |             |             |
| Intrinsic value of options exercised   | \$13        | \$ 2        | \$ 1        |
| Grant date fair value of stock options that vested during the year             | 55          | 71          | 65          |
| Cash received from stock options exercised                                     | 39          | 8           | 6           |
| Tax benefits realized from exercised stock options and vested restricted stock | 4           | 0           | 0           |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company also has a stock credit plan. In 2006, key management personnel became eligible to earn a stock credit grant over a two-year performance period ending February 2, 2008. There were a total of 727,629 stock credit awards outstanding as of January 29, 2011, including reinvested dividend equivalents earned during the holding period, relating to the 2006 grant. In general, with respect to the stock credits awarded to participants in 2006, the value of one-half of the stock credits earned plus reinvested dividend equivalents was paid in cash in early 2010 and the value of the other half of such earned stock credits plus reinvested dividend equivalents was paid in cash in early 2011. In 2008, key management personnel became eligible to earn a stock credit grant over a two-year performance period ending January 30, 2010. There were a total of 1,690,716 stock credit awards outstanding as of January 29, 2011, relating to the 2008 grant. In general, with respect to the stock credits awarded to participants in 2008, the value of one-half of the stock credits earned plus reinvested dividend equivalents will be paid in cash in early 2012 and the value of the other half of such earned stock credits plus reinvested dividend equivalents will be paid in cash in early 2013. Compensation expense for stock credit awards is recorded on a straight-line basis primarily over the vesting period and is calculated based on the ending stock price for each reporting period. At January 29, 2011 and January 30, 2010, the liability under the stock credit plans, which is reflected in other liabilities on the Consolidated Balance Sheets, was \$52 million and \$45 million, respectively.

Activity related to stock credits for 2010 is as follows:

|  | <u>Shares</u>    |
|--|------------------|
| Stock credits, beginning of period     | 3,267,355        |
| Additional dividend equivalents earned | 22,339           |
| Stock credits forfeited                | (145,404)        |
| Stock credits distributed              | <u>(725,945)</u> |
| Stock credits, end of period           | <u>2,418,345</u> |

The weighted average grant date fair value of restricted stock and restricted stock units granted during 2010, 2009 and 2008 are as follows:

|                        | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|------------------------|-------------|-------------|-------------|
| Restricted stock       | \$20.89     | \$ 0        | \$24.85     |
| Restricted stock units | \$20.95     | \$3.59      | \$ 0        |

The fair value of the Target Shares and restricted stock awards are based on the fair value of the underlying shares on the date of grant. The fair value of the Founders Award was determined using a Monte Carlo simulation analysis to estimate the total shareholder return ranking of the Company among a ten-company executive compensation peer group over the remaining performance period. The expected volatility of the Company's common stock at the date of grant was estimated based on a historical average volatility rate for the approximate three-year performance period. The dividend yield assumption was based on historical and anticipated dividend payouts. The risk-free interest rate assumption was based on observed interest rates consistent with the approximate three-year performance measurement period.

Compensation expense is recorded for all restricted stock and restricted stock unit awards based on the amortization of the fair market value at the date of grant over the period the restrictions lapse or over the performance period of the performance-based restricted stock units.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Restricted stock award activity for 2010 is as follows:

|                                | <u>Shares</u>  | <u>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</u> |
|--------------------------------|----------------|---|
| Nonvested, beginning of period | 179,056        | \$ 33.66  |
| Granted                        | 148,366        | 20.89   |
| Forfeited                      | (17,782)       | 23.78   |
| Vested                         | (59,594)       | 26.55   |
| Nonvested, end of period       | <u>250,046</u> | <u>\$ 28.48</u>   |

Activity related to restricted stock units for 2010 is as follows:

|                                | <u>Shares</u>    | <u>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</u> |
|--------------------------------|------------------|---|
| Nonvested, beginning of period | 2,886,975        | \$ 3.59   |
| Granted – performance-based    | 1,046,602        | 20.89   |
| Granted – time-based           | 39,924           | 22.54   |
| Forfeited                      | (184,867)        | 3.59  |
| Vested                         | <u>0</u>         | <u>0</u>  |
| Nonvested, end of period       | <u>3,788,634</u> | <u>\$ 8.57</u>  |

There have been no grants of stock appreciation rights under the equity plans.

As of January 29, 2011, the Company had \$38 million of unrecognized compensation costs related to nonvested stock options, which is expected to be recognized over a weighted average period of approximately 1.7 years, \$2 million of unrecognized compensation costs related to nonvested restricted stock, which is expected to be recognized over a weighted average period of approximately 1.6 years, and \$19 million of unrecognized compensation costs related to nonvested restricted stock units, which is expected to be recognized over a weighted average period of approximately 1.4 years.

**14. Shareholders' Equity**

The authorized shares of the Company consist of 125 million shares of preferred stock ("Preferred Stock"), par value of \$.01 per share, with no shares issued, and 1,000 million shares of Common Stock, par value of \$.01 per share, with 495.0 million shares of Common Stock issued and 423.3 million shares of Common Stock outstanding at January 29, 2011, and with 495.0 million shares of Common Stock issued and 420.8 million shares of Common Stock outstanding at January 30, 2010 (with shares held in the Company's treasury being treated as issued, but not outstanding).

Commencing in January 2000, the Company's board of directors has from time to time approved authorizations to purchase, in the aggregate, up to \$9,500 million of Common Stock. All authorizations are cumulative and do not have an expiration date. As of January 29, 2011, \$852 million of authorization remained unused. Although the Company's share repurchase program is currently suspended and the Company has not made any purchases of Common Stock since February 1, 2008 and currently does not intend to make any such

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

purchases in 2011, 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.

**Common Stock**

The holders of the Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Subject to preferential rights that may be applicable to any Preferred Stock, holders of Common Stock are entitled to receive ratably such dividends as may be declared by the Board of Directors in its discretion, out of funds legally available therefor.

**Treasury Stock**

Treasury stock contains shares repurchased under the share repurchase program, shares repurchased to cover employee tax liabilities related to stock plan activity and shares maintained in a trust related to deferred compensation plans. Under the deferred compensation plans, shares are maintained in a trust to cover the number estimated to be needed for distribution on account of stock credits currently outstanding.

Changes in the Company's Common Stock issued and outstanding, including shares held by the Company's treasury, are as follows:

|  | Common<br>Stock<br>Issued | Treasury Stock                    |                      | Common<br>Stock<br>Outstanding |           |
|--|---------------------------|-----------------------------------|----------------------|--------------------------------|-----------|
|  |                           | Deferred<br>Compensation<br>Plans | Other<br>(thousands) |                                | Total     |
| Balance at February 2, 2008              | 495,038.5                 | (1,218.1)                         | (74,075.4)           | (75,293.5)                     | 419,745.0 |
| Stock issued under stock plans           |                           | (157.6)                           | 464.1                | 306.5                          | 306.5     |
| Stock repurchases:                       |                           |                                   |                      |                                |           |
| Repurchase program                       |                           |                                   |                      | 0                              | 0         |
| Other                                    |                           |                                   | (25.7)               | (25.7)                         | (25.7)    |
| Deferred compensation plan distributions |                           | 58.0                              |                      | 58.0                           | 58.0      |
| Balance at January 31, 2009              | 495,038.5                 | (1,317.7)                         | (73,637.0)           | (74,954.7)                     | 420,083.8 |
| Stock issued under stock plans           |                           | (105.0)                           | 937.9                | 832.9                          | 832.9     |
| Stock repurchases:                       |                           |                                   |                      |                                |           |
| Repurchase program                       |                           |                                   |                      | 0                              | 0         |
| Other                                    |                           |                                   | (130.1)              | (130.1)                        | (130.1)   |
| Deferred compensation plan distributions |                           | 56.6                              |                      | 56.6                           | 56.6      |
| Balance at January 30, 2010              | 495,038.5                 | (1,366.1)                         | (72,829.2)           | (74,195.3)                     | 420,843.2 |
| Stock issued under stock plans           |                           | (48.8)                            | 2,439.5              | 2,390.7                        | 2,390.7   |
| Stock repurchases:                       |                           |                                   |                      |                                |           |
| Repurchase program                       |                           |                                   |                      | 0                              | 0         |
| Other                                    |                           |                                   | (58.5)               | (58.5)                         | (58.5)    |
| Deferred compensation plan distributions |                           | 165.9                             |                      | 165.9                          | 165.9     |
| Balance at January 29, 2011              | 495,038.5                 | (1,249.0)                         | (70,448.2)           | (71,697.2)                     | 423,341.3 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. Fair Value Measurements and Concentrations of Credit Risk

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

|  | January 29, 2011   |  |  | January 30, 2010        |  |  |  |      |
|--|--|--|--|-------------------------|--|--|--|------|
|  | Fair Value Measurements  |  |  | Fair Value Measurements |  |  |  |      |
|  | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total                   | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |      |
| Marketable equity and<br>debt securities | \$ 95  | \$ 41  | \$ 54  | \$ 0                    | \$ 99  | \$ 33  | \$ 66  | \$ 0 |

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

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 value of the Company's long-term debt:

|                | January 29, 2011   |                    |               | January 30, 2010   |                    |               |
|----------------|--------------------|--------------------|---------------|--------------------|--------------------|---------------|
|                | Notional<br>Amount | Carrying<br>Amount | Fair<br>Value | Notional<br>Amount | Carrying<br>Amount | Fair<br>Value |
| Long-term debt | \$6,702            | \$ 6,941           | \$6,969       | \$8,156            | \$ 8,431           | \$7,946       |

The following table shows certain of the Company's non-financial assets that were measured at fair value on a nonrecurring basis during 2010 and 2009:

|                                    | January 29, 2011   |  |  | January 30, 2010        |  |  |  |       |
|------------------------------------|--|--|--|-------------------------|--|--|--|-------|
|                                    | Fair Value Measurements  |  |  | Fair Value Measurements |  |  |  |       |
|                                    | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total                   | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |       |
| Long-lived assets held<br>and used | \$ 18  | \$ 0   | \$ 0   | \$ 18                   | \$ 33  | \$ 0   | \$ 0   | \$ 33 |

During 2010, long-lived assets held and used with a carrying value of \$36 million were written down to their fair value of \$18 million, resulting in an asset impairment charge of \$18 million. During 2009, long-lived assets held and used with a carrying value of \$148 million were written down to their fair value of \$33 million, resulting in an asset impairment charge of \$115 million. The fair values of these locations were calculated based

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

on the projected cash flows and an estimated risk-adjusted rate of return that would be used by market participants in valuing these assets or prices of similar assets.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments. The Company places its temporary cash investments in what it believes to be high credit quality financial instruments.

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

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

|  | 2010          |               | 2009   |              | 2008        |                  |
|--|---------------|---------------|--|--------------|-------------|------------------|
|  | Net<br>Income | Shares        | Net<br>Income<br>(millions, except per share data) | Shares       | Net<br>Loss | Shares           |
| Net income (loss) and average number of shares outstanding | \$ 847        | 422.2         | \$ 329   | 420.4        | \$(4,775)   | 420.0            |
| Shares to be issued under deferred compensation plans      |               | 1.1           |  | 1.3          |             | 1.2              |
|  | \$ 847        | 423.3         | \$ 329   | 421.7        | \$(4,775)   | 421.2            |
| Basic earnings (loss) per share                            |               | <u>\$2.00</u> |  | <u>\$.78</u> |             | <u>\$(11.34)</u> |
| Effect of dilutive securities –                            |               |               |  |              |             |                  |
| Stock options, restricted stock and restricted stock units |               | 4.0           |  | 1.5          |             | 0                |
|  | \$ 847        | 427.3         | \$ 329   | 423.2        | \$(4,775)   | 421.2            |
| Diluted earnings (loss) per share                          |               | <u>\$1.98</u> |  | <u>\$.78</u> |             | <u>\$(11.34)</u> |

In addition to the stock options, restricted stock and restricted stock units reflected in the foregoing table, stock options to purchase 24.8 million shares of common stock and restricted stock units relating to 260,000 shares of common stock were outstanding at January 29, 2011 and stock options to purchase 28.9 million shares of common stock, 75,000 shares of restricted stock and restricted stock units relating to 2.9 million shares of common stock were outstanding at January 30, 2010 but were not included in the computation of diluted earnings per share for 2010 and 2009, respectively, because their inclusion would have been antidilutive.

Stock options to purchase 38.8 million of shares of common stock and 483,000 shares of restricted stock were outstanding at January 31, 2009, but were not included in the computation of diluted loss per share for 2008 because, as a result of the Company's net loss for the fiscal year, their inclusion would have been antidilutive.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**17. Quarterly Results (unaudited)**

Unaudited quarterly results for the last two years were as follows:

|   | <u>First<br/>Quarter</u>          | <u>Second<br/>Quarter</u> | <u>Third<br/>Quarter</u> | <u>Fourth<br/>Quarter</u> |
|---|-----------------------------------|---------------------------|--------------------------|---------------------------|
|   | (millions, except per share data) |                           |                          |                           |
| 2010:   |                                   |                           |                          |                           |
| Net sales   | \$ 5,574                          | \$ 5,537                  | \$ 5,623                 | \$ 8,269                  |
| Cost of sales   | <u>(3,378)</u>                    | <u>(3,214)</u>            | <u>(3,377)</u>           | <u>(4,855)</u>            |
| Gross margin  | 2,196                             | 2,323                     | 2,246                    | 3,414                     |
| Selling, general and administrative expenses                      | (1,993)                           | (1,953)                   | (2,069)                  | (2,245)                   |
| Impairments, store closing costs and division consolidation costs | 0                                 | 0                         | 0                        | (25)                      |
| Net income  | 23                                | 147                       | 10                       | 667                       |
| Basic earnings per share  | .05                               | .35                       | .02                      | 1.57                      |
| Diluted earnings per share  | .05                               | .35                       | .02                      | 1.55                      |
| 2009:   |                                   |                           |                          |                           |
| Net sales   | \$ 5,199                          | \$ 5,164                  | \$ 5,277                 | \$ 7,849                  |
| Cost of sales   | <u>(3,219)</u>                    | <u>(3,021)</u>            | <u>(3,156)</u>           | <u>(4,577)</u>            |
| Gross margin  | 1,980                             | 2,143                     | 2,121                    | 3,272                     |
| Selling, general and administrative expenses                      | (1,956)                           | (1,861)                   | (2,033)                  | (2,212)                   |
| Impairments, store closing costs and division consolidation costs | (138)                             | (34)                      | (33)                     | (186)                     |
| Net income (loss)   | (88)                              | 7                         | (35)                     | 445                       |
| Basic earnings (loss) per share                                   | (.21)                             | .02                       | (.08)                    | 1.05                      |
| Diluted earnings (loss) per share                                 | (.21)                             | .02                       | (.08)                    | 1.05                      |

**18. Condensed Consolidating Financial Information**

The senior notes and senior debentures of the Company described in Note 8, which constitute debt obligations of Parent's wholly-owned subsidiary, Macy's Retail Holdings, Inc. ("Subsidiary Issuer") 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 January 29, 2011 and January 30, 2010, the related Condensed Consolidating Statements of Operations for 2010, 2009 and 2008, and the related Condensed Consolidating Statements of Cash Flows for 2010, 2009, and 2008 are presented on the following pages.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**MACY'S, INC.**  
**Condensed Consolidating Balance Sheet**  
**As of January 29, 2011**  
**(millions)**

|  | <u>Parent</u>  | <u>Subsidiary<br/>Issuer</u> | <u>Other<br/>Subsidiaries</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated</u> |
|--|----------------|------------------------------|-------------------------------|--------------------------------------|---------------------|
| <b>ASSETS:</b>                               |                |                              |                               |                                      |                     |
| Current Assets:                              |                |                              |                               |                                      |                     |
| Cash and cash equivalents                    | \$1,174        | \$ 41                        | \$ 249                        | \$ 0                                 | \$ 1,464            |
| Receivables                                  | 0              | 89                           | 303                           | 0                                    | 392                 |
| Merchandise inventories                      | 0              | 2,589                        | 2,169                         | 0                                    | 4,758               |
| Prepaid expenses and other current assets    | 0              | 98                           | 187                           | 0                                    | 285                 |
| Income taxes                                 | 0              | 0                            | 0                             | 0                                    | 0                   |
| Deferred income tax assets                   | 0              | 0                            | 0                             | 0                                    | 0                   |
| Total Current Assets                         | <u>1,174</u>   | <u>2,817</u>                 | <u>2,908</u>                  | <u>0</u>                             | <u>6,899</u>        |
| Property and Equipment – net                 | 0              | 5,013                        | 3,800                         | 0                                    | 8,813               |
| Goodwill                                     | 0              | 3,315                        | 428                           | 0                                    | 3,743               |
| Other Intangible Assets – net                | 0              | 184                          | 453                           | 0                                    | 637                 |
| Other Assets                                 | 4              | 133                          | 402                           | 0                                    | 539                 |
| Deferred Income Tax Assets                   | 19             | 0                            | 0                             | (19)                                 | 0                   |
| Intercompany Receivable                      | 1,651          | 0                            | 2,738                         | (4,389)                              | 0                   |
| Investment in Subsidiaries                   | <u>2,908</u>   | <u>2,598</u>                 | <u>0</u>                      | <u>(5,506)</u>                       | <u>0</u>            |
| Total Assets                                 | <u>\$5,756</u> | <u>\$ 14,060</u>             | <u>\$ 10,729</u>              | <u>\$ (9,914)</u>                    | <u>\$ 20,631</u>    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b> |                |                              |                               |                                      |                     |
| Current Liabilities:                         |                |                              |                               |                                      |                     |
| Short-term debt                              | \$ 0           | \$ 451                       | \$ 3                          | \$ 0                                 | \$ 454              |
| Merchandise accounts payable                 | 0              | 680                          | 741                           | 0                                    | 1,421               |
| Accounts payable and accrued liabilities     | 144            | 1,069                        | 1,431                         | 0                                    | 2,644               |
| Income taxes                                 | 29             | 18                           | 135                           | 0                                    | 182                 |
| Deferred income taxes                        | 0              | 285                          | 79                            | 0                                    | 364                 |
| Total Current Liabilities                    | <u>173</u>     | <u>2,503</u>                 | <u>2,389</u>                  | <u>0</u>                             | <u>5,065</u>        |
| Long-Term Debt                               | 0              | 6,942                        | 29                            | 0                                    | 6,971               |
| Intercompany Payable                         | 0              | 4,389                        | 0                             | (4,389)                              | 0                   |
| Deferred Income Taxes                        | 0              | 400                          | 864                           | (19)                                 | 1,245               |
| Other Liabilities                            | 53             | 748                          | 1,019                         | 0                                    | 1,820               |
| Shareholders' Equity (Deficit)               | <u>5,530</u>   | <u>(922)</u>                 | <u>6,428</u>                  | <u>(5,506)</u>                       | <u>5,530</u>        |
| Total Liabilities and Shareholders' Equity   | <u>\$5,756</u> | <u>\$ 14,060</u>             | <u>\$ 10,729</u>              | <u>\$ (9,914)</u>                    | <u>\$ 20,631</u>    |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**MACY'S, INC.**  
**Condensed Consolidating Statement of Operations**  
**For 2010**  
**(millions)**

|   | <u>Parent</u> | <u>Subsidiary<br/>Issuer</u> | <u>Other<br/>Subsidiaries</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated</u> |
|---|---------------|------------------------------|-------------------------------|--------------------------------------|---------------------|
| Net sales   | \$ 0          | \$ 13,124                    | \$ 19,900                     | \$ (8,021)                           | \$ 25,003           |
| Cost of sales   | <u>0</u>      | <u>(8,006)</u>               | <u>(14,782)</u>               | <u>7,964</u>                         | <u>(14,824)</u>     |
| Gross margin  | 0             | 5,118                        | 5,118                         | (57)                                 | 10,179              |
| Selling, general and administrative expenses                      | (8)           | (4,519)                      | (3,790)                       | 57                                   | (8,260)             |
| Impairments, store closing costs and division consolidation costs | <u>0</u>      | <u>(21)</u>                  | <u>(4)</u>                    | <u>0</u>                             | <u>(25)</u>         |
| Operating income (loss)   | (8)           | 578                          | 1,324                         | 0                                    | 1,894               |
| Interest (expense) income, net:                                   |               |                              |                               |                                      |                     |
| External  | 2             | (575)                        | (1)                           | 0                                    | (574)               |
| Intercompany  | (2)           | (165)                        | 167                           | 0                                    | 0                   |
| Equity in earnings of subsidiaries                                | <u>852</u>    | <u>417</u>                   | <u>0</u>                      | <u>(1,269)</u>                       | <u>0</u>            |
| Income before income taxes  | 844           | 255                          | 1,490                         | (1,269)                              | 1,320               |
| Federal, state and local income tax benefit (expense)             | <u>3</u>      | <u>65</u>                    | <u>(541)</u>                  | <u>0</u>                             | <u>(473)</u>        |
| Net income  | <u>\$ 847</u> | <u>\$ 320</u>                | <u>\$ 949</u>                 | <u>\$ (1,269)</u>                    | <u>\$ 847</u>       |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## MACY'S, INC.

Condensed Consolidating Statement of Cash Flows  
For 2010  
(millions)

|  | Parent  | Subsidiary<br>Issuer | Other<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|---------|----------------------|-----------------------|------------------------------|--------------|
| Cash flows from operating activities:                                |         |                      |                       |                              |              |
| Net income   | \$ 847  | \$ 320               | \$ 949                | \$ (1,269)                   | \$ 847       |
| Impairments, store closing costs and<br>division consolidation costs | 0       | 21                   | 4                     | 0                            | 25           |
| Equity in earnings of subsidiaries                                   | (852)   | (417)                | 0                     | 1,269                        | 0            |
| Dividends received from subsidiaries                                 | 541     | 250                  | 0                     | (791)                        | 0            |
| Depreciation and amortization  | 0       | 566                  | 584                   | 0                            | 1,150        |
| (Increase) decrease in working capital                               | 179     | (454)                | 232                   | 0                            | (43)         |
| Other, net   | 8       | (526)                | 45                    | 0                            | (473)        |
| Net cash provided (used) by<br>operating activities                  | 723     | (240)                | 1,814                 | (791)                        | 1,506        |
| Cash flows from investing activities:                                |         |                      |                       |                              |              |
| Purchase of property and equipment and capitalized<br>software, net  | 0       | (178)                | (247)                 | 0                            | (425)        |
| Other, net   | 0       | 0                    | (40)                  | 0                            | (40)         |
| Net cash used by investing activities                                | 0       | (178)                | (287)                 | 0                            | (465)        |
| Cash flows from financing activities:                                |         |                      |                       |                              |              |
| Debt repaid  | 0       | (1,242)              | (3)                   | 0                            | (1,245)      |
| Dividends paid   | (84)    | 0                    | (791)                 | 791                          | (84)         |
| Issuance of common stock, net of common stock<br>acquired            | 42      | 0                    | 0                     | 0                            | 42           |
| Intercompany activity, net   | (710)   | 1,656                | (946)                 | 0                            | 0            |
| Other, net   | (115)   | (15)                 | 154                   | 0                            | 24           |
| Net cash provided (used) by<br>financing activities                  | (867)   | 399                  | (1,586)               | 791                          | (1,263)      |
| Net decrease in cash and cash equivalents                            | (144)   | (19)                 | (59)                  | 0                            | (222)        |
| Cash and cash equivalents at<br>beginning of period                  | 1,318   | 60                   | 308                   | 0                            | 1,686        |
| Cash and cash equivalents at end of period                           | \$1,174 | \$ 41                | \$ 249                | \$ 0                         | \$ 1,464     |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**MACY'S, INC.**  
**Condensed Consolidating Balance Sheet**  
**As of January 30, 2010**  
**(millions)**

|  | <u>Parent</u>  | <u>Subsidiary<br/>Issuer</u> | <u>Other<br/>Subsidiaries</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated</u> |
|--|----------------|------------------------------|-------------------------------|--------------------------------------|---------------------|
| <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               |
| Prepaid expenses and other current assets    | 0              | 98                           | 125                           | 0                                    | 223                 |
| Income taxes                                 | 7              | 0                            | 0                             | (7)                                  | 0                   |
| Deferred income tax assets                   | 0              | 0                            | 54                            | (54)                                 | 0                   |
| Total Current Assets                         | <u>1,325</u>   | <u>2,776</u>                 | <u>2,842</u>                  | <u>(61)</u>                          | <u>6,882</u>        |
| 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                      | 895            | 0                            | 2,185                         | (3,080)                              | 0                   |
| Investment in Subsidiaries                   | <u>2,574</u>   | <u>2,790</u>                 | <u>0</u>                      | <u>(5,364)</u>                       | <u>0</u>            |
| Total Assets                                 | <u>\$4,911</u> | <u>\$ 14,604</u>             | <u>\$ 10,403</u>              | <u>\$ (8,618)</u>                    | <u>\$ 21,300</u>    |
| <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                        | <u>93</u>      | <u>175</u>                   | <u>0</u>                      | <u>(54)</u>                          | <u>214</u>          |
| Total Current Liabilities                    | 210            | 2,584                        | 1,729                         | (61)                                 | 4,462               |
| Long-Term Debt                               | 0              | 8,432                        | 24                            | 0                                    | 8,456               |
| Intercompany Payable                         | 0              | 3,080                        | 0                             | (3,080)                              | 0                   |
| Deferred Income Taxes                        | 0              | 635                          | 610                           | (113)                                | 1,132               |
| Other Liabilities                            | 48             | 1,137                        | 1,412                         | 0                                    | 2,597               |
| Shareholders' Equity (Deficit)               | <u>4,653</u>   | <u>(1,264)</u>               | <u>6,628</u>                  | <u>(5,364)</u>                       | <u>4,653</u>        |
| Total Liabilities and Shareholders' Equity   | <u>\$4,911</u> | <u>\$ 14,604</u>             | <u>\$ 10,403</u>              | <u>\$ (8,618)</u>                    | <u>\$ 21,300</u>    |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## MACY'S, INC.

Condensed Consolidating Statement of Operations  
For 2009  
(millions)

|  | Parent | Subsidiary<br>Issuer | Other<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|--------|----------------------|-----------------------|------------------------------|--------------|
| Net sales  | \$ 0   | \$ 12,791            | \$ 16,700             | \$ (6,002)                   | \$ 23,489    |
| Cost of sales  | 0      | (7,836)              | (12,073)              | 5,936                        | (13,973)     |
| Gross margin   | 0      | 4,955                | 4,627                 | (66)                         | 9,516        |
| Selling, general and administrative expenses                       | (8)    | (4,616)              | (3,504)               | 66                           | (8,062)      |
| Impairments, store closing costs and division consolidation costs. | 0      | (226)                | (165)                 | 0                            | (391)        |
| Operating income (loss)  | (8)    | 113                  | 958                   | 0                            | 1,063        |
| Interest (expense) income, net:                                    |        |                      |                       |                              |              |
| External   | 3      | (558)                | (1)                   | 0                            | (556)        |
| Intercompany   | (2)    | (153)                | 155                   | 0                            | 0            |
| Equity in earnings of subsidiaries                                 | 333    | 201                  | 0                     | (534)                        | 0            |
| Income (loss) before income taxes                                  | 326    | (397)                | 1,112                 | (534)                        | 507          |
| Federal, state and local income tax benefit (expense)              | 3      | 232                  | (413)                 | 0                            | (178)        |
| Net income (loss)  | \$ 329 | \$ (165)             | \$ 699                | \$ (534)                     | \$ 329       |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## MACY'S, INC.

Condensed Consolidating Statement of Cash Flows  
For 2009  
(millions)

|  | Parent  | Subsidiary<br>Issuer | Other<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--|---------|----------------------|-----------------------|------------------------------|--------------|
| Cash flows from operating activities:                                |         |                      |                       |                              |              |
| Net income (loss)  | \$ 329  | \$ (165)             | \$ 699                | \$ (534)                     | \$ 329       |
| Impairments, store closing costs and<br>division consolidation costs | 0       | 226                  | 165                   | 0                            | 391          |
| Equity in earnings of subsidiaries                                   | (333)   | (201)                | 0                     | 534                          | 0            |
| Dividends received from subsidiaries                                 | 436     | 60                   | 0                     | (496)                        | 0            |
| Depreciation and amortization  | 0       | 619                  | 591                   | 0                            | 1,210        |
| (Increase) decrease in working capital                               | 114     | 163                  | (245)                 | 0                            | 32           |
| Other, net   | 73      | (96)                 | (189)                 | 0                            | (212)        |
| Net cash provided by<br>operating activities                         | 619     | 606                  | 1,021                 | (496)                        | 1,750        |
| Cash flows from investing activities:                                |         |                      |                       |                              |              |
| Purchase of property and equipment and capitalized<br>software, net  | 0       | (147)                | (227)                 | 0                            | (374)        |
| Other, net   | 0       | 0                    | (3)                   | 0                            | (3)          |
| Net cash used by investing activities                                | 0       | (147)                | (230)                 | 0                            | (377)        |
| Cash flows from financing activities:                                |         |                      |                       |                              |              |
| Debt repaid  | 0       | (963)                | (3)                   | 0                            | (966)        |
| Dividends paid   | (84)    | 0                    | (496)                 | 496                          | (84)         |
| Issuance of common stock, net of common stock<br>acquired            | 7       | 0                    | 0                     | 0                            | 7            |
| Intercompany activity, net   | (247)   | 493                  | (246)                 | 0                            | 0            |
| Other, net   | (24)    | 3                    | (8)                   | 0                            | (29)         |
| Net cash used by financing activities                                | (348)   | (467)                | (753)                 | 496                          | (1,072)      |
| Net increase (decrease) in cash and<br>cash equivalents              | 271     | (8)                  | 38                    | 0                            | 301          |
| Cash and cash equivalents at<br>beginning of period                  | 1,047   | 68                   | 270                   | 0                            | 1,385        |
| Cash and cash equivalents at end of period                           | \$1,318 | \$ 60                | \$ 308                | \$ 0                         | \$ 1,686     |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## MACY'S, INC.

Condensed Consolidating Statement of Operations  
For 2008  
(millions)

|  | <u>Parent</u>    | <u>Subsidiary<br/>Issuer</u> | <u>Other<br/>Subsidiaries</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated</u> |
|--|------------------|------------------------------|-------------------------------|--------------------------------------|---------------------|
| Net sales  | \$ 0             | \$ 13,540                    | \$ 13,755                     | \$ (2,403)                           | \$ 24,892           |
| Cost of sales  | 0                | (8,528)                      | (8,812)                       | 2,331                                | (15,009)            |
| Gross margin   | 0                | 5,012                        | 4,943                         | (72)                                 | 9,883               |
| Selling, general and administrative expenses                         | (5)              | (4,747)                      | (3,801)                       | 72                                   | (8,481)             |
| Impairments, store closing costs and division<br>consolidation costs | 0                | (224)                        | (174)                         | 0                                    | (398)               |
| Goodwill impairment charges  | 0                | (3,243)                      | (2,139)                       | 0                                    | (5,382)             |
| Operating loss   | (5)              | (3,202)                      | (1,171)                       | 0                                    | (4,378)             |
| Interest (expense) income, net:                                      |                  |                              |                               |                                      |                     |
| External   | 20               | (583)                        | 3                             | 0                                    | (560)               |
| Intercompany   | (5)              | (130)                        | 135                           | 0                                    | 0                   |
| Equity in losses of subsidiaries                                     | (4,781)          | (1,880)                      | 0                             | 6,661                                | 0                   |
| Loss before income taxes   | (4,771)          | (5,795)                      | (1,033)                       | 6,661                                | (4,938)             |
| Federal, state and local income tax benefit (expense)                | (4)              | 560                          | (393)                         | 0                                    | 163                 |
| Net loss   | <u>\$(4,775)</u> | <u>\$ (5,235)</u>            | <u>\$ (1,426)</u>             | <u>\$ 6,661</u>                      | <u>\$ (4,775)</u>   |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## MACY'S, INC.

Condensed Consolidating Statement of Cash Flows  
For 2008  
(millions)

|  | <u>Parent</u>   | <u>Subsidiary<br/>Issuer</u> | <u>Other<br/>Subsidiaries</u> | <u>Consolidating<br/>Adjustments</u> | <u>Consolidated</u> |
|--|-----------------|------------------------------|-------------------------------|--------------------------------------|---------------------|
| <b>Cash flows from operating activities:</b>                         |                 |                              |                               |                                      |                     |
| Net loss   | \$ (4,775)      | \$ (5,235)                   | \$ (1,426)                    | \$ 6,661                             | \$ (4,775)          |
| Impairments, store closing costs and<br>division consolidation costs | 0               | 224                          | 174                           | 0                                    | 398                 |
| Goodwill impairment charges  | 0               | 3,243                        | 2,139                         | 0                                    | 5,382               |
| Equity in losses of subsidiaries                                     | 4,781           | 1,880                        | 0                             | (6,661)                              | 0                   |
| Dividends received from subsidiaries                                 | 800             | 45                           | 0                             | (845)                                | 0                   |
| Depreciation and amortization  | 0               | 689                          | 589                           | 0                                    | 1,278               |
| (Increase) decrease in working capital                               | (35)            | 174                          | (320)                         | 0                                    | (181)               |
| Other, net   | (94)            | (617)                        | 475                           | 0                                    | (236)               |
| Net cash provided by operating activities                            | <u>677</u>      | <u>403</u>                   | <u>1,631</u>                  | <u>(845)</u>                         | <u>1,866</u>        |
| <b>Cash flows from investing activities:</b>                         |                 |                              |                               |                                      |                     |
| Purchase of property and equipment and capitalized<br>software, net  | 0               | (224)                        | (567)                         | 0                                    | (791)               |
| Other, net   | <u>0</u>        | <u>0</u>                     | <u>(1)</u>                    | <u>0</u>                             | <u>(1)</u>          |
| Net cash used by investing activities                                | <u>0</u>        | <u>(224)</u>                 | <u>(568)</u>                  | <u>0</u>                             | <u>(792)</u>        |
| <b>Cash flows from financing activities:</b>                         |                 |                              |                               |                                      |                     |
| Debt repaid, net of debt issued                                      | 0               | (13)                         | (3)                           | 0                                    | (16)                |
| Dividends paid   | (221)           | (245)                        | (600)                         | 845                                  | (221)               |
| Issuance of common stock, net of common stock<br>acquired            | 6               | 0                            | 0                             | 0                                    | 6                   |
| Intercompany activity, net   | 332             | 104                          | (436)                         | 0                                    | 0                   |
| Other, net   | (82)            | (32)                         | (20)                          | 0                                    | (134)               |
| Net cash provided (used) by financing activities                     | <u>35</u>       | <u>(186)</u>                 | <u>(1,059)</u>                | <u>845</u>                           | <u>(365)</u>        |
| Net increase (decrease) in cash and cash equivalents                 | 712             | (7)                          | 4                             | 0                                    | 709                 |
| Cash and cash equivalents at beginning of period                     | <u>335</u>      | <u>75</u>                    | <u>266</u>                    | <u>0</u>                             | <u>676</u>          |
| Cash and cash equivalents at end of period                           | <u>\$ 1,047</u> | <u>\$ 68</u>                 | <u>\$ 270</u>                 | <u>\$ 0</u>                          | <u>\$ 1,385</u>     |

**NONQUALIFIED STOCK OPTION AGREEMENT**

This AGREEMENT (the "Agreement") is made as of <ISSUE DATE> (the "Date of Grant") by and between MACY'S, INC., a Delaware corporation (the "Company"), and «NAME» (the "Optionee").

1. **Grant of Stock Option.** Subject to and upon the terms, conditions, and restrictions set forth in this Agreement and in the Company's 2009 Omnibus Incentive Compensation Plan (the "Plan"), as amended from time to time, the Company hereby grants to the Optionee as of the Date of Grant a stock option (the "Option") to purchase «SHARES» Common Shares (the "Optioned Shares"). The Option may be exercised from time to time in accordance with the terms of this Agreement. The price at which the Optioned Shares may be purchased pursuant to this Option shall be <GRANT PRICE> per share subject to adjustment as hereinafter provided (the "Option Price"). The Option is intended to be a nonqualified stock option and shall not be treated as an "incentive stock option" within the meaning of that term under Section 422 of the Code, or any successor provision thereto.

2. **Term of Option.** The term of the Option (the "Term") shall commence on the Date of Grant and, unless earlier terminated in accordance with Section 7 hereof, shall expire at the close of business on the date which is ten (10) years from the Date of Grant.

3. **Right to Exercise.** Subject to the expiration or earlier termination of the Option as provided herein, on <DATE> and on each of the first, second and third anniversary of such date, the number of Optioned Shares equal to twenty-five percent (25%) multiplied by the initial number of Optioned Shares specified in this Agreement shall vest (become exercisable) on a cumulative basis until the Option is fully exercisable. To the extent the Option is exercisable, it may be exercised in whole or in part. In no event shall the Optionee be entitled to acquire a fraction of an Optioned Share pursuant to this Option.

4. **Limitations on Transfer of Option.**

(a) The Option granted hereby shall be neither transferable nor assignable by the Optionee other than

(i) upon death, by will or by the laws of descent and distribution,

(ii) pursuant to a qualified domestic relations order, or

(iii) to a fully revocable trust to which the Optionee is treated as the owner for federal income tax purposes,

and may be exercised, during the lifetime of the Optionee, only by the Optionee, or in the event of his or her legal incapacity, by his or her guardian or legal representative acting on behalf of the Optionee in a fiduciary capacity under state law and court supervision.

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(b) Notwithstanding Section 4(a), the Option or any interest therein may be transferred by the Optionee, without payment of consideration therefore by the transferee, to any one or more members of the immediate family of the Optionee (as defined in Rule 16a-1(e) under the Securities Exchange Act of 1934), or to one or more trusts established solely for the benefit of one or more members of the immediate family of the Optionee or to one or more partnerships in which the only partners are such members of the immediate family of the Optionee. No transfer under this Section 4(b) will be effective until notice of such transfer is delivered to the Company describing the terms and conditions of the proposed transfer, and the Company determines that the proposed transfer complies with the terms of the Plan and this Agreement and with any terms and conditions made applicable to the transfer by the Company or Board at the time of the proposed transfer. Any transferee under this Section 4(b) shall be subject to the same terms and conditions hereunder as would apply to the Optionee and to such other terms and conditions made applicable to the transferee pursuant to this Agreement or by the Board. Any purported transfer that does not comply with the requirements of this Section 4(b) shall be void and unenforceable against the Company and the purported transferee shall not obtain any rights to or interest in the Option.

(c) Notwithstanding anything to the contrary contained in any Non-Qualified Stock Option Agreement previously entered into between the Company and the Optionee covering the grant of stock options by the Company to the Optionee, all such stock options previously granted to Optionee by the Company shall be transferable consistent with the terms and conditions applicable to the transfer of the Option as contained herein.

**5. Notice of Exercise; Payment.** To the extent then exercisable, the Option may be exercised by written notice to the Company stating the number of Optioned Shares for which the Option is being exercised and the intended manner of payment. As a further condition precedent to the exercise of this Option, the Optionee shall comply with all regulations and the requirements of any regulatory authority having control of, or supervision over, the issuance of Common Shares and in connection therewith shall execute any documents which the Board shall in its sole discretion deem necessary or advisable.

(a) Payment equal to the aggregate Option Price of the Optioned Shares being exercised shall be tendered in full with the notice of exercise to the Company in cash in the form of currency or check or other cash equivalent acceptable to the Company. As soon as practicable after receipt of such notice, but in any event no later than thirty (30) days after receipt, the Company shall direct the due issuance of the Optioned Shares so purchased.

(b) With the agreement of the Company, the requirement of payment in cash shall be deemed satisfied if the Optionee makes arrangements that are satisfactory to the Company with a broker that is a member of the National Association of Securities Dealers, Inc. to sell a sufficient number of Optioned Shares which are being purchased pursuant to the exercise, so that the net proceeds of the sale transaction will at least equal the amount of the aggregate Option Price, plus interest at the "applicable Federal rate" within the meaning of that term under Section 1274 of the Code, or any successor provision thereto, for the period from the date of exercise to the date of payment, and pursuant to which the broker undertakes to deliver to the Company the amount of the aggregate Option Price, plus such interest, not later than the date on which the sale

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transaction will settle in the ordinary course of business (this payment mechanism is referred to as the “Cashless Exercise Program”).

(c) In the event that the Company does not have a Cashless Exercise Program in effect at the time the Company receives notice of exercise from the Optionee, the Optionee may also tender the Option Price by (i) the actual or constructive transfer to the Company of nonforfeitable, non-restricted Common Shares that have been owned by the Optionee for more than six (6) months prior to the date of exercise, or (ii) by any combination of the foregoing methods of payment, including a partial tender in cash and a partial tender in nonforfeitable, nonrestricted Common Shares. Nonforfeitable, nonrestricted Common Shares that are transferred by the Optionee in payment of all or any part of the Option Price shall be valued on the basis of their Market Value per Share.

**6. Termination of Agreement.** Except as provided in Section 7 below, this Agreement and the Option granted hereby shall terminate automatically and without further notice, and, accordingly, any and all rights granted to Optionee and any and all obligations undertaken by the Company hereunder with regard to any vested but unexercised Optioned Shares shall terminate at the end of the Term of the Option. Optioned Shares that are not exercised prior to the end of the Term of the Option are immediately forfeited and may no longer be exercised.

**7. Vesting and Exercisability Following Certain Events.** Subject to Section 6 above, the Optionee (or his or her guardian, legal representative, estate or beneficiary, as applicable) shall have the right to exercise the Option following the occurrence of certain events, as follows:

(a) Termination of Employment Without Cause. Except as otherwise provided in Sections 7(c) through 7(i) below, or as provided on a case-by-case basis by the Board, if the Optionee’s employment with the Company is terminated without cause (as hereafter defined in Section 21), any vested, but unexercised Optioned Shares shall continue to be exercisable through the earlier to occur of ninety (90) days following the effective date of such termination of employment or the expiration of the Term of the Option. Any Optioned Shares that were not vested as of the effective date of such termination are forfeited.

(b) Termination of Employment for Cause. In the event that the Optionee’s employment with the Company is terminated for cause (as hereafter defined in Section 21), all Optioned Shares (vested or unvested) shall immediately be forfeited as of the effective date of such termination.

(c) Death During Active Employment of Optionee Under Age 55 or With Less Than 10 Years of Vesting Service. If the Optionee is under the age of 55, or at any age with less than ten (10) years of vesting service, and dies while in the employ of the Company, all unvested Optioned Shares vest and become immediately exercisable in full. Those Optioned Shares and any other vested, but unexercised Optioned Shares shall continue to be exercisable through the earlier to occur of three (3) years after the Optionee’s death or the expiration of the Term of the Option.

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(d) Death During Active Employment of Optionee Age 55-61 With at Least 10 Years of Vesting Service. If the Optionee is age 55 to 61 with at least ten (10) years of vesting service and dies while in the employ of the Company, all unvested Optioned Shares vest and become immediately exercisable in full. Those Optioned Shares shall continue to be exercisable through the earlier to occur of three (3) years after the Optionee's death or the expiration of the Term of the Option. Any vested, but unexercised Optioned Shares as of the date of death shall continue to be exercisable through the expiration of the Term of the Option.

(e) Death During Active Employment of Optionee Age 62 or Over With at Least 10 Years of Vesting Service. If the Optionee is age 62 or over with at least ten (10) years of vesting service and dies while in the employ of the Company, all unvested Optioned Shares vest and become immediately exercisable in full. Those Optioned Shares and any vested, but unexercised Optioned Shares as of the date of death shall continue to be exercisable through the expiration of the Term of the Option.

(f) Death Within 90 Days Following Termination of Employment of Optionee Under Age 55 or With Less Than 10 Years of Vesting Service. If the Optionee is under the age of 55, or at any age with less than ten (10) years of vesting service, and dies within ninety (90) days after termination of employment, all vested, but unexercised Optioned Shares as of the date of death shall continue to be exercisable through the earlier to occur of ninety (90) days after the date of the Optionee's death or the expiration of the Term of the Option. Provided, however, that if the Optionee's death occurs within one (1) year of the Date of Grant, the Option shall terminate upon the date of death.

(g) Retirement. If the Optionee retires under a Company sponsored IRS qualified retirement plan

(i) at age 55 through 61 with at least ten (10) years of vesting service, then

(1) any vested, but unexercised Optioned Shares as of the effective date of such retirement shall continue to be exercisable through the expiration of the Term of the Option; and

(2) any Optioned Shares that were not vested as of the effective date of such retirement are forfeited; and

(ii) at age 62 or over with at least ten (10) years of vesting service, then

(1) any vested, but unexercised Optioned Shares as of the effective date of such retirement shall continue to be exercisable through the expiration of the Term of the Option; and

(2) any Optioned Shares that were not vested as of the effective date of such retirement shall continue to vest in accordance with Section 3 above, and shall be exercisable through the expiration of the Term of the Option;

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provided, however, that if the Optionee is a party to an employment agreement with the Company immediately prior to such retirement and renders personal services to a Competing Business (as hereafter defined) in a manner, including, without limitation, as owner, partner, director, trustee, officer, employee, consultant or adviser thereto at any time within one year following such retirement, then all Option Shares (vested and unvested) shall be forfeited as of the first date on which such engagement commenced. The provisions of this Section 7(g) continue to apply if the Optionee dies following retirement.

(h) Disability. If the Optionee becomes permanently and totally disabled while an active employee of the Company, all unvested Optioned Shares vest and become immediately exercisable in full. Those Optioned Shares and any other vested, but unexercised Optioned Shares shall continue to be exercisable through the expiration of the Term of the Option.

(i) Termination Following a Change in Control. If, within the twenty-four (24) month period following a Change in Control (as hereafter defined in Section 21), the Optionee's employment is terminated by the Company without Cause (as hereafter defined in Section 21) or if the Optionee voluntarily terminates employment with Good Reason (as hereafter defined in Section 21), then all unvested Optioned Shares vest and become immediately exercisable in full. Those Optioned Shares and any other vested, but unexercised Optioned Shares shall continue to be exercisable through the earlier to occur of ninety (90) days following termination of employment or expiration of the Term of the Option. Provided, however, that if the Optionee is over age 55 and has at least ten (10) years of vesting service as of the effective date of such termination, the provisions of Section 7(g) governing exercisability of vested, but unexercised Optioned Shares following retirement shall apply.

For the purposes of this Agreement, the continuous employment of the Optionee with the Company shall not be deemed to have been interrupted, and the Optionee shall not be deemed to have ceased to be an employee of the Company, by reason of the transfer of his employment among the Company, its Subsidiaries, divisions and affiliates, or a leave of absence approved by the Company.

8. **Clawback**. Optionee acknowledges that any incentive-based compensation received by Optionee from the Company hereunder or otherwise (including any proceeds realized from any exercise of an Option and/or sale of the Optioned Shares) shall be subject to recovery by the Company in the circumstances and manner provided in any Incentive-Based Compensation Recovery Policy that may be adopted or implemented by the Company and in effect from time to time on or after the date hereof, and Optionee shall effectuate any such recovery at such time and in such manner as the Company may specify. For purposes of this Agreement, the term "Incentive-Based Compensation Recovery Policy" means and includes any policy of the type contemplated by Section 10D of the Securities Exchange Act, any rules or regulations of the Securities and Exchange Commission adopted pursuant thereto, or any related rules or listing standards of any national securities exchange or national securities association applicable to the Company.

9. **No Employment Contract**. Nothing contained in this Agreement shall confer upon the Optionee any right with respect to continuance of employment by the Company, nor

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limit or affect in any manner the right of the Company to terminate the employment or adjust the compensation of the Optionee.

**10. Taxes and Withholding.** If the Company shall be required to withhold any federal, state, local or foreign tax in connection with the exercise of the Option, and the amounts available to the Company for such withholding are insufficient, it shall be a condition to such exercise that the Optionee pay the tax or make provisions that are satisfactory to the Company for the payment thereof. In the case of the exercise of an Option that has been transferred pursuant to Section 4(b), no Optioned Shares shall be issued by the Company unless the exercise of the Option is accompanied by sufficient payment, as determined by the Company, to satisfy any applicable withholding tax obligations or by other arrangements satisfactory to the Company to provide for such payment.

**11. Compliance with Law.** The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, notwithstanding any other provision of this Agreement, the Option shall not be exercisable if the exercise thereof would result in a violation of any such law.

**12. Adjustments.** The Board may make or provide for such adjustments in the number of Optioned Shares covered by this Option, in the Option Price applicable to such Option, and in the kind of shares covered thereby, as the Board may determine is equitably required to prevent dilution or enlargement of the Optionee's rights that otherwise would result from a) any stock dividend, stock split, combination of shares, recapitalization, or other change in the capital structure of the Company, b) any merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation, or other distribution of assets or issuance of rights or warrants to purchase securities, or c) any other corporate transaction or event having an effect similar to any of the foregoing; provided however, that no such adjustment in the number of Optioned Shares will be made unless such adjustment would change by more than 5% the number of Optioned Shares issuable upon exercise of this Option; provided, further, however, that any adjustment which by reason of this Section 12 is not required to be made currently will be carried forward and taken into account in any subsequent adjustment. In the event of any such transaction or event, the Board may provide in substitution for this Option such alternative consideration as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of this Option.

**13. Availability of Common Shares.** The Company shall at all times until the expiration of the Option reserve and keep available, either in its treasury or out of its authorized but unissued Common Shares, the full number of Optioned Shares deliverable upon the exercise of this Option.

**14. Relation to Other Benefits.** Any economic or other benefit to the Optionee under this Agreement shall not be taken into account in determining any benefits to which the Optionee may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Company and shall not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Company.

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15. **Amendments.** Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the rights of the Optionee under this Agreement without the Optionee's consent.

16. **Severability.** In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

**17. Relation to Plan.**

(a) General. This Agreement is subject to the terms and conditions of the Plan. In the event of any inconsistent provisions between this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein without definition shall have the meanings assigned to them in the Plan. The Board acting pursuant to the Plan shall, except as expressly provided otherwise herein, have the right to determine the response to any questions which arise in connection with this Option or its exercise. All references in this Agreement to the "Company" shall be deemed to include, unless the context in which it is used suggests otherwise, its subsidiaries, divisions and affiliates.

(b) Compliance with Section 409A of the Code. The Company and the Optionee acknowledge that, to the extent applicable, it is intended that the options covered by this option agreement comply with the provisions of Section 409A of the Code, and the options shall be administered in a manner consistent with this intent. Any amendments made to comply with Section 409A of the Code may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of the Optionee. Any reference herein to Section 409A of the Code will also include any proposed, temporary or final regulations, or any other guidance, promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

18. **Successors and Assigns.** Subject to Section 4 hereof, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Optionee including any transferee pursuant to Section 4(b), and the successors and assigns of the Company; provided, however, that a transferee pursuant to Section 4(b) shall not transfer the Option other than by will or by the laws of descent and distribution unless the Company consents in writing to such transfer.

19. **Governing Law.** The interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of Delaware, without giving effect to the principles of conflict of laws thereof.

20. **Notices.** Any notice to the Company provided for herein shall be in writing to the Company, marked to the attention of the Corporate Controller at 7 West Seventh Street, Cincinnati, Ohio 45202 and any notice to the Optionee shall be addressed to said Optionee at his or her address currently on file with the Company. Except as otherwise provided herein, any written notice shall be deemed to be duly given if and when delivered personally or deposited in

the United States mail, first class registered mail, postage and fees prepaid, and addressed as aforesaid. Any party may change the address to which notices are to be given hereunder by written notice to the other party as herein specified (provided that for this purpose any mailed notice shall be deemed given on the third business day following deposit of the same in the United States mail).

**21. Definitions.**

(a) “Cause” shall mean the Optionee shall have committed prior to termination of employment any of the following acts:

- (i) an intentional act of fraud, embezzlement, theft, or any other material violation of law in connection with the Optionee’s duties or in the course of the Optionee’s employment;
- (ii) intentional wrongful damage to material assets of the Company;
- (iii) intentional wrongful disclosure of material confidential information of the Company;
- (iv) intentional wrongful engagement in any competitive activity that would constitute a material breach of the duty of loyalty;
- (v) intentional breach of any stated material employment policy of the Company; or
- (vi) intentional neglect by the Optionee of the Optionee’s duties and responsibilities.

(b) “Competing Business” shall mean

(i) any of the following named companies, or any other business into which such company is merged, consolidated, or otherwise combined:

|                         |                |             |
|-------------------------|----------------|-------------|
| Abercrombie & Fitch     | The Gap        | Ross Stores |
| Bed, Bath & Beyond      | J.C. Penney    | Saks        |
| Belk’s                  | Kohl’s         | Sears       |
| Burlington Coat Factory | Limited Brands | Target      |
| Bon-Ton Stores          | Nordstrom      | TJX         |
| Dillard’s               | Neiman-Marcus  | Walmart     |

or

- (ii) any retailer that (1) had annual revenues for its most recently completed fiscal year of at least \$2.5 billion; and (2) both
- (i) offers a category or categories of merchandise (e.g., Fine Jewelry, Cosmetics, Kids, Big Ticket, Housewares, Men’s,

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Dresses), any of which are offered by the Company (and its subsidiaries, divisions or controlled affiliates), and (ii) the revenue derived by such other retailer during such retailer's most recently ended fiscal year from such category or categories of merchandise represent(s) , in the aggregate, more than 50% of the Company's (and its subsidiaries, divisions or controlled affiliates) total revenues for the most recently completed fiscal year derived from the same category or categories of merchandise.

(c) "Change in Control" shall mean the occurrence of any of the following events:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the "Voting Stock"); provided, however, that for purposes of this subsection (i), the following acquisitions will not constitute a Change of Control: (A) any acquisition of Voting Stock directly from the Company that is approved by a majority of the Incumbent Board (as defined in subsection (ii) below); (B) any acquisition of Voting Stock by any entity in which the Company, directly or indirectly, beneficially owns 50% or more ownership or other equity interest (a "Subsidiary"); (C) any acquisition of Voting Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary; or (D) any acquisition of Voting Stock by any Person pursuant to a transaction that complies with clauses (A), (B) and (C) of subsection (iii) below; provided further, that: (X) if any Person is or becomes the beneficial owner of 30% or more of the Voting Stock as a result of a transaction described in clause (A) of this subsection (i), and such Person thereafter becomes the beneficial owner of any additional shares of Voting Stock, and after obtaining such additional beneficial ownership beneficially owns 30% or more of the Voting Stock, other than in an acquisition of Voting Stock directly from the Company that is approved by a majority of the Incumbent Board or other than as a result of a stock dividend, stock split or similar transaction effected by the Company in which all holders of Voting Stock are treated equally, such subsequent acquisition will be treated as a Change in Control; and (Y) a Change in Control will not be deemed to have occurred if a Person is or becomes the beneficial owner of 30% or more of the Voting Stock as a result of a reduction in the number of shares of Voting Stock outstanding pursuant to a transaction or series of transactions approved by a majority of the Incumbent Board unless and until such Person thereafter becomes the beneficial owner of any additional shares of Voting Stock, and after obtaining such additional beneficial ownership beneficially owns 30% or more of the Voting Stock, other than as a result of a stock dividend, stock split or similar transaction effected by the Company in which all holders of Voting Stock are treated equally; or

(ii) Individuals who, on the effective date of the Plan, constitute the Board of Directors of the Company (as modified by this subsection (ii), the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of the Company (the "Board"); provided, however, that any individual becoming a director after

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the effective date of the Plan whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be considered as though such individual were a member of the Incumbent Board such effective date, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) The consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (each, a "Business Combination"), unless, in each case, immediately following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Voting Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions relative to each other as their ownership, immediately prior to such Business Combination, of the Voting Stock, (B) no Person (excluding any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary or such entity resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors of the entity resulting from such Business Combination except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(d) "*Good Reason*" shall mean:

- (i) a material diminution in the Optionee's base compensation;
- (ii) a material diminution in the Optionee's authority, duties or responsibilities;
- (iii) a material change in the geographic location at which the Optionee must perform the Grantee's services; or



**PERFORMANCE-BASED RESTRICTED STOCK UNIT AGREEMENT**

This AGREEMENT (the "Agreement") made as of \_\_\_\_\_ (the "Date of Grant") by and between MACY'S, INC., a Delaware corporation (the "Company"), and \_\_\_\_\_ (the "Grantee").

**1. Grant of Performance-Based Restricted Stock Units.** Subject to and upon the terms, conditions, and restrictions set forth in this Agreement and in the Company's 2009 Omnibus Incentive Compensation Plan (the "Plan"), as amended from time to time, the Company hereby grants to the Grantee a "Target" award of [insert target number of Performance Units] Performance-Based Restricted Stock Units ("Performance Units"). Each Performance Unit represents the right to receive one share of the common stock of the Company ("Common Stock"), subject to the terms and conditions set forth below.

**2. Limitations on Transfer of Performance Units; Performance Period.**

(a) During the Performance Period hereinafter described, the Performance Units may not be transferred, sold, pledged, exchanged, assigned or otherwise encumbered or disposed of by the Grantee, except to the Company, until they are earned and become nonforfeitable ("Vest") in accordance with Section 3; provided, however, that the Grantee's interest in the Performance Units may be transferred at any time by will or the laws of descent and distribution.

(b) The Performance Period shall commence on January 30, 2011 (the "Commencement Date") and, except as otherwise provided in this Agreement, will expire in full on February 1, 2014.

**3. Vesting of Performance Units.**

(a) Subject to potential reduction as set forth in Section 3(b) below, one hundred and fifty percent (150%) of the Target award of Performance Units will be Vested on the date ("Vesting Date") that the Compensation Committee certifies that the Company has achieved a Cumulative EBITDA (as defined below) level of at least \$7.5 billion over the Performance Period, provided that the Grantee is continuously employed by the Company through the Vesting Date. If the Company does not achieve a Cumulative EBITDA level of at least \$7.5 billion over the Performance Period, then all Performance Units are forfeited as of the end of the Performance Period. In all cases the Compensation Committee shall certify whether the Company has achieved the specified level of Cumulative EBITDA as soon as administratively feasible following the end of the Performance Period but in no event later than two and a half months following the end of the Performance Period.

(i) "Cumulative EBITDA" is defined as Earnings Before Interest, Taxes, Depreciation and Amortization, which is equal to the sum of operating income and depreciation and amortization as reported in the Company's financial statements included in its annual Form 10-K, adjusted to eliminate the effects of asset impairments, restructurings, acquisitions, divestitures, other unusual or non-recurring items, store closing costs, and the cumulative effect of tax or accounting changes, as determined in accordance with generally accepted accounting principles, as applicable.

(b) The actual number of Performance Units that become Vested based on achieving the level of Cumulative EBITDA during the Performance Period may be reduced by the Compensation Committee in its sole and absolute discretion based on such factors as the Compensation Committee determines to be appropriate and/or advisable including without limitation the Company's achievement of EBITDA Margin and Return on Invested Capital ("ROIC") goals for the Performance Period. It is the current intention of the Compensation Committee that the Compensation Committee will exercise its discretion to reduce the number of Performance Units that will Vest based on the Company's achievement of the EBITDA Margin and ROIC goals during the Performance Period, weighted 70% and 30% respectively, as set forth in the following schedule. However, the Compensation Committee reserves the right to deviate from such schedule based on achievement of EBITDA Margin and ROIC and may adjust the number of Performance Units that Vest based on such other factors as the Compensation Committee in its sole and absolute discretion determines to be appropriate and/or advisable; provided, however, that it is the intention of the Compensation Committee that it will deviate from such EBITDA Margin and ROIC schedule only in extreme and unusual circumstances.

| Performance Level* | EBITDA Margin (70%) |                    | ROIC (30%)     |                    |
|--------------------|---------------------|--------------------|----------------|--------------------|
|                    | 3-year Average      | Vesting Percentage | 3-year Average | Vesting Percentage |
| Outstanding        | ≥13.4%              | 150%               | ≥20.9%         | 150%               |
| Target             | 12.9%               | 100%               | 19.9%          | 100%               |
| Threshold          | 12.4%               | 50%                | 18.9%          | 50%                |
| Below Threshold    | <12.4%              | 0%                 | <18.9%         | 0%                 |

\* Straight-line interpolation will apply to performance levels between the ones shown.

(i) "EBITDA Margin" is defined as EBITDA (adjusted to eliminate the effects of asset impairments, restructurings, acquisitions, divestitures, other unusual or non-recurring items, store closing costs, and the cumulative effect of tax or accounting changes, as determined in accordance with generally accepted accounting principles, as applicable) divided by Net Sales (defined as owned sales as presented in the Company's internal books and records, including the business plan for the performance period). EBITDA Margin will be measured on a three-year average basis (i.e., the average of fiscal 2011, fiscal 2012 and fiscal 2013 annual EBITDA Margin).

Notwithstanding anything to the contrary contained in any Performance Restricted Stock Unit Agreement previously entered into between the Company and the Grantee covering the grant of performance restricted stock units by the Company to the Grantee, all such Performance Restricted Stock Unit Agreements shall be deemed to define Net Sales in the same manner as Net Sales are defined herein.

(ii) "Return on Invested Capital" is defined as EBITDAR divided by Total Average Gross Investment. EBITDAR is equal to the sum of EBITDA (adjusted to eliminate the effects of asset impairments, restructurings, acquisitions, divestitures, other unusual or non-recurring items, store closing costs, and the cumulative effect of tax or accounting changes, as determined in accordance with generally accepted accounting principles, as applicable) plus Net Rent Expense. Net Rent Expense represents rent expense as reported in the Company's financial statements included in its Form 10-K less the deferred rent amortization related to contributions received from landlords. Total Average Gross Investment is equal to the sum of Gross Property, Plant and Equipment (PPE) plus Capitalized Value of Non-Capitalized Leases, plus Working Capital – which includes Receivables, Merchandise Inventories, Supplies and Prepaid Expenses – offset by Accounts Payable and Accrued Liabilities, plus Other Assets, each as reported in the Company's financial statements in the applicable Form 10-K or Form 10-Q. Gross PPE will be determined using a two-point average (i.e., beginning and end of year). Capitalized Value of Non-Capitalized Leases will be calculated as 8 x Net Rent Expense. Working Capital components

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and Other Assets will be determined using a four-point (i.e., quarterly) average. ROIC will be measured on a three-year average basis (i.e., the average of fiscal 2011, fiscal 2012 and fiscal 2013 annual ROIC).

**4. Forfeiture of Performance Units.** (a) Termination of Employment. Notwithstanding the provisions of Section 3 above, and except as the Board may determine on a case-by-case basis or as provided below, all unvested Performance Units shall be forfeited if the Grantee ceases to be continuously employed by the Company for any reason at any time prior to the end of the Performance Period. For the purposes of this Agreement the continuous employment of the Grantee with the Company shall not be deemed to have been interrupted, and the Grantee shall not be deemed to have ceased to be an employee of the Company, by reason of the transfer of the Grantee's employment among the Company and its Subsidiaries, divisions or affiliates or a leave of absence approved by the Company. In the event of a termination for cause (as hereafter defined), all unvested Performance Units shall be immediately forfeited.

(b) Death, disability or retirement. Notwithstanding the provisions of Section 3 above, and except as the Board may determine on a case-by-case basis or as provided below, in the event the Grantee retires on or after age 62 with at least 10 years of service, dies or becomes permanently and totally disabled during the Performance Period, the Grantee (or his or her estate, as appropriate) will receive at the end of the Performance Period the percentage of Performance Units determined under Section 3 above, prorated from the Commencement Date through the date of such retirement, death or disability based on the number of completed months of service during the Performance Period divided by 36.

(c) Change in Control. In the event of a Change in Control (as hereafter defined), Performance Units will convert to time-based restricted stock without proration for the percentage of the Performance Period that has elapsed since the Commencement Date, as follows:

(i) If the Change in Control occurs prior to the 24-month anniversary of the Commencement Date, then 100% of the Target award number of Performance Units shall convert to time-based restricted stock;

(ii) If the Change in Control occurs after the 24-month anniversary of the Commencement Date, the conversion of Performance Units to time-based restricted stock will be based on the Company's performance determined under Section 3 above from the Commencement Date through the first 24 months of the Performance Period, plus the Company's performance determined under Section 3 above during any completed fiscal quarter thereafter to the date of the Change in Control.

(iii) The vesting of the time-based restricted stock as so converted:

- Will be accelerated if, within the 24-month period following the Change in Control, the Grantee is terminated by the Company or the continuing entity without cause or if the Grantee voluntarily terminates employment with Good Reason;
- Will be accelerated at the Change in Control if awards are not assumed or replaced by the acquiror/continuing entity on terms deemed by the Compensation Committee to be appropriate; and
- Will occur on the third anniversary of the Date of Grant, if Vesting has not otherwise been accelerated as provided above.

**5. Dividend, Voting and Other Rights.** Except as otherwise provided herein, prior to Vesting the Grantee shall not have any of the rights of a stockholder with respect to the Performance

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Units, including the right to vote any of the Performance Units. An amount representing dividends payable on shares of Common Stock equal in number to one hundred and fifty percent (150%) of the Target award of Performance Units on a dividend record date shall be deemed reinvested in Common Stock and credited to the Grantee as restricted stock units as of the dividend payment date. If there is any change in the outstanding Common Stock of the Company by reason of a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, separation or reorganization or any other change in the capital structure of the Company, the Compensation Committee shall determine the appropriate adjustment to the Performance Units, if any, needed to reflect such change. Any restricted stock units or additional Performance Units credited to the Grantee pursuant to this Section 5 will be subject to the terms and restrictions set forth in this Agreement.

**6. Settlement of Performance Units.** As soon as administratively feasible following the end of the Performance Period and certification by the Compensation Committee as to the level of achievement of the Cumulative EBITDA performance goal and, if the Compensation Committee exercises its discretion to reduce the number of Performance Units that will Vest, determination of the level of achievement of the applicable EBITDA Margin and ROIC performance goals, but in no event later than two and a half months after the end of the Performance Period, the Company shall cause to be paid to the Grantee:

(i) a number of shares of unrestricted Common Stock equal to the number of Performance Units to which the Grantee is entitled, with a cash component representing fractional shares, if any, plus

(ii) a number of shares of Common Stock equal to the number of restricted stock units attributed to earned dividend equivalents on those Performance Units, with a cash component representing fractional shares, if any.

Such shares of Common Stock shall be credited as book entry shares to the Grantee's trading account, unless the Grantee requests stock certificates, in which case the Company shall deliver to the Grantee stock certificates representing such Common Stock. In the event Performance Units are not earned, those Performance Units, and the related restricted stock units attributed to dividend equivalents on those Performance Units, shall be forfeited.

**7. Clawback.** Any incentive-based compensation received by Grantee from the Company hereunder or otherwise shall be subject to recovery by the Company in the circumstances and manner provided in any Incentive-Based Compensation Recovery Policy that may be adopted or implemented by the Company and in effect from time to time on or after the date hereof, and Grantee shall effectuate any such recovery at such time and in such manner as the Company may specify. For purposes of this Agreement, the term "Incentive-Based Compensation Recovery Policy" means and includes any policy of the type contemplated by Section 10D of the Securities Exchange Act, any rules or regulations of the Securities and Exchange Commission adopted pursuant thereto, or any related rules or listing standards of any national securities exchange or national securities association applicable to the Company. Until the Company shall adopt such an Incentive-Based Compensation Recovery Policy, the following clawback provision shall apply:

In the event that, within three years of the end of the Performance Period, the Company restates its financial results with respect to the Company's performance during the Performance Period to correct a material error that the Compensation Committee determines is the result of fraud or intentional misconduct, then the Grantee shall repay to the Company all income, if any, derived from the Performance Units.

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8. **No Employment Contract.** Nothing contained in this Agreement shall confer upon the Grantee any right with respect to continuance of employment by the Company, or limit or affect in any manner the right of the Company to terminate the employment or adjust the compensation of the Grantee.

9. **Taxes and Withholding.** If the Company shall be required to withhold any federal, state, local or foreign tax in connection with the issuance or Vesting of any Performance Units or the issuance of any unrestricted shares of Common Stock or other securities following Vesting pursuant to this Agreement, it shall be a condition to such Vesting or issuance that the Grantee pay the tax or make provisions that are satisfactory to the Company for the payment thereof. Unless the Grantee makes alternative arrangements satisfactory to the Company prior to the Vesting of the Performance Units or the issuance of shares of unrestricted Common Stock, as the case may be, the Grantee will satisfy the minimum statutory tax withholding obligations by surrendering to the Company a portion of the shares of nonforfeitable and unrestricted Common Shares that are issued or transferred to the Grantee hereunder following the Vesting Date, and the shares of Common Stock so surrendered by the Grantee shall be credited against any such withholding obligation at the Market Value per Share of such shares of Common Stock on the Vesting Date.

10. **Compliance with Law.** The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, notwithstanding any other provision of this Agreement, the Company shall not be obligated to issue any Performance Units or shares of unrestricted Common Stock or other securities pursuant to this Agreement if the issuance thereof would result in a violation of any such law.

11. **Relation to Other Benefits.** Any economic or other benefit to the Grantee under this Agreement shall not be taken into account in determining any benefits to which the Grantee may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Company and shall not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Company.

12. **Amendments.** Any Amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the rights of the Grantee under this Agreement without the Grantee's consent.

13. **Severability.** In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

14. **Relation to Plan; Miscellaneous.** This Agreement is subject to the terms and conditions of the Plan. In the event of any inconsistent provisions between this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein without definition shall have the meanings assigned to them in the Plan. All references in this Agreement to the Company shall be deemed to include, unless the context in which it is used suggests otherwise, its subsidiaries, divisions and affiliates.

15. **Successors and Assigns.** Subject to Section 2 hereof, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Grantee and the successors and assigns of the Company.

16. **Governing Law.** The interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of Delaware.

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**17. Definitions.**

(a) “cause” shall mean that the Grantee has committed prior to termination of employment any of the following acts:

(i) an intentional act of fraud, embezzlement, theft, or any other material violation of law in connection with the Grantee’s duties or in the course of the Grantee’s employment;

(ii) intentional wrongful damage to material assets of the Company;

(iii) intentional wrongful disclosure of material confidential information of the Company;

(iv) intentional wrongful engagement in any competitive activity that would constitute a material breach of the duty of loyalty;

(v) intentional breach of any stated material employment policy of the Company; or

(vi) intentional neglect by the Grantee of the Grantee’s duties and responsibilities.

(b) “Good Reason” shall mean:

(i) a material diminution in the Grantee’s base compensation;

(ii) a material diminution in the Grantee’s authority, duties or responsibilities;

(iii) a material change in the geographic location at which the Grantee must perform the Grantee’s services; or

(iv) any other action or inaction that constitutes a material breach by the Company of an agreement under which the Grantee provides services.

(c) “Change in Control” shall mean the occurrence of any of the following events:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the “Voting Stock”); provided, however, that for purposes of this subsection (i), the following acquisitions will not constitute a Change of Control: (A) any acquisition of Voting Stock directly from the Company that is approved by a majority of the Incumbent Board (as defined in subsection (ii) below); (B) any acquisition of Voting Stock by any entity in which the Company, directly or indirectly, beneficially owns 50% or more ownership or other equity interest (a “Subsidiary”); (C) any acquisition of Voting Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary; or (D) any acquisition of Voting Stock by any Person pursuant to a transaction that complies

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with clauses (A), (B) and (C) of subsection (iii) below; provided further, that: (X) if any Person is or becomes the beneficial owner of 30% or more of the Voting Stock as a result of a transaction described in clause (A) of this subsection (i), and such Person thereafter becomes the beneficial owner of any additional shares of Voting Stock, and after obtaining such additional beneficial ownership beneficially owns 30% or more of the Voting Stock, other than in an acquisition of Voting Stock directly from the Company that is approved by a majority of the Incumbent Board or other than as a result of a stock dividend, stock split or similar transaction effected by the Company in which all holders of Voting Stock are treated equally, such subsequent acquisition will be treated as a Change in Control; and (Y) a Change in Control will not be deemed to have occurred if a Person is or becomes the beneficial owner of 30% or more of the Voting Stock as a result of a reduction in the number of shares of Voting Stock outstanding pursuant to a transaction or series of transactions approved by a majority of the Incumbent Board unless and until such Person thereafter becomes the beneficial owner of any additional shares of Voting Stock, and after obtaining such additional beneficial ownership beneficially owns 30% or more of the Voting Stock, other than as a result of a stock dividend, stock split or similar transaction effected by the Company in which all holders of Voting Stock are treated equally; or

(ii) Individuals who, on the effective date of the Plan, constitute the Board of Directors of the Company (as modified by this subsection (ii), the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board of Directors of the Company (the “Board”); provided, however, that any individual becoming a director after the effective date of the Plan whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be considered as though such individual were a member of the Incumbent Board such effective date, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) The consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (each, a “Business Combination”), unless, in each case, immediately following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Voting Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions relative to each other as their ownership, immediately prior to such Business Combination, of the Voting Stock, (B) no Person (excluding any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary or such entity resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors of the entity resulting from such Business Combination except to the extent that such ownership existed prior to the Business

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Combination, and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by its duly authorized officer, and Grantee has also executed this Agreement in duplicate, as of the day and year first above written.

MACY'S, INC.

By: \_\_\_\_\_  
Dennis J. Broderick  
Title: Executive Vice President, General Counsel and  
Secretary

\_\_\_\_\_  
\_\_\_\_\_, Grantee

**AMENDMENT TO  
MACY, INC. PROFIT SHARING 401(k) INVESTMENT PLAN**

The Macy's, Inc. Profit Sharing 401(k) Investment Plan (the "Plan") is hereby amended, effective as of January 1, 2009 and in order to provide for a reduced matching contribution formula with respect to the Plan's 2009 plan year, in the following respects.

1. Section 6.1 of the Plan is amended in its entirety to read as follows.

6.1 Annual Amount of Matching Contributions. For each Plan Year which ends after the Effective Amendment Date, the Employer shall contribute amounts to the Trust in addition to the Savings Contributions elected by Participants for such Plan Year. Such additional contributions shall be referred to in the Plan as "Matching Contributions." Subject to the other provisions of the Plan, the amount of Matching Contributions which shall be made by the Employer for any Plan Year which ends after the Effective Amendment Date (for purposes of this Section 6.1, the "subject Plan Year") shall be the amount determined under the following subsections of this Section 6.1.

6.1.1 Subject to the provisions of Subsections 6.1.2, 6.1.3, 6.1.4, and 6.1.5 below, the amount of Matching Contributions which shall be made by the Employer for the subject Plan Year shall be equal to 3.5% of the Employer's net income, as determined for the tax year of the Employer which begins in the subject Plan Year (before deduction of any Matching Contributions to this Plan and only after excluding the amount of any extraordinary items) by Macy's chief accounting officer in accordance with the standard accounting procedures of Macy's and as so categorized in the financial statements of the Employer.

6.1.2 In addition to the amount determined under Subsection 6.1.1 above, the Employer shall, subject to the provisions of Subsections 6.1.3, 6.1.4, 6.1.5, and 6.1.6 below, also make a further amount of Matching Contributions for the subject Plan Year to the extent necessary (and only to the extent necessary) so that the total amount of Matching Contributions made by the Employer for the subject Plan Year is at least equal to 33-1/3% of the aggregate amount of Basic Savings Contributions made for the subject Plan Year on behalf of all Participants who are Match Eligible Participants for the subject Plan Year (as such Participants are determined under the provisions of Subsection 7.2.2 below).

6.1.3 In addition to the amounts determined under Subsections 6.1.1 and 6.1.2 above, the Employer may, in its discretion and by resolution or other written action taken by the Board (or any committee of the Board or group of officers of Macy's to which or whom the powers described in this Subsection 6.1.3 are delegated by the Board) but also subject to the provisions of Subsections 6.1.4, 6.1.5, and 6.1.6 below, make a further amount of Matching Contributions for the subject Plan Year in any amount it determines.

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6.1.4 Subject to the provisions of Subsection 6.1.5 and 6.1.6 below but notwithstanding any of the foregoing subsections of this Section 6.1, in no event shall the total amount of the Matching Contributions to be made by the Employer for the subject Plan Year under the foregoing subsections of this Section 6.1 be greater than a maximum amount as determined under this Subsection 6.1.4. The maximum amount of the Matching Contributions to be made by the Employer for the subject Plan Year shall be equal to 100% of the aggregate amount of Basic Savings Contributions made for the subject Plan Year on behalf of all Participants who are Match Eligible Participants for the subject Plan Year (as such Participants are determined under the provisions of Subsection 7.2.2 below).

6.1.5 Subject to the provisions of Subsection 6.1.6 below but notwithstanding any of the foregoing subsections of this Section 6.1, when the subject Plan Year is the Plan Year that begins on January 1, 2009, then the amount of the Matching Contributions to be made by the Employer for such subject Plan Year shall not be determined at all under the foregoing subsections of this Section 6.1 but instead shall be equal to 10% of the aggregate amount of Basic Savings Contributions made for such subject Plan Year on behalf of all Participants who are Match Eligible Participants for such subject Plan Year (as such Participants are determined under the provisions of Subsection 7.2.2 below).

6.1.6 To the extent permitted by Section 9.5 below, any forfeitures arising during the subject Plan Year shall be used to reduce and be substituted in place of those Matching Contributions which: (i) are otherwise required or determined under the foregoing subsections of this Section 6.1 for the subject Plan Year; and (ii) also, when the subject Plan Year is not the Plan Year that begins on January 1, 2009, exceed the amount of Matching Contributions which would be made for the subject Plan Year if such amount were limited to the amount described in Subsection 6.1.1 above. For purposes of the foregoing subsections of this Section 6.1 and also for purposes of Section 7.2 below (which concerns the allocation of Matching Contributions), any forfeitures (or other amounts) which are used to reduce and substitute for any amount of Matching Contributions for the subject Plan Year shall be considered as if they were such Matching Contributions for the subject Plan Year.

2. Subsection 6.2.2 of the Plan is amended in its entirety to read as follows.

6.2.2 The actual amount paid as Matching Contributions for any Plan Year may initially, to the extent determined with respect to the amount set forth in Subsection 6.1.1 above, be based upon Macy's net income as estimated by Macy's chief accounting officer in accordance with data available to him or her at the time the estimate is made. In the event that, after Macy's chief accounting officer subsequently determines the final calculation of the amount set forth in Subsection 6.1.1 above, an additional amount is required to be contributed to the Plan by the Employer to meet the required Matching Contribution provisions of Section 6.1 above, then the Employer will make such additional contribution as soon as possible after such final calculation is completed. In the event that the

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final calculation of the amount set forth in Subsection 6.1.1 above shows that the Employer made Matching Contributions for the subject Plan Year in excess of the amount required under Section 6.1 above, the amount by which the actual amount of Matching Contributions which were made exceeds the required Matching Contributions for such Plan Year shall be deemed not to have been made for such Plan Year but instead shall be deemed made in the next following Plan Year and shall be used as soon as possible to reduce (and to substitute for) the next required Matching Contributions to be made to the Plan. Notwithstanding the foregoing provisions of this Subsection 6.2.2, this Subsection 6.2.2 shall not apply at all to the Plan Year that begins on January 1, 2009.

3. Subsection 7.2.3 of the Plan is amended in its entirety to read as follows.

7.2.3 The Matching Contributions made to the Trust for any Plan Year which ends after the Effective Amendment Date (for purposes of this Subsection 7.2.3, the "subject Plan Year") shall be allocated among the Matching Accounts of the Participants who are Match Eligible Participants for the subject Plan Year (for purposes of this Subsection 7.2.3, the "Eligible Participants") in accordance with the following paragraphs of this Subsection 7.2.3.

(a) Subject to the provisions of paragraph (d) below, the Matching Contributions made for the subject Plan Year by reason of Section 6.1 above shall first be allocated among the Matching Accounts of the Eligible Participants in proportion to each Eligible Participant's Basic Savings Contributions made for the subject Plan Year, until each Eligible Participant's Matching Account has been allocated 33-1/3% of the Eligible Participant's Basic Savings Contributions made for the subject Plan Year.

(b) Subject to the provisions of subparagraphs (1) and (2) of this paragraph (b) and also to the provisions of paragraph (d) below, the portion of any Matching Contributions made for the subject Plan Year that are not allocated in accordance with the provisions of paragraph (a) above shall be allocated among the Matching Accounts of the Eligible Participants in proportion to each Eligible Participant's Adjusted Basic Savings Contributions made for the subject Plan Year.

(1) Notwithstanding the foregoing provisions of this paragraph (b), no Eligible Participant's Matching Account shall be allocated an amount for the subject Plan Year under this paragraph (b) to the extent that such amount would cause the Eligible Participant's Matching Account to be allocated in the aggregate under paragraphs (a) and (b) of this Subsection 7.2.3 more than 100% of the Basic Savings Contributions made for the subject Plan Year by or for such Eligible Participant.

(2) Also notwithstanding the foregoing provisions of this paragraph (b), if the subject Plan Year is the Plan Year ending December 31, 2008, then the Matching Account of any Eligible Participant who participated in the May Profit Sharing Plan at any time in the period from January 1, 2008 through August 31, 2008, and who withdrew during such period any Basic

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Savings Contributions for such Plan Year or any earlier Plan Year from his or her Savings Account, shall be allocated for such Plan Year only 50% of the amount that would otherwise be allocated to such Matching Account for such Plan Year under the foregoing provisions of this paragraph (b).

(3) To the extent the amounts otherwise to be allocated to any Eligible Participants' Matching Accounts under this paragraph (b) are limited by reason of subparagraphs (1) and (2) of this paragraph (b), the sum by which such amounts are so limited (for purposes of this subparagraph (3), the "reallocable sum") shall be allocated among the Matching Accounts of the remaining Eligible Participants (for whom the amounts otherwise to be allocated to their Matching Accounts under this paragraph (b) are not limited by reason of subparagraphs (1) and (2) of this paragraph (b)) in proportion to each such remaining Eligible Participant's Adjusted Savings Contributions made for the subject Plan Year.

(c) For purposes of paragraph (b) above, an Eligible Participant's "Adjusted Basic Savings Contributions" for the subject Plan Year means: (i) 100% of the Basic Savings Contributions made for the subject Plan Year on behalf of the Eligible Participant if he or she has completed less than 15 years of Vesting Service by the start of the subject Plan Year; or (ii) 150% of the Basic Savings Contributions made for the subject Plan Year on behalf of the Eligible Participant if he or she has completed 15 or more years of Vesting Service by the start of the subject Plan Year.

(d) Notwithstanding any of the foregoing paragraphs of this Subsection 7.2.3, when the subject Plan Year is the Plan Year that begins on January 1, 2009, then the Matching Contributions made for the subject Plan Year by reason of Section 6.1 above shall not be allocated under the foregoing paragraphs of this Subsection 7.2.3 but instead shall be allocated among the Matching Accounts of the Eligible Participants in proportion to each Eligible Participant's Basic Savings Contributions made for the subject Plan Year, until each Eligible Participant's Matching Account has been allocated 10% of the Eligible Participant's Basic Savings Contributions made for the subject Plan Year. No further or different allocations of Matching Contributions for the Plan Year that begins on January 1, 2009 shall apply.

IN ORDER TO EFFECT THE FOREGOING PLAN REVISIONS, the sponsor of the Plan hereby signs this Plan amendment.

**MACY'S, INC.**

By: /s/ David W. Clark

Title: EVP, Human Resources

Date: 6/2/2009

**AMENDMENT TO  
MACY'S, INC. PROFIT SHARING 401(k) INVESTMENT PLAN**

The Macy's, Inc. Profit Sharing 401(k) Investment Plan as restated effective as of January 1, 2008 (the "Plan") is hereby amended, in order (i) to better meet certain direct rollover requirements added by the Pension Protection Act of 2006 (the "PPA") and (ii) to clarify a few direct rollover provisions of the Plan, by revising Section 11.9 of the Plan in its entirety to read as follows.

**11.9 Direct Rollover Distributions.** Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Section 11.9, a distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an eligible rollover distribution otherwise payable to him or her paid directly to an eligible retirement plan specified by the distributee in a direct rollover. The provisions of this Section 11.9 shall not only be effective as of the Effective Amendment Date but shall also, for each Prior Plan that was in effect on January 1, 2002, be effective as of January 1, 2002 with respect to any distribution made under the Plan on or after such date.

11.9.1 For purposes of this Section 11.9, the following terms shall have the meanings indicated in the following paragraphs of this Subsection 11.9.1.

(a) An "eligible rollover distribution" means, with respect to any distributee, any distribution of all or any portion of the entire benefit otherwise payable under the Plan to the distributee, except that an eligible rollover distribution does not include: (i) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more; (ii) any distribution to the extent such distribution is required to be made under Section 401(a)(9) of the Code; (iii) any distribution that is made under the provisions of the Plan because of a hardship; or (iv) any other distribution that is not permitted to be directly rolled over to an eligible retirement plan under regulations of the Secretary of the Treasury or his or her delegate. For purposes of this paragraph (a), a portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income; however, such portion may be paid only to: an eligible retirement plan that is described in clause (i), (ii), or (iii) of paragraph (b) below; or in a direct rollover to an eligible retirement plan that is described in clause (v) (or, effective for any distribution made on or after January 1, 2007, clause (vii)) of paragraph (b) below that agrees to separately account for amounts so transferred (and,

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effective for any distribution made on or after January 1, 2007, earnings thereon), including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

(b) An “eligible retirement plan” means, with respect to any distributee’s eligible rollover distribution, any of the following accounts, annuities, plans, or contracts that accepts the distributee’s eligible rollover distribution: (i) an individual retirement account described in Section 408(a) of the Code; (ii) an individual retirement annuity described in Section 408(b) of the Code; (iii) effective for any distribution made on or after January 1, 2008, a Roth IRA (as defined in Code Section 408A), but, if the eligible rollover distribution is made prior to January 1, 2010, only if the distributee meets the conditions applicable to making a qualified rollover distribution to a Roth IRA that are set forth in Code Section 408(c)(3)(B); (iv) an annuity plan described in Section 403(a) of the Code; (v) an annuity contract described in Section 403(b) of the Code; (vi) an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan; or (vii) a qualified trust described in Section 401(a) of the Code. This definition of eligible retirement plan shall also apply in the case of a distribution to a surviving spouse or to a spouse or former spouse who is the alternate payee under a qualified domestic relation order, as defined in Section 206(d)(3) of ERISA and Section 414(p) of the Code.

(c) A “distributee” means a Participant. In addition, a Participant’s surviving spouse, or a Participant’s spouse or former spouse who is the alternate payee under a qualified domestic relations order (as defined in Section 206(d)(3) of ERISA and Section 414(p) of the Code), is a distributee with regard to any interest of the Participant which becomes payable under the Plan to such spouse or former spouse.

(d) A “direct rollover” means, with respect to any distributee, a payment by the Plan to an eligible retirement plan specified by the distributee.

11.9.2 As a special rule and notwithstanding any other provision of this Section 11.9 to the contrary, if a person who is a designated beneficiary (as defined in Code Section 401(a)(9)(E) and including, to the extent provided in rules prescribed by the Secretary of the Treasury or his or her delegate, a trust established for the benefit of one or more designated beneficiaries) of a deceased Participant and who is not the Participant’s surviving spouse is entitled under the Plan to receive after December 31, 2007 a Plan distribution that would be an eligible rollover distribution were such person a distributee, such person may elect to have all or a part of the distribution directly rolled over by the Plan to an inherited individual retirement account or annuity (within the meaning of Code Section 408(d)(3)(C)(ii) and any related provisions of the Code) to the extent

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permitted by and subject to the provisions of Section 402(c)(11) of the Code. However any direct rollover that is made prior to January 1, 2010 pursuant to the provisions of this Subsection 11.9.2 shall not be considered a direct rollover of an eligible rollover distribution for purposes of any withholding or notice requirements that normally apply under the Code to direct rollovers of eligible rollover distributions.

11.9.3 The Committee may prescribe reasonable rules in order to provide for the Plan to meet the provisions of this Section 11.9 and all rules of the Code that apply to direct rollovers of eligible rollover distributions. Any such rules shall comply with the provisions of Code Section 401(a)(31) and any applicable Treasury regulations which are issued with respect to the direct rollover requirements. For example, subject to meeting the provisions of Code Section 401(a)(31) and applicable Treasury regulations, the Committee may: (i) prescribe the specific manner in which a direct rollover shall be made by the Plan, whether by wire transfer to the eligible retirement plan, by mailing a check to the eligible retirement plan, by providing the distributee a check made payable to the eligible retirement plan and directing the distributee to deliver the check to the eligible retirement plan, and/or by some other method; (ii) prohibit any direct rollover of any eligible rollover distributions payable during a calendar year to a distributee when the total of such distributions is less than \$200; and/or (iii) refuse to make a direct rollover of an eligible rollover distribution to more than one eligible retirement plan.

IN ORDER TO EFFECT THE FOREGOING PLAN REVISIONS, the sponsor of the Plan hereby signs this Plan amendment.

**MACY'S, INC.**

By: /s/ Thomas G. Cody

Title: Vice Chair

Date: 12/31/2009

**AMENDMENT TO  
MACY'S, INC. PROFIT SHARING 401(k) INVESTMENT PLAN**

The Macy's, Inc. Profit Sharing 401(k) Investment Plan (the "Plan") is hereby amended, effective as of January 1, 2010 and in order to provide for a reduced matching contribution formula with respect to the Plan's 2010 plan year, in the following respects.

1. Section 6.1 of the Plan is amended in its entirety to read as follows.

6.1 Annual Amount of Matching Contributions. For each Plan Year which ends after the Effective Amendment Date, the Employer shall contribute amounts to the Trust in addition to the Savings Contributions elected by Participants for such Plan Year. Such additional contributions shall be referred to in the Plan as "Matching Contributions." Subject to the other provisions of the Plan, the amount of Matching Contributions which shall be made by the Employer for any Plan Year which ends after the Effective Amendment Date (for purposes of this Section 6.1, the "subject Plan Year") shall be the amount determined under the following subsections of this Section 6.1.

6.1.1 Subject to the provisions of Subsections 6.1.2, 6.1.3, 6.1.4, and 6.1.5 below, the amount of Matching Contributions which shall be made by the Employer for the subject Plan Year shall be equal to 3.5% of the Employer's net income, as determined for the tax year of the Employer which begins in the subject Plan Year (before deduction of any Matching Contributions to this Plan and only after excluding the amount of any extraordinary items) by Macy's chief accounting officer in accordance with the standard accounting procedures of Macy's and as so categorized in the financial statements of the Employer.

6.1.2 In addition to the amount determined under Subsection 6.1.1 above, the Employer shall, subject to the provisions of Subsections 6.1.3, 6.1.4, 6.1.5, and 6.1.6 below, also make a further amount of Matching Contributions for the subject Plan Year to the extent necessary (and only to the extent necessary) so that the total amount of Matching Contributions made by the Employer for the subject Plan Year is at least equal to 33-1/3% of the aggregate amount of Basic Savings Contributions made for the subject Plan Year on behalf of all Participants who are Match Eligible Participants for the subject Plan Year (as such Participants are determined under the provisions of Subsection 7.2.2 below).

6.1.3 In addition to the amounts determined under Subsections 6.1.1 and 6.1.2 above, the Employer may, in its discretion and by resolution or other written action taken by the Board (or any committee of the Board or group of officers of Macy's to which or whom the powers described in this Subsection 6.1.3 are delegated by the Board) but also subject to the provisions of Subsections

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6.1.4, 6.1.5, and 6.1.6 below, make a further amount of Matching Contributions for the subject Plan Year in any amount it determines.

6.1.4 Subject to the provisions of Subsection 6.1.5 and 6.1.6 below but notwithstanding any of the foregoing subsections of this Section 6.1, in no event shall the total amount of the Matching Contributions to be made by the Employer for the subject Plan Year under the foregoing subsections of this Section 6.1 be greater than a maximum amount as determined under this Subsection 6.1.4. The maximum amount of the Matching Contributions to be made by the Employer for the subject Plan Year shall be equal to 100% of the aggregate amount of Basic Savings Contributions made for the subject Plan Year on behalf of all Participants who are Match Eligible Participants for the subject Plan Year (as such Participants are determined under the provisions of Subsection 7.2.2 below).

6.1.5 Subject to the provisions of Subsection 6.1.6 below but notwithstanding any of the foregoing subsections of this Section 6.1, when the subject Plan Year is either the Plan Year that begins on January 1, 2009 or the Plan Year that begins on January 1, 2010, then the amount of the Matching Contributions to be made by the Employer for such subject Plan Year shall not be determined at all under the foregoing subsections of this Section 6.1 but instead shall be equal to 10% of the aggregate amount of Basic Savings Contributions made for such subject Plan Year on behalf of all Participants who are Match Eligible Participants for such subject Plan Year (as such Participants are determined under the provisions of Subsection 7.2.2 below).

6.1.6 To the extent permitted by Section 9.5 below, any forfeitures arising during the subject Plan Year shall be used to reduce and be substituted in place of those Matching Contributions which: (i) are otherwise required or determined under the foregoing subsections of this Section 6.1 for the subject Plan Year; and (ii) also, when the subject Plan Year is neither the Plan Year that begins on January 1, 2009 or the Plan Year that begins on January 1, 2010, exceed the amount of Matching Contributions which would be made for the subject Plan Year if such amount were limited to the amount described in Subsection 6.1.1 above. For purposes of the foregoing subsections of this Section 6.1 and also for purposes of Section 7.2 below (which concerns the allocation of Matching Contributions), any forfeitures (or other amounts) which are used to reduce and substitute for any amount of Matching Contributions for the subject Plan Year shall be considered as if they were such Matching Contributions for the subject Plan Year.

2. Subsection 6.2.2 of the Plan is amended in its entirety to read as follows.

6.2.2 The actual amount paid as Matching Contributions for any Plan Year may initially, to the extent determined with respect to the amount set forth in Subsection 6.1.1 above, be based upon Macy's net income as estimated by Macy's chief accounting officer in accordance with data available to him or her at the time the estimate is made. In the event that, after Macy's chief accounting

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officer subsequently determines the final calculation of the amount set forth in Subsection 6.1.1 above, an additional amount is required to be contributed to the Plan by the Employer to meet the required Matching Contribution provisions of Section 6.1 above, then the Employer will make such additional contribution as soon as possible after such final calculation is completed. In the event that the final calculation of the amount set forth in Subsection 6.1.1 above shows that the Employer made Matching Contributions for the subject Plan Year in excess of the amount required under Section 6.1 above, the amount by which the actual amount of Matching Contributions which were made exceeds the required Matching Contributions for such Plan Year shall be deemed not to have been made for such Plan Year but instead shall be deemed made in the next following Plan Year and shall be used as soon as possible to reduce (and to substitute for) the next required Matching Contributions to be made to the Plan. Notwithstanding the foregoing provisions of this Subsection 6.2.2, this Subsection 6.2.2 shall not apply at all to either the Plan Year that begins on January 1, 2009 or the Plan Year that begins on January 1, 2010.

3. Subsection 7.2.3 of the Plan is amended in its entirety to read as follows.

7.2.3 The Matching Contributions made to the Trust for any Plan Year which ends after the Effective Amendment Date (for purposes of this Subsection 7.2.3, the "subject Plan Year") shall be allocated among the Matching Accounts of the Participants who are Match Eligible Participants for the subject Plan Year (for purposes of this Subsection 7.2.3, the "Eligible Participants") in accordance with the following paragraphs of this Subsection 7.2.3.

(a) Subject to the provisions of paragraph (d) below, the Matching Contributions made for the subject Plan Year by reason of Section 6.1 above shall first be allocated among the Matching Accounts of the Eligible Participants in proportion to each Eligible Participant's Basic Savings Contributions made for the subject Plan Year, until each Eligible Participant's Matching Account has been allocated 33-1/3% of the Eligible Participant's Basic Savings Contributions made for the subject Plan Year.

(b) Subject to the provisions of subparagraphs (1) and (2) of this paragraph (b) and also to the provisions of paragraph (d) below, the portion of any Matching Contributions made for the subject Plan Year that are not allocated in accordance with the provisions of paragraph (a) above shall be allocated among the Matching Accounts of the Eligible Participants in proportion to each Eligible Participant's Adjusted Basic Savings Contributions made for the subject Plan Year.

(1) Notwithstanding the foregoing provisions of this paragraph (b), no Eligible Participant's Matching Account shall be allocated an amount for the subject Plan Year under this paragraph (b) to the extent that such amount would cause the Eligible Participant's Matching Account to be allocated in the aggregate under paragraphs (a) and (b) of this Subsection 7.2.3 more than

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100% of the Basic Savings Contributions made for the subject Plan Year by or for such Eligible Participant.

(2) Also notwithstanding the foregoing provisions of this paragraph (b), if the subject Plan Year is the Plan Year ending December 31, 2008, then the Matching Account of any Eligible Participant who participated in the May Profit Sharing Plan at any time in the period from January 1, 2008 through August 31, 2008, and who withdrew during such period any Basic Savings Contributions for such Plan Year or any earlier Plan Year from his or her Savings Account, shall be allocated for such Plan Year only 50% of the amount that would otherwise be allocated to such Matching Account for such Plan Year under the foregoing provisions of this paragraph (b).

(3) To the extent the amounts otherwise to be allocated to any Eligible Participants' Matching Accounts under this paragraph (b) are limited by reason of subparagraphs (1) and (2) of this paragraph (b), the sum by which such amounts are so limited (for purposes of this subparagraph (3), the "reallocable sum") shall be allocated among the Matching Accounts of the remaining Eligible Participants (for whom the amounts otherwise to be allocated to their Matching Accounts under this paragraph (b) are not limited by reason of subparagraphs (1) and (2) of this paragraph (b)) in proportion to each such remaining Eligible Participant's Adjusted Savings Contributions made for the subject Plan Year.

(c) For purposes of paragraph (b) above, an Eligible Participant's "Adjusted Basic Savings Contributions" for the subject Plan Year means: (i) 100% of the Basic Savings Contributions made for the subject Plan Year on behalf of the Eligible Participant if he or she has completed less than 15 years of Vesting Service by the start of the subject Plan Year; or (ii) 150% of the Basic Savings Contributions made for the subject Plan Year on behalf of the Eligible Participant if he or she has completed 15 or more years of Vesting Service by the start of the subject Plan Year.

(d) Notwithstanding any of the foregoing paragraphs of this Subsection 7.2.3, when the subject Plan Year is either the Plan Year that begins on January 1, 2009 or the Plan Year that begins on January 1, 2010, then the Matching Contributions made for the subject Plan Year by reason of Section 6.1 above shall not be allocated under the foregoing paragraphs of this Subsection 7.2.3 but instead shall be allocated among the Matching Accounts of the Eligible Participants in proportion to each Eligible Participant's Basic Savings Contributions made for the subject Plan Year, until each Eligible Participant's Matching Account has been allocated 10% of the Eligible Participant's Basic Savings Contributions made for the subject Plan Year. No further or different allocations of Matching Contributions for either the Plan Year that begins on January 1, 2009 or the Plan Year that begins on January 1, 2010 shall apply.

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**[Signature Page of Amendment Is Following Page]**

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IN ORDER TO EFFECT THE FOREGOING PLAN REVISIONS, the sponsor of the Plan hereby signs this Plan amendment.

**MACY'S, INC.**

By: /s/ David W. Clark

Title: EVP, Human Resources

Date: 3/30/2010

**AMENDMENT TO  
MACY'S, INC. PROFIT SHARING 401(k) INVESTMENT PLAN**

The Macy's, Inc. Profit Sharing 401(k) Investment Plan (the "Plan") is hereby amended, effective as of January 1, 2010 and in order to provide that a participant's compensation used for purposes of running the Plan's average actual deferral percentage limits and average actual contribution limits for any plan year beginning on or after January 1, 2010 only will include his or her compensation for the portion of the plan year in which he or she is eligible to participate in the Plan, in the following respects.

1. Subsection 5A.4.3 of the Plan is amended in its entirety to read as follows.

5A.4.3 "ADP Compensation" means, with respect to any person who is an Eligible Participant: (i) for any Plan Year that begins on or after January 1, 2010, the Eligible Participant's Compensation for the part (and only during the part) of such Plan Year in which he or she is both a Participant and a Covered Employee; or (ii) for any Plan Year that begins prior to January 1, 2010, the Eligible Participant's Compensation for such Plan Year that is received for services as a Covered Employee during such entire Plan Year (regardless of whether he or she is a Participant for the entire Plan Year or for only part but not all of such Plan Year).

2. Subsection 6A.4.3 of the Plan is amended in its entirety to read as follows.

6A.4.3 "ACP Compensation" means, with respect to any person who is an Eligible Participant: (i) for any Plan Year that begins on or after January 1, 2010, the Eligible Participant's Compensation for the part (and only during the part) of such Plan Year in which he or she is both a Participant and a Covered Employee; or (ii) for any Plan Year that begins prior to January 1, 2010, the Eligible Participant's Compensation for such Plan Year that is received for services as a Covered Employee during such entire Plan Year (regardless of whether he or she is a Participant for the entire Plan Year or for only part but not all of such Plan Year).

IN ORDER TO EFFECT THE FOREGOING PLAN REVISIONS, the sponsor of the Plan hereby signs this Plan amendment.

**MACY'S, INC.**

By: /s/ David W. Clark  
Title: EVP, Human Resources

Date: 11/30/2010

**AMENDMENT TO  
MACY'S, INC. PROFIT SHARING 401(k) INVESTMENT PLAN**

The Macy's, Inc. Profit Sharing 401(k) Investment Plan as restated effective as of January 1, 2008 (the "Plan") is hereby amended, as if the Plan provisions modified by this amendment had been originally contained in the Plan and in order to meet the requirements of the Heroes Earnings Assistance and Relief Tax Act of 2008 and to more fully describe the effect of military service on Plan participation, in the following respects.

1. Section 17.5 of the Plan is amended in its entirety to read as follows.

17.5 Plan Benefits and Service for Military Service. Notwithstanding any provision of the Plan to the contrary and in order to satisfy the requirements of Sections 401(a)(37) and 414(u) of the Code with respect to a Participant's qualified military service, the following subsections of this Section 17.5 shall apply.

17.5.1 If any contribution is made to the Plan by the Employer with respect to a Participant or by the Participant as a result of the Participant's rights under Chapter 43 of Title 38 of the United States Code (as such chapter is in effect on December 12, 1994 and without regard to any subsequent amendment) and by reason of the Participant's qualified military service, then:

(i) such contribution shall not be subject to any otherwise applicable limitation under Code Section 402(g), 404(a), or 415, and shall not be taken into account in applying such limitations to other contributions made under the Plan, with respect to the year in which the contribution is made; (ii) such contribution shall be subject to the limitations described in clause (i) above with respect to the year to which the contribution relates; and (iii) the Plan shall not be treated as failing to meet the requirements of Code Section 401(a)(4), 401(k)(3), 401(m), 410(b), or 416 by reason of the making of such contribution.

17.5.2 If a Participant is entitled to the benefits of Chapter 43 of Title 38 of the United States Code (as such chapter is in effect on December 12, 1994 and without regard to any subsequent amendment), then the following paragraphs of this Subsection 17.5.2 shall apply with respect to the Participant.

(a) The Participant may make additional Pre-Tax Elective Savings Contributions, Roth Elective Savings Contributions, and/or After-Tax Savings Contributions under the Plan (in the amount determined under paragraph (c) below) during the period which begins on the date of the Participant's reemployment by the Employer and has the same length as the lesser of (i) the product of three and the Participant's period of qualified military service which resulted in his or her rights under this paragraph (a) or (ii) five years.

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(b) The Employer shall make Matching Contributions under the Plan with respect to any additional Savings Contributions made pursuant to paragraph (a) above which would have been required under the Plan had such additional Savings Contributions actually been made during the period of the Participant's qualified military service which results in the Participant's rights under paragraph (a) above.

(c) The amount of additional Pre-Tax Elective Savings Contributions, Roth Elective Savings Contributions, or After-Tax Savings Contributions that can be made by the Participant under paragraph (a) above is the maximum amount of such contributions that the Participant would have been permitted to make under the Plan during the period of his or her qualified military service which results in his or her rights under paragraph (a) above if the Participant had continued to be employed by the Employer during such period and received Compensation as determined under Subsection 17.5.6 below. However, the amount determined under this paragraph (c) shall be properly adjusted for any Pre-Tax Elective Savings Contributions, Roth Elective Savings Contributions, or After-Tax Savings Contributions the Participant actually made under the Plan during the period of such qualified military service.

17.5.3 If the Plan suspends the Participant's obligation to repay any loan made to him or her by the Plan for any period during which the Participant is performing service in the uniformed services, as defined in Chapter 43 of Title 38 of the United States Code (as such chapter is in effect on December 12, 1994 and without regard to any subsequent amendment), such suspension shall not be taken into account for purposes of applying Code Section 72(p), 401(a), or 4975(d)(1) to the loan on the Plan.

17.5.4 An individual reemployed as an Employee under Chapter 43 of Title 38 of the United States Code (as such chapter is in effect on December 12, 1994 and without regard to any subsequent amendment) shall be treated as not having incurred a Break-in-Service for purposes of the Plan by reason of such individual's qualified military service.

17.5.5 Each period of qualified military service served by an individual shall, upon reemployment as an Employee under Chapter 43 of Title 38 of the United States Code (as such chapter is in effect on December 12, 1994 and without regard to any subsequent amendment), be deemed to constitute Vesting Service for purposes of the Plan.

17.5.6 For purposes of Article 7A above and Subsection 17.5.2(c) above, a Participant who is in qualified military service shall be treated as receiving Compensation from the Employer during the period of qualified military service equal to the Compensation the Participant would have received during such period were he or she not in qualified military service, determined based on the rate of pay the Participant would have received from the Employer but for his or her absence during the period of qualified military service; except that, if the Compensation the Participant would receive during the

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period of qualified military service is not reasonably certain, then the Participant shall be treated as receiving Compensation from the Employer during the period of qualified military service equal to the Participant's average Compensation from the Employer during the shorter of (i) the twelve month period immediately preceding the period of the qualified military service or (ii) the Participant's entire period of employment by the Employer.

17.5.7 If a Participant dies on or after January 1, 2007 and while performing qualified military service, the survivors of the Participant are entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan had the Participant resumed and then ceased to be an Employee on account of death. However, the amount of such death benefit is not determined as if the Participant's Accounts were allocated contributions or forfeitures during such qualified military service.

17.5.8 An individual receiving, in a Plan Year that begins after December 30, 2008, a differential wage payment from the Employer shall be treated as an Employee and the differential wage payment shall be treated as part of the Participant's Compensation solely for purposes of applying Subsection 2.1.13 above, Article 5A above, Article 6A above, Article 7A above, and Article 16 above and applying any other requirement imposed by the Code on the Plan (but shall not be treated as part of the Participant's Covered Compensation or used for any other purposes of the Plan). Notwithstanding the immediately preceding sentence, for purposes of Section 11.10 above, such individual shall be treated as having been severed from employment with the Affiliated Employers during any period in which he or she is performing service in the uniformed services (as defined in Chapter 43 of Title 38 of the United States Code) while on active duty for a period of more than 30 days. However, if such individual elects to receive a distribution from the Plan by reason of the first sentence of this Subsection 17.5.8, he or she may not make any Savings Contribution to the Plan during the six-month period beginning on the date of the distribution. For purposes hereof, a "differential wage payment" means any payment that is made by the Employer to an individual with respect to any period during which the individual is performing service in the uniformed services (as defined in Chapter 43 of Title 38 of the United States Code) while on active duty for a period of more than 30 days and represents all or a portion of the wages that the individual would have received from the Employer if the individual were performing service for the Employer.

17.5.9 Nothing in this Section 17.5 shall be deemed to require (i) any crediting of Plan income to a Participant's Account with respect to any contribution before such contribution is actually made or (ii) any allocation of a Plan forfeiture to a Participant's Account with respect to a period of qualified military service of the Participant.

17.5.10 For all purposes of this Section 17.5, "qualified military service" means, with respect to any individual, any service of his or hers in the uniformed services (as defined in Chapter 43 of Title 38 of the United States

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Code, as such chapter is in effect on December 12, 1994 and without regard to any subsequent amendment) if he or she is entitled to reemployment rights with the Employer under such chapter with respect to such service.

2. Section 17.17 of the Plan is amended in its entirety to read as follows.

17.17 Application of Certain Plan Provisions to Prior Plans.

17.17.1 Notwithstanding any other provision of the Plan to the contrary, while the provisions of this Plan document are generally effective only as of the Effective Amendment Date, certain provisions of the Plan are effective as of earlier dates (and apply to one or more Prior Plans as in effect prior to the Effective Amendment Date) to the extent such provisions (i) are necessary to meet the requirements of laws and regulations that have effective dates after December 31, 2001 and prior to the Effective Amendment Date, including but not limited to the requirements of the Economic Growth and Tax Relief Reconciliation Act of 2001, the Job Creation and Worker Assistance Act of 2004, the Pension Protection Act of 2006, the Heroes Earnings Assistance and Relief Tax Act of 2008 and Internal Revenue Service final regulations issued under Code Sections 401(k), 401(m), 411(d), and 415, or (ii) are necessary to reflect plan mergers or significant amendments adopted for a Prior Plan.

17.17.2 In this regard, the provisions of the Plan that are effective as of dates prior to the Effective Amendment Date (and apply to one or more Prior Plans in effect prior to the Effective Amendment Date) for reasons described in Subsection 17.17.1 above include, but are not necessarily limited to, certain provisions of Subsection 2.1.6, Subsection 2.1.27, Subsection 5.1.9, Section 5.2, Section 5.6, Subsection 5A.2.1, Subsection 5A.3.3, Subsection 5A.3.4, Subsection 5B.2.2, Subsection 5B.2.3, Subsection 6.2.2, Subsection 6A.2.1, Subsection 6A.2.2, Subsection 6A.3.4, Section 6A.6, Subsection 7.12.3, Article 7A, Section 8.4, Subsection 9.1.3, Subsection 9A.3.4, Subsection 9A.8.5, Subsection 9A.8.6, Subsection 9B.8.5, Subsection 9B.8.8, Section 11.7, Section 11.9, Section 11.10, Subsection 14.4.3, Article 15, Article 16, and Subsection 17.5 of the Plan.

IN ORDER TO EFFECT THE FOREGOING PLAN REVISIONS, the sponsor of the Plan hereby signs this Plan amendment.

**MACY'S, INC.**

By: /s/ David W. Clark

Title: EVP, Human Resources & Diversity

Date: 12/15/2010

**AMENDMENT TO  
MACY'S, INC. PROFIT SHARING 401(k) INVESTMENT PLAN**

The Macy's, Inc. Profit Sharing 401(k) Investment Plan (the "Plan") is hereby amended, in the following respects, effective as of January 1, 2011 and for the Plan's plan years beginning on and after that date, in order to set a new matching contribution formula to apply to the Plan's plan years that begin on or after January 1, 2011 (subject to the Plan sponsor's right to later amend or terminate the Plan).

1. Section 6.1 of the Plan is amended in its entirety to read as follows.

6.1 Annual Amount of Matching Contributions. For each Plan Year which begins on or after January 1, 2011, the Employer shall contribute amounts to the Trust in addition to the Savings Contributions elected by Participants for such Plan Year. Such additional contributions shall be referred to in the Plan as "Matching Contributions." Subject to the other provisions of the Plan, the amount of Matching Contributions which shall be made by the Employer for any Plan Year which begins on or after January 1, 2011 (for purposes of this Section 6.1, the "subject Plan Year") shall be the amount determined under the following subsections of this Section 6.1.

6.1.1 Subject to the provisions of Subsection 6.1.2 below, the amount of the Matching Contributions to be made by the Employer for the subject Plan Year shall be equal to 10% of the aggregate amount of Basic Savings Contributions made for such subject Plan Year on behalf of all Participants who are Match Eligible Participants for such subject Plan Year (as such Participants are determined under the provisions of Subsection 7.2.2 below).

6.1.2 To the extent permitted by Section 9.5 below, any forfeitures arising during the subject Plan Year shall be used to reduce and be substituted in place of those Matching Contributions which are otherwise required or determined under the provisions of Subsection 6.1.1 above for the subject Plan Year. For purposes of Subsection 6.1.1 and also for purposes of Section 7.2 below (which concerns the allocation of Matching Contributions), any forfeitures (or other amounts) which are used to reduce and substitute for any amount of Matching Contributions for the subject Plan Year shall be considered as if they were such Matching Contributions for the subject Plan Year.

2. Subsection 6.2.2 of the Plan is deleted in its entirety and Subsections 6.2.3, 6.2.4, and 6.2.5 are accordingly renumbered as Subsections 6.2.2, 6.2.3, and 6.2.4, respectively.

3. Subsection 7.2.3 of the Plan is amended in its entirety to read as follows.

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7.2.3 The Matching Contributions made to the Trust for any Plan Year which begins on or after January 1, 2011 (for purposes of this Subsection 7.2.3, the “subject Plan Year”) shall be allocated among the Matching Accounts of the Participants who are Match Eligible Participants for the subject Plan Year (for purposes of this Subsection 7.2.3, the “Eligible Participants”) in proportion to each Eligible Participant’s Basic Savings Contributions made for the subject Plan Year, so that, taking into account the provisions of Section 6.1 above, each Eligible Participant’s Matching Account shall be allocated with an amount of Matching Contributions for the subject Plan Year that is equal to 10% of the Eligible Participant’s Basic Savings Contributions made for the subject Plan Year.

IN ORDER TO EFFECT THE FOREGOING PLAN REVISIONS, the sponsor of the Plan hereby signs this Plan amendment.

**MACY’S, INC.**

By: /s/ David W. Clark

Title: EVP, Human Resources and Diversity

Date: 12/15/2010

**AMENDMENT TO  
MACY'S, INC. PROFIT SHARING 401(k) INVESTMENT PLAN**

The Macy's, Inc. Profit Sharing 401(k) Investment Plan (the "Plan") is hereby amended, effective as of April 1, 2011 and in order to change the name of the Plan, in the following respects.

1. The name of the Plan is amended to be the "Macy's, Inc. 401(k) Retirement Investment Plan".

2. Each reference contained in the Plan to the "Macy's, Inc. Profit Sharing 401(k) Investment Plan", other than when such reference is contained in Subsection 2.1.17 of the Plan, is amended to be a reference to the "Macy's, Inc. 401(k) Retirement Investment Plan".

3. Subsection 2.1.25 of the Plan is amended in its entirety to read as follows.

2.1.25 "Plan" means the plan set forth in this document and as it may be amended hereafter, which plan is named the Macy's, Inc. 401(k) Retirement Investment Plan. (Prior to April 1, 2011, however and notwithstanding the foregoing, the "Plan" was named the Macy's, Inc. Profit Sharing 401(k) Investment Plan. In order not to have the Plan incur unnecessary expenses in changing the name of the Plan on Plan communication and other materials that exist as of April 1, 2011, the Plan may still be called the Macy's, Inc. Profit Sharing 401(k) Investment Plan in such Plan materials for a reasonable period after March 31, 2011, and when so used such name shall still be deemed to be referring to the Plan.) In addition, any reference to the "Plan" contained in this document also refers to all Prior Plans.

IN ORDER TO EFFECT THE FOREGOING PLAN REVISIONS, the sponsor of the Plan hereby signs this Plan amendment.

**MACY'S, INC.**

By: /s/ David W. Clark

Title: EVP, Human Resources

Date: 3/3/2011

**TIME SHARING AGREEMENT**

This Time Sharing Agreement (the "Agreement"), is made and entered into this 25<sup>th</sup> day of March, 2011, by and between Macy's, Inc., a Delaware corporation, with principal offices at 7 West Seventh Street, Cincinnati Ohio 45202 and 151 West 34<sup>th</sup> Street, New York, NY 10001 ("Operator" or "Company"), and Terry J. Lundgren, chairman, president and chief executive officer of the Company, with a primary residence in New York, NY ("User").

**WITNESSETH:**

WHEREAS, Operator, through its indirect wholly-owned subsidiary, Macy's Corporate Services, Inc., owns and operates the aircraft (collectively, the "Aircraft") listed on Schedule A hereto for business use by employees of the Company in accordance with Part 91 of the Federal Aviation Regulations ("FAR") and the Company's policies regarding the business and personal use of corporate aircraft; and

WHEREAS, Operator has the right and lawful authority to enter into time sharing agreements, as provided in §91.501 of the FAR to provide its senior executives with personal travel consistent with the Company's aircraft policies; and

WHEREAS, Operator has agreed to make the Aircraft, with flight crew, when the Aircraft and flight crew are not otherwise needed for business purposes, available to User for User's personal travel in accordance with the Company's aircraft policies on a non-exclusive time-sharing basis in accordance with §91.501 of the FAR; and

WHEREAS, the User agrees to reimburse the Operator for personal use of the Aircraft as permitted under the FAR and as pursuant to the terms of this Agreement, which sets forth the understanding of the parties.

NOW THEREFORE, Operator and User declaring their intention to enter into and be bound by this Agreement, and for the good and valuable consideration set forth below, hereby covenant and agree as follows:

1. Provision of Aircraft and Crew. Subject to Aircraft availability, Operator agrees to provide to User the Aircraft and flight crew on a time sharing basis in accordance with the provisions of this Agreement and FAR 91.501(c)(1). Operator shall provide, at its sole expense, qualified flight crew for all flight operations under this Agreement. If Operator is no longer the operator of any of the Aircraft, Schedule A shall be deemed amended to delete any reference to such Aircraft and this Agreement shall be terminated as to such Aircraft but shall remain in full force and effect with respect to each of the other Aircraft identified thereon, if any. No such termination shall affect any of the rights and obligations of the parties accrued or incurred prior to such termination. If Operator becomes the operator of any aircraft not listed on Schedule A hereto, Schedule A shall be modified to include such aircraft as an Aircraft covered by this Agreement, and thereafter this Agreement shall remain in full force and effect with respect to such Aircraft and each of the other Aircraft identified thereon, if any.

2. Term. The term of this Agreement (the "Term") shall commence on the date hereof and shall continue until terminated by either party on written notice to the other party, such termination to become effective 30 days from the date of the notice, provided that this Agreement may be terminated by

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Operator on such shorter notice as may be required for Operator to comply with applicable law, regulations, the requirements of any financial institution with a security or other interest in the Aircraft, insurance requirements, or in the event the insurance required hereunder is not in full force and effect. Notwithstanding the foregoing, any provisions directly or indirectly related to User's payment obligations for flights completed prior to the date of termination and the limitation of liability provisions in Section 10 shall survive the termination of this Agreement.

3. Reimbursement of Expenses. Reimbursement for each Trip or Round Trip (as such terms are defined below) conducted under this Agreement shall be an amount (as determined by Operator) equal to the actual expenses of operating such Trip (to include non-occupied legs, or "dead-head" flights, needed by Operator to position the aircraft for business use), not to exceed the sum of the following expenses as permitted pursuant to FAR 91.501(d):

- (a) Fuel, oil, lubricants, and other additives;
- (b) Travel expenses of the crew, including food, lodging, and ground transportation;
- (c) Hangar and tie-down costs away from the Aircraft's base of operation;
- (d) Insurance obtained for the specific flight as per Section 8.(b);
- (e) Landing fees, airport taxes, and similar assessments;
- (f) Customs, foreign permit, and similar fees directly related to the flight;
- (g) Passenger ground transportation;
- (h) In-flight food and beverages;
- (i) Flight planning and weather contract services; and
- (j) An additional charge equal to one hundred percent (100%) of the expenses listed in subsection (a) above.

The term "Trip" shall mean a flight from a departure point to a single destination. A "Round Trip" shall mean a flight from a departure point to one destination and back to the same departure point. In the event that User travels from a departure point to multiple destinations, the Operator will provide a separate invoice for each Trip. All costs of repositioning an aircraft to accommodate a Trip shall be included on the invoice related to such Trip.

4. Invoicing and Payment. All payments to be made to Operator by User hereunder shall be paid in the manner set forth in this Section 4. Operator will pay, or cause to be paid, all expenses related to the operation of the Aircraft hereunder in the ordinary course. Within 45 days of the end of a month, Operator shall provide or cause to be provided to User an invoice showing personal use of the Aircraft by User pursuant to this Agreement during such month and a complete accounting detailing all amounts that are payable by User pursuant to Section 3 for all Trips or Round Trips conducted during the month. User shall pay all amounts due under the invoice in a manner reasonably acceptable to Operator not later than 30 days after receipt thereof. In the event Operator has not received all supplier invoices for reimbursable charges relating to any Trips or Round Trips during a month prior to such invoicing, Operator shall issue a supplemental invoice(s) for such charge(s) to User, and User shall pay each supplemental invoice within 30 days after receipt thereof.

5. Flight Requests. User shall provide the Operator with Trip requests for User's personal travel to be undertaken pursuant to this Agreement and proposed flight schedules as far in advance of

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User's desired departure as possible, and, in any case, at least one (1) hour prior to User's planned departure or as may be required by law. The advance notice requirement in this Section 5 may be waived by Operator in its discretion. All flight requests for travel under this Agreement shall be in accordance with all reasonable policies established by Operator. Flight requests shall be in a form, whether oral or written, mutually convenient to, and agreed upon by the parties. Operator shall have sole and exclusive authority over the scheduling of the Aircraft. Operator shall not be liable to User or any other person for loss, injury, or damage occasioned by the delay or failure to furnish the Aircraft and crew pursuant to this Agreement for any reason. In addition to requested schedules and departure times, User shall provide at least the following information for each proposed flight reasonably in advance of the desired departure time as required by Operator or its flight crew:

- (a) departure point;
- (b) destination;
- (c) date and time of flight;
- (d) number and identity of anticipated passengers;
- (e) nature and extent of luggage and/or cargo expected to be carried;
- (f) date and time of return flight, if any; and
- (g) any other information concerning the proposed flight that may be pertinent to or required by Operator, its flight crew, or governmental entities.

**6. Operational Authority and Control.**

(a) Operator shall be responsible for the physical and technical operation of the Aircraft and the safe performance of all flights under this Agreement, and shall retain full authority and control, including exclusive operational control and exclusive possession, command and control of the Aircraft for all flights under this Agreement.

(b) Operator shall furnish at its expense a fully qualified flight crew with appropriate credentials to conduct each flight undertaken under this Agreement. In accordance with applicable FAR, the qualified flight crew provided by Operator will exercise all required and/or appropriate duties and responsibilities in regard to the safety of each flight conducted hereunder. The pilot-in-command shall have absolute discretion in all matters concerning the preparation of the Aircraft for flight and the flight itself, the load carried and its distribution, the decision whether or not a flight shall be undertaken, the route to be flown, the place where landings shall be made, and all other matters relating to operation of the Aircraft. User specifically agrees that the flight crew shall have final and complete authority to delay or cancel any flight for any reason or condition that in the sole judgment of the pilot-in-command could compromise the safety of the flight, and to take any other action that in the sole judgment of the pilot-in-command is necessitated by considerations of safety. No such action of the pilot-in-command shall create or support any liability to User or any other person for loss, injury, damage or delay. Operator's operation of the Aircraft hereunder shall be strictly within the guidelines and policies established by Operator and FAR Part 91.

(c) Subject to Aircraft and crew availability, Operator shall use its good faith efforts, consistent with its approved policies, to accommodate User's needs and avoid conflicts in scheduling. Although every good faith effort shall be made to avoid its occurrence, any flights scheduled under this Agreement are subject to cancellation by either party without incurring liability to the other party. In the event of a cancellation, the canceling party shall provide the maximum notice reasonably practicable.

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7. Aircraft Maintenance. Operator shall, at its own expense, cause the Aircraft to be inspected, maintained, serviced, repaired, overhauled, and tested in accordance with FAR Part 91 so that the Aircraft will remain in good operating condition and in a condition consistent with its airworthiness certification and shall take such requirements into account in scheduling the Aircraft hereunder, including but not limited to compliance with applicable airworthiness directives and service bulletins. Performance of maintenance, preventive maintenance or inspection shall not be delayed or postponed for the purpose of scheduling the Aircraft unless such maintenance or inspection can safely be conducted at a later time in compliance with applicable laws, regulations and requirements, and such delay or postponement is consistent with the sound discretion of the pilot-in-command. In the event that any non-standard maintenance is required during the term and will interfere with User's requested or scheduled flights, Operator, or Operator's pilot-in-command, shall notify User of the maintenance required, the effect on the ability to comply with User's requested or scheduled flights and the manner in which the parties will proceed with the performance of such maintenance and conduct of such flight(s). In no event shall Operator be liable to User or any other person for loss, injury or damage occasioned by the delay or failure to furnish the Aircraft under this Agreement, whether or not maintenance-related.

8. Insurance.

(a) Operator hereby agrees to arrange for and maintain at all times during the term of this Agreement, at its expense, aircraft liability insurance for the Aircraft in the form and substance and with such insurers as is customary for corporate aircraft of the type similar to the Aircraft.

(b) Operator shall use reasonable commercial efforts to provide such additional insurance for specific flights under this Agreement as User may reasonably request. User acknowledges that any trips scheduled to areas not currently covered by existing policies may require Operator to purchase additional insurance to comply with applicable regulations, and Operator shall be required to maintain or cause to be maintained such additional insurance. The cost of all flight-specific insurance shall be borne by User as provided in Section 3(d).

9. Use of Aircraft. User warrants that:

(a) He has all necessary powers to enter into the transactions contemplated in this Agreement and has taken actions required to authorize and approve this Agreement;

(b) He will use the Aircraft under this Agreement for and only for his own account, including the carriage of his guests, and will not use the Aircraft for the purpose of providing transportation of passengers or cargo for compensation or hire or for common carriage;

(c) He will not permit any lien, security interest or other charge or encumbrance to attach against the Aircraft as a result of his actions or inactions, and shall not attempt to convey, mortgage, assign, lease or in any way alienate the Aircraft or Operator's rights hereunder or create any kind of lien or security interest involving the Aircraft or do anything or take any action that might mature into such a lien; and

(d) During the Term of this Agreement, he will abide by and conform to such laws, governmental and airport orders, rules, and regulations as shall from time to time be in effect relating in any way to the operation or use of the Aircraft by the User under a time sharing arrangement and all applicable policies of Operator.

10. Limitation of Liability. **NEITHER OPERATOR (NOR ITS AFFILIATES) MAKES, HAS MADE OR SHALL BE DEEMED TO MAKE OR HAVE MADE ANY WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, WRITTEN OR ORAL, WITH RESPECT TO ANY AIRCRAFT TO BE USED HEREUNDER OR ANY ENGINE OR**

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**COMPONENT THEREOF INCLUDING, WITHOUT LIMITATION, ANY WARRANTY AS TO DESIGN, COMPLIANCE WITH SPECIFICATIONS, QUALITY OF MATERIALS OR WORKMANSHIP, MERCHANTABILITY, FITNESS FOR ANY PURPOSE, USE OR OPERATION, AIRWORTHINESS, SAFETY, PATENT, TRADEMARK OR COPYRIGHT INFRINGEMENT OR TITLE.**

**USER AGREES THAT THE AIRCRAFT LIABILITY INSURANCE CARRIED BY, OR ON BEHALF OF, OPERATOR SHALL PROVIDE USER'S SOLE RECOURSE FOR ALL CLAIMS, LOSSES, LIABILITIES, OBLIGATIONS, DEMANDS, SUITS, JUDGMENTS OR CAUSES OF ACTION, PENALTIES, FINES, COSTS AND EXPENSES OF ANY NATURE WHATSOEVER, INCLUDING ATTORNEYS' FEES AND EXPENSES FOR OR ON ACCOUNT OF OR ARISING OUT OF, OR IN ANY WAY CONNECTED WITH THE USE OF THE AIRCRAFT BY USER OR HIS GUESTS, INCLUDING, WITHOUT LIMITATION, INJURY TO OR DEATH OF ANY PERSONS, INCLUDING, WITHOUT LIMITATION, USER'S EMPLOYEES, AGENTS, REPRESENTATIVES, GUESTS, INVITEES OR OTHER PARTIES WHICH MAY RESULT FROM OR ARISE OUT OF THE USE OR OPERATION OF THE AIRCRAFT. IN NO EVENT SHALL OPERATOR BE LIABLE TO USER OR ITS EMPLOYEES, AGENTS, REPRESENTATIVES, GUESTS, INVITEES OR OTHER PARTIES FOR ANY CLAIMS OR LIABILITIES, INCLUDING, WITHOUT LIMITATION, PROPERTY DAMAGE, INJURY AND DEATH, AND EXPENSES, INCLUDING, WITHOUT LIMITATION, ATTORNEYS' FEES, IN EXCESS OF THE AMOUNT PAID BY THE APPLICABLE INSURANCE CARRIER IN THE EVENT OF SUCH LOSS. THE PROVISIONS OF THIS SECTION 10 SHALL SURVIVE THE TERMINATION OR EXPIRATION OF THIS AGREEMENT.**

11. Notices and Communications. All notices and other communications under this Agreement shall be in writing (except as permitted in Section 5) and shall be given (and shall be deemed to have been duly given upon receipt or refusal to accept receipt) by personal delivery, by facsimile or electronic mail (with a simultaneous confirmation copy sent by first class mail properly addressed and postage prepaid), or by a reputable overnight courier service, addressed as follows:

If to Operator:

Macy's, Inc.

7 West Seventh Street

Cincinnati, Ohio 45202

Attention: Dennis J. Broderick, Executive Vice President, General Counsel and Secretary

Facsimile:

Email:

If to User:

Terry J. Lundgren

Chairman, President and Chief Executive Officer

Macy's, Inc.

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

New York, NY 10001

Facsimile:

Email:

Or, to such other person or address as either party may from time to time designate in writing to the other party.

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13. Entire Agreement. This Agreement constitutes the entire understanding between the parties with respect to its subject matter, and there are no representations, warranties, rights, obligations, liabilities, conditions, covenants, or agreements relating to such subject matter that are not expressly set forth herein. There are no third-party beneficiaries of this Agreement.

14. Further Acts. Operator and User shall from time to time perform such other and further acts and execute such other and further instruments as may be required by law or may be reasonably necessary (i) to carry out the intent and purpose of this Agreement, and (ii) to establish, maintain and protect the respective rights and remedies of the other party.

15. Successors and Assigns. User shall not have the right to assign, transfer or pledge this Agreement. This Agreement shall be binding on the parties hereto and their respective heirs, executors, administrators, successors and assigns, and shall inure to the benefit of the parties hereto, and, except as otherwise provided herein, their respective heirs, executors, administrators, other legal representatives, successors and permitted assigns.

16. Taxes. User shall be responsible for the payment of all applicable Federal excise taxes or any similar taxes imposed by any authority in connection with the use of the Aircraft by User hereunder; and User hereby indemnifies and holds harmless Operator for any such taxes.

17. Governing Law and Consent to Jurisdiction. This Agreement shall be governed by the laws of the State of Ohio, without regard to its choice of law principles.

18. Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable, the legality, validity and enforceability of the remaining provisions shall not be affected or impaired.

19. Amendment or Modification. This Agreement may be amended, modified or terminated only in writing duly executed by the parties hereto.

20. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same Agreement, binding on all the parties notwithstanding that all the parties are not signatories to the same counterpart. Each party may transmit its signature by facsimile, and any faxed counterpart of this Agreement shall have the same force and effect as a manually-executed original.

21. Truth-in-Leasing Compliance. Operator, on behalf of User, shall (i) deliver a copy of this Agreement to the Federal Aviation Administration, Aircraft Registration Branch, Attn: Technical Section, P.O. Box 25724, Oklahoma City, Oklahoma 73125 within 24 hours of its execution, (ii) notify the appropriate Flight Standards District Office at least 48 hours prior to the first flight under this Agreement of the registration number of the Aircraft, and the location of the airport of departure and departure time for such flight, and (iii) carry a copy of this Agreement onboard the Aircraft at all times when the Aircraft is being operated under this Agreement.

22. TRUTH-IN-LEASING STATEMENT PURSUANT TO SECTION 91.23 OF THE FEDERAL AVIATION REGULATIONS.

**(a) OPERATOR CERTIFIES THAT EACH OF THE AIRCRAFT HAS BEEN INSPECTED AND MAINTAINED DURING THE 12-MONTH PERIOD PRECEDING THE DATE OF THIS AGREEMENT (OR SUCH SHORTER PERIOD AS OPERATOR SHALL HAVE POSSESSED THE AIRCRAFT) IN ACCORDANCE WITH THE PROVISIONS OF PART 91 OF THE FEDERAL AVIATION REGULATIONS. EACH OF THE AIRCRAFT WILL BE MAINTAINED AND INSPECTED IN COMPLIANCE WITH THE MAINTENANCE AND**

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**INSPECTION REQUIREMENTS FOR ALL OPERATIONS TO BE CONDUCTED UNDER THIS AGREEMENT.**

**(b) OPERATOR AGREES, CERTIFIES AND ACKNOWLEDGES, AS EVIDENCED BY ITS SIGNATURE BELOW, THAT WHENEVER ANY OF THE AIRCRAFT IS OPERATED UNDER THIS AGREEMENT, OPERATOR SHALL BE KNOWN AS, CONSIDERED, AND SHALL IN FACT BE THE OPERATOR OF, AND SHALL HAVE OPERATIONAL CONTROL OF, THE AIRCRAFT.**

**(c) EACH PARTY CERTIFIES THAT IT UNDERSTANDS ITS RESPECTIVE RESPONSIBILITIES, IF ANY, FOR COMPLIANCE WITH APPLICABLE FEDERAL AVIATION REGULATIONS.**

**(c) THE PARTIES UNDERSTAND THAT AN EXPLANATION OF FACTORS AND PERTINENT FEDERAL AVIATION REGULATIONS BEARING ON OPERATIONAL CONTROL CAN BE OBTAINED FROM THE NEAREST FAA FLIGHT STANDARDS DISTRICT OFFICE.**

[Remainder of page intentionally left blank]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the day and year first above written. The persons signing below warrant their authority to sign.

MACY'S, INC.

TERRY J. LUNDGREN

By: /s/ Dennis J. Broderick

/s/ Terry J. Lundgren

Name: Dennis J. Broderick

Title: Executive Vice President, General Counsel  
and Secretary

**A legible copy of this Agreement shall be kept in the Aircraft  
for all operations conducted hereunder.**

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SCHEDULE A

| <u>Type of Aircraft</u> | <u>U.S. Registration Number</u> | <u>Manufacturer Serial Number</u> |
|-------------------------|---------------------------------|-----------------------------------|
| Cessna Citation 560     | N567F                           | 171                               |
| Gulfstream G200         | N765M                           | 124                               |

**Macy's, Inc.**  
**Subsidiary List as of March 30, 2011**

| <u>Corporate Name</u>                         | <u>State<br/>of Incorporation/<br/>Formation</u> | <u>Trade Name(s)</u>     |
|---|--|--------------------------|
| Advertex Communications, Inc.                 | Delaware   | Macy's Marketing         |
| Bloomingtondale's By Mail Ltd.                | New York   | Bloomingtondales.com     |
| Bloomingtondale's, Inc.                       | Ohio   |                          |
| Bloomingtondale's The Outlet Store, Inc.      | Ohio   | Bloomingtondale's Outlet |
| FDS Bank                                      | N/A  |                          |
| FDS Thrift Holding Co., Inc.                  | Ohio   |                          |
| Leadville Insurance Company                   | Vermont  |                          |
| Macy's Corporate Services, Inc.               | Delaware   |                          |
| Macy's Credit and Customer Services, Inc.     | Ohio   |                          |
| Macy's Credit Operations, Inc.                | Ohio   |                          |
| Macy's Florida Stores, LLC                    | Ohio   | Macy's                   |
| Macy's Merchandising Corporation              | Delaware   |                          |
| Macy's Merchandising Group International, LLC | Delaware   |                          |
| Macy's Merchandising Group, Inc.              | Delaware   |                          |
| Macy's Retail Holdings, Inc.                  | New York   | Macy's                   |
| Macy's Systems and Technology, Inc.           | Delaware   |                          |
| Macy's West Stores, Inc.                      | Ohio   | Macy's                   |
| Macys.com, Inc.                               | New York   |                          |
| May Department Stores International, Inc.     | Delaware   |                          |
| Snowdin Insurance Company                     | Vermont  |                          |

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Macy's, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-160564, 333-153721, 333-153720, 333-153719, 333-133080, 333-115712, and 333-104017) on Form S-8 and the registration statement (No. 333-163588) on Form S-3 of Macy's Inc. and Subsidiaries ("Macy's, Inc.") of our report dated March 30, 2011, with respect to the consolidated balance sheets of Macy's, Inc. as of January 29, 2011 and January 30, 2010, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three-year period ended January 29, 2011, and the effectiveness of internal control over financial reporting as of January 29, 2011, which report appears in the January 29, 2011 annual report on Form 10-K of Macy's, Inc..

/s/ KPMG LLP

Cincinnati, Ohio  
March 30, 2011

POWER OF ATTORNEY

The undersigned, a director and/or officer of Macy's, Inc., a Delaware corporation (the "Company"), hereby constitutes and appoints each of Dennis J. Broderick and Linda J. Balicki my true and lawful attorney-in-fact and agent, each with full power of substitution and resubstitution, to do any and all acts and things in my name and behalf in my capacities as director and/or officer of the Company and to execute any and all instruments for me and in my name in the capacities indicated above, which said attorneys-in-fact and agent may deem necessary or advisable to enable the Company to comply with the Securities Act of 1934, as amended (the "Exchange Act"), and any rules, regulations, and requirements of the Securities and Exchange Commission (the "Commission"), in connection with an Annual Report on Form 10-K for the year ended January 29, 2011 to be filed by the Company pursuant to Section 13 of the Exchange Act, including without limitation, power and authority to sign for me, in my name in the capacity or capacities referred to above, such Annual Report, and to file the same, with all exhibits thereto, and other documents, including amendments, in connection therewith, with the Commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, or any one of them, shall do or cause to be done by virtue hereof.

Dated: March 25, 2011

/s/ Joel A. Belsky

Joel A. Belsky

/s/ Stephen F. Bollenbach

Stephen F. Bollenbach

/s/ Deirdre P. Connelly

Deirdre P. Connelly

/s/ Meyer Feldberg

Meyer Feldberg

/s/ Karen M. Hoguet

Karen M. Hoguet

/s/ Sara Levinson

Sara Levinson

/s/ Terry J. Lundgren

Terry J. Lundgren

/s/ Joseph Neubauer

Joseph Neubauer

/s/ Joseph A. Pichler

Joseph A. Pichler

/s/ Joyce M. Roché

Joyce M. Roché

/s/ Craig E. Weatherup

Craig E. Weatherup

/s/ Marna C. Whittington

Marna C. Whittington

**CERTIFICATION**

I, Terry J. Lundgren, certify that:

1. I have reviewed this Annual Report on Form 10-K of Macy's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual

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report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 30, 2011

/s/ Terry J. Lundgren  
Terry J. Lundgren  
Chief Executive Officer

**CERTIFICATION**

I, Karen M. Hoguet, certify that:

1. I have reviewed this Annual Report on Form 10-K of Macy's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual

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report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 30, 2011

/s/ Karen M. Hoguet

Karen M. Hoguet  
Chief Financial Officer

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K of Macy's, Inc. (the "Company") for the fiscal year ended January 29, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies that, to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: March 30, 2011

/s/ Terry J. Lundgren

Name: Terry J. Lundgren

Title: Chief Executive Officer

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K of Macy's, Inc. (the "Company") for the fiscal year ended January 29, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies that, to her knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: March 30, 2011

/s/ Karen M. Hoguet

Name: Karen M. Hoguet

Title: Chief Financial Officer