MAY DEPARTMENT STORES CO
Form 10-Q
June 13, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Quarterly Period Ended May 5, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to _______________

Commission File Number 1-79

THE MAY DEPARTMENT STORES COMPANY
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 43-1104396 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

| | |
|---|---|
| 611 Olive Street, St. Louis, Missouri | 63101 |
| (Address of principal executive offices) | (Zip Code) |

(314) 342-6300
(Registrant's telephone number, including area code)

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 and (2) has been subject to such filing requirements for the past 90 days. YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 299,199,490 shares of common stock, $.50 par value, as of May 5, 2001.

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PART 1 - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
THE MAY DEPARTMENT STORES COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

(Millions)

| ASSETS | May 5, 2001 | April 29, 2000 | Feb. 3, 2001 |
|---|---|---|---|
| Current Assets: | | | |
| Cash and cash equivalents | $ 57 | $ 40 | $ 156 |
| Accounts receivable, net | 1,869 | 1,913 | 2,081 |
| Merchandise inventories | 3,351 | 3,191 | 2,938 |
| Other current assets | 118 | 83 | 95 |
| Total Current Assets | 5,395 | 5,227 | 5,270 |
| Property and Equipment, at cost | 8,485 | 7,945 | 8,167 |
| Accumulated Depreciation | (3,386) | (3,136) | (3,268) |
| Property and equipment, net | 5,099 | 4,809 | 4,899 |
| Goodwill and Other Assets | 1,551 | 1,044 | 1,405 |
| Total Assets | $ 12,045 | $ 11,080 | $ 11,574 |
| LIABILITIES AND SHAREOWNERS' EQUITY | | | |
| Current Liabilities: | | | |
| Notes payable | $ 378 | $ 49 | $ - |
| Current maturities of long-term debt | 107 | 260 | 85 |
| Accounts payable | 1,232 | 1,323 | 965 |
| Accrued expenses | 872 | 824 | 871 |
| Income taxes payable | 111 | 100 | 293 |
| Total Current Liabilities | 2,700 | 2,556 | 2,214 |
| Long-term Debt | 4,427 | 3,709 | 4,534 |
| Deferred Income Taxes | 594 | 548 | 586 |
| Other Liabilities | 328 | 307 | 335 |
| ESOP Preference Shares | 296 | 311 | 299 |
| Unearned Compensation | (204) | (248) | (249) |
| Shareowners' Equity | 3,904 | 3,897 | 3,855 |

| | | | |
|---|---|---|---|
| Total Liabilities and Shareowners' Equity | $ 12,045 | $ 11,080 | $ 11,574 |

The accompanying notes to condensed consolidated financial statements are an integral part of this balance sheet.



THE MAY DEPARTMENT STORES COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)

| (Millions, except per share) | 13 Weeks Ended May 5, 2001 | 13 Weeks Ended April 29, 2000 |
|---|---|---|
| Net retail sales | $ 3,131 | $ 3,020 |
| Revenues | $ 3,153 | $ 3,050 |
| Cost of sales | 2,202 | 2,141 |
| Selling, general and administrative expenses | 688 | 638 |
| Interest expense, net | 86 | 71 |
| Earnings before income taxes | 177 | 200 |
| Provision for income taxes | 68 | 80 |
| Net earnings | $ 109 | $ 120 |
| Basic earnings per share | $ .35 | $ .36 |
| Diluted earnings per share | $ .34 | $ .35 |
| Dividends paid per common share | $ .23-1/2 | $ .23-1/4 |
| Weighted average shares outstanding: | | |
| Basic | 298.7 | 322.5 |
| Diluted | 321.2 | 344.2 |

The accompanying notes to condensed consolidated financial statements are an integral part of this statement.

THE MAY DEPARTMENT STORES COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

| (Millions) | 13 Weeks Ended May 5, 2001 | 13 Weeks Ended April 29, 2000 |
|---|---|---|
| Operating Activities: | | |
| Net earnings | $ 109 | $ 120 |
| Depreciation and amortization | 130 | 119 |
| Working capital changes: | | |
| Accounts receivable, net | 244 | 260 |
| Merchandise inventories | (377) | (374) |
| Other current assets | (14) | (3) |
| Accounts payable | 267 | 294 |
| Accrued expenses | (47) | (71) |
| Income taxes payable | (182) | (135) |
| Other, net | 2 | 4 |
| | 132 | 214 |
| Investing Activities: | | |
| Net additions to property and equipment | (203) | (153) |
| Business combination | (304) | - |
| | (507) | (153) |
| Financing Activities: | | |
| Net issuances (repayments): | | |
| Notes payable | 378 | 49 |
| Long-term debt | (39) | 192 |
| Net issuances (purchases) of common stock | 12 | (223) |
| Dividend payments, net of tax benefit | (75) | (80) |
| | 276 | (62) |

| | | |
|---|---|---|
| Decrease in Cash and Cash Equivalents | (99) | (1) |
| Cash and Cash Equivalents, beginning of period | 156 | 41 |
| Cash and Cash Equivalents, end of period | $ 57 | $ 40 |
| Cash paid during the period: | | |
| Interest | $ 78 | $ 75 |
| Income Taxes | 237 | 202 |

The accompanying notes to condensed consolidated financial statements are an integral part of this statement.

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THE MAY DEPARTMENT STORES COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim Results. These unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission and should be read in conjunction with the Notes to Consolidated Financial Statements (pages 26-31) in the 2000 Annual Report. In the opinion of management, this information is fairly presented and all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the results for the interim periods have been included; however, certain items are included in these statements based on estimates for the entire year. Also, operating results of periods which exclude the Christmas season may not be indicative of the operating results that may be expected for the fiscal year. The seasonality of David's Bridal varies from department stores, with sales and operating results peaking in the first half of the fiscal year. David's Bridal joined May in August 2000.

Inventories. Merchandise inventories are stated on the LIFO (last-in, first-out) cost basis. The LIFO provision for the first quarter was $8 million in 2001 and 2000.

Income Taxes. The effective income tax rate for the first quarter of 2001 was 38.8%, compared with 40.0% in the first quarter of 2000, as a result of implementing corporate structure changes which favorably impact the effective tax rate.

Business Combination. In March 2001, the company completed the purchase of nine department store locations from Saks Incorporated, eight of which were reopened during the quarter. The cash purchase price includes approximately $237 million for the stores and approximately $67 million for merchandise inventories and accounts receivable. This transaction was accounted for as a purchase and did not have a material impact on the company's financial statements.

Store Purchases. In April 2001, the company completed the purchase of 15 former Wards and Bradlees stores. Nine of the 15 stores are planned as new stores and the remainder will provide expansion in existing malls, with most locations opening in 2002. Store purchases are included in net additions to property and equipment in the accompanying condensed consolidated statement of cash flows.

Common Stock Repurchase Program. During the first half of 2000, the company purchased $789 million or 28.4 million shares of May common stock. These repurchases completed the remaining $139 million of stock repurchases related to the 1999 stock repurchase program and the $650 million common stock repurchase program authorized by May's board of directors in 2000. Repurchases by quarter were:

| | $ | Shares |
|---|---|---|
| First quarter 2000 | $ 217 | 7.8 |
| Second quarter 2000 | 572 | 20.6 |
| Total | $ 789 | 28.4 |

Reclassifications. Certain prior period amounts have been reclassified to conform with current year presentation.

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Earnings per share. The following tables reconcile net earnings and weighted average shares outstanding to amounts used to calculate basic and diluted earnings per share ("EPS") for the periods shown (millions, except per share).

| | 13 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | May 5, 2001 | | | April 29, 2000 | | |
| | Earnings | Shares | EPS | Earnings | Shares | EPS |
| Net earnings | $ 109 | | | $ 120 | | |
| ESOP preference shares' dividends | (5) | | | (5) | | |
| Basic EPS | 104 | 298.7 | $ 0.35 | 115 | 322.5 | $ 0.36 |
| ESOP preference shares | 4 | 19.8 | | 4 | 20.9 | |
| Assumed exercise of options (treasury stock method) | - | 2.7 | | - | 0.8 | |
| Diluted EPS | $ 108 | 321.2 | $ 0.34 | $ 119 | 344.2 | $ 0.35 |

Condensed Consolidating Financial Information. The May Department

Stores Company, Delaware ("Parent") has fully and unconditionally guaranteed certain long-term debt obligations of its wholly-owned subsidiary, The May Department Stores Company, New York ("Subsidiary Issuer"). Other subsidiaries of the Parent include May Department Stores International, Inc. (MDSI), Leadville Insurance Company, Snowdin Insurance Company, and David's Bridal, Inc. and subsidiaries.

Subsidiary Issuer financial statements have been restated for all periods presented to reflect a February 3, 2001, reorganization of MDSI as a direct wholly-owned subsidiary of Parent rather than of the Subsidiary Issuer. Prior to fiscal year-end 2000, Parent was required to provide only summarized financial information for Subsidiary Issuer, which owned 100% of MDSI's common stock before the reorganization. Below is a restatement of Subsidiary Issuer's summarized financial position as of April 29, 2000, and summarized operating results for the thirteen week period ending April 29, 2000, as if the reorganization had occurred on February 1, 1998. The "As Reported" information was previously reported in Parent's Form 10-Q filed June 6, 2000.

| | April 29, 2000 | | |
|---|---|---|---|
| | As Reported | Adjustments | As Restated |
| Financial Position | | | |
| Current assets | $ 5,213 | $ (23) | $ 5,190 |
| Noncurrent assets | 6,093 | (136) | 5,957 |
| Current liabilities | 2,543 | (48) | 2,495 |
| Noncurrent liabilities | 8,198 | - | 8,198 |

| | Thirteen weeks ended April 29, 2000 | | |
|---|---|---|---|
| | As Reported | Adjustments | As Restated |
| Operating Results | | | |
| Revenues | $ 3,050 | $ - | $ 3,050 |
| Net earnings | 68 | (9) | 59 |

Condensed consolidating balance sheets as of May 5, 2001, April 29, 2000 and February 3, 2001 and the related condensed consolidating statements of earnings and cash flows for the thirteen week periods ended May 5, 2001 and April 29, 2000, are presented on pages 7 through 11.

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CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued) -

Condensed Consolidating Balance Sheet
As of May 5, 2001(Millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Eliminations | Consolidat |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ - | $ 40 | $ 17 | $ - | $ |
| Accounts receivable, net | - | 1,864 | 42 | (37) | 1,8 |
| Merchandise inventories | - | 3,280 | 71 | - | 3,3 |
| Other current assets | - | 106 | 12 | - | 1 |
| Total current assets | - | 5,290 | 142 | (37) | 5,3 |

| | | | | | |
|---|---|---|---|---|---|
| Property and equipment, at cost | - | 8,405 | 80 | - | 8,4 |
| Accumulated depreciation | - | (3,370) | (16) | - | (3,3 |
| Property and equipment, net | - | 5,035 | 64 | - | 5,0 |
| Goodwill and other assets | - | 1,210 | 341 | - | 1,5 |
| Intercompany receivable (payable) | (680) | 458 | 222 | - | |
| Investment in subsidiaries | 4,881 | - | - | (4,881) | |
| Total assets | $ 4,201 | $ 11,993 | $ 769 | $(4,918) | $12,0 |
| LIABILITIES AND SHAREOWNERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Notes payable | $ - | $ 378 | $ - | $ - | $ 3 |
| Current maturities of long-term debt | - | 107 | - | - | 1 |
| Accounts payable | - | 1,186 | 46 | - | 1,2 |
| Accrued expenses | 1 | 856 | 52 | (37) | 8 |
| Income taxes payable | - | 111 | - | - | 1 |
| Total current liabilities | 1 | 2,638 | 98 | (37) | 2,7 |
| Long-term debt | - | 4,426 | 1 | - | 4,4 |
| Intercompany note payable (receivable) | - | 3,200 | (3,200) | - | |
| Deferred income taxes | - | 591 | 3 | - | 5 |
| Other liabilities | - | 775 | - | (447) | 3 |
| ESOP preference shares | 296 | - | - | - | 2 |
| Unearned compensation | - | (204) | - | - | (2 |
| Shareowners' equity | 3,904 | 567 | 3,867 | (4,434) | 3,9 |
| Total liabilities and shareowners' equity | $ 4,201 | $ 11,993 | $ 769 | $(4,918) | $12,0 |



CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued) -

Condensed Consolidating Statement of Earnings
For the Thirteen Weeks Ended May 5, 2001

(Millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues | $ - | $ 3,061 | $ 334 | $ (242) | $ 3,153 |
| Cost of sales | - | 2,164 | 262 | (224) | 2,202 |
| Selling, general and administrative expenses | - | 674 | 37 | (23) | 688 |
| Interest expense(income), net: | | | | | |
| External | - | 86 | - | - | 86 |
| Intercompany | - | 71 | (71) | - | - |
| Equity in earnings of subsidiaries | (109) | - | - | 109 | - |
| Earnings before income taxes | 109 | 66 | 106 | (104) | 177 |
| Provision for income taxes | - | 30 | 38 | - | 68 |
| Net earnings | $ 109 | $ 36 | $ 68 | $ (104) | $ 109 |

Condensed Consolidating Statement of Cash Flows
For the Thirteen Weeks Ended May 5, 2001

(Millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Operating activities: | | | | | |
| Net earnings | $ 109 | $ 36 | $ 68 | $ (104) | $ 109 |
| Equity in earnings of subsidiaries | (109) | - | - | 109 | - |
| Depreciation and amortization | - | 125 | 5 | - | 130 |
| (Increase) Decrease in working capital | (5) | (107) | 3 | - | (109) |
| Other, net | 32 | - | (25) | (5) | 2 |
| | 27 | 54 | 51 | - | 132 |
| Investing activities: | | | | | |
| Net additions to property and equipment | - | (197) | (6) | - | (203) |
| Business combination | - | (304) | - | - | (304) |
| | - | (501) | (6) | - | (507) |
| Financing activities: | | | | | |
| Net issuances of notes payable | - | 378 | - | - | 378 |
| Net repayments of long-term debt | - | (38) | (1) | - | (39) |
| Net issuances of common stock | 3 | 9 | - | - | 12 |
| Dividend payments | (76) | 1 | - | - | (75) |
| Intercompany, net | 46 | - | (46) | - | - |
| | (27) | 350 | (47) | - | 276 |
| Decrease in cash and Cash equivalents | - | (97) | (2) | - | (99) |
| Cash and cash equivalents, beginning of year | - | 137 | 19 | - | 156 |
| Cash and cash equivalents, end of year | $ - | $ 40 | $ 17 | $ - | $ 57 |



CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued) -

Condensed Consolidating Balance Sheet
As of April 29, 2000

(Millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ - | $ 27 | $ 13 | $ - | $ 40 |
| Accounts receivable, net | - | 1,913 | 36 | (36) | 1,913 |

| | | | | | |
|---|---|---|---|---|---|
| Merchandise inventories | - | 3,169 | 22 | - | 3,191 |
| Other current assets | - | 81 | 2 | - | 83 |
| Total assets | - | 5,190 | 73 | (36) | 5,227 |
| | | | | | |
| Property and equipment, at cost | - | 7,927 | 18 | - | 7,945 |
| Accumulated depreciation | - | (3,126) | (10) | - | (3,136) |
| Property and equipment, net | - | 4,801 | 8 | - | 4,809 |
| | | | | | |
| Goodwill and other assets | - | 1,043 | 1 | - | 1,044 |
| Intercompany receivable (payable) | (242) | 113 | 129 | - | - |
| Investment in subsidiaries | 4,886 | - | - | (4,886) | - |
| Total assets | $ 4,244 | $11,147 | $ 211 | $(4,522) | $11,080 |
| | | | | | |
| LIABILITIES AND SHAREOWNERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Notes payable | $ - | $ 49 | $ - | $ - | $ 49 |
| Current maturities of long-term debt | - | 260 | - | - | 260 |
| Accounts payable | - | 1,283 | 40 | - | 1,323 |
| Accrued expenses | 11 | 829 | 20 | (36) | 824 |
| Income taxes payable | 25 | 74 | 1 | - | 100 |
| Total current liabilities | 36 | 2,495 | 61 | (36) | 2,556 |
| | | | | | |
| Long-term debt | - | 3,709 | - | - | 3,709 |
| Intercompany note payable (receivable) | - | 3,200 | (3,200) | - | - |
| Deferred income taxes | - | 548 | - | - | 548 |
| Other liabilities | - | 741 | - | (434) | 307 |
| ESOP preference shares | 311 | - | - | - | 311 |
| Unearned compensation | - | (248) | - | - | (248) |
| Shareowners' equity | 3,897 | 702 | 3,350 | (4,052) | 3,897 |
| Total liabilities and shareowners' equity | $ 4,244 | $11,147 | $ 211 | $ (4,522) | $11,080 |



CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued) -

Condensed Consolidating Statement of Earnings
For the Thirteen Weeks Ended April 29, 2000

(Millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Eliminations | Consolid |
|---|---|---|---|---|---|
| Revenues | $ - | $ 3,050 | $ 208 | $ (208) | $ 3 |
| Cost of sales | - | 2,143 | 190 | (192) | 2 |
| Selling, general and administrative expenses | - | 656 | 3 | (21) | |
| Interest expense (income), net: | | | | | |
| External | - | 71 | - | - | |
| Intercompany | - | 71 | (71) | - | |
| Equity in earnings of subsidiaries | (120) | - | - | 120 | |
| Earnings before income taxes | 120 | 109 | 86 | (115) | |
| Provision for income taxes | - | 50 | 30 | - | |

| | | | | | |
|---|---|---|---|---|---|
| Net earnings | $ 120 | $ 59 | $ 56 | $ (115) | $ |

Condensed Consolidating Statement of Cash Flows
For the Thirteen Weeks Ended April 29, 2000

(Millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Operating activities: | | | | | |
| Net earnings | $ 120 | $ 59 | $ 56 | $ (115) | $ 120 |
| Equity in earnings of subsidiaries | (120) | - | - | 120 | - |
| Depreciation and amortization | - | 119 | - | - | 119 |
| (Increase) Decrease in working capital | 21 | (27) | (23) | - | (29) |
| Other, net | 242 | (260) | 27 | (5) | 4 |
| | 263 | (109) | 60 | - | 214 |
| Investing activities: | | | | | |
| Net additions to property and equipment | - | (153) | - | - | (15) |
| | - | (153) | - | - | (153) |
| Financing activities: | | | | | |
| Net issuances of notes payable | - | 49 | - | - | 49 |
| Net issuances of long-term debt | - | 192 | - | - | 192 |
| Net (purchases) issuances of common stock | (229) | 6 | - | - | (223) |
| Dividend payments | (81) | 1 | - | - | (80) |
| Intercompany activity, net | 47 | 10 | (57) | - | - |
| | (263) | 258 | (57) | - | (62) |
| (Decrease)increase in cash and cash equivalents | - | (4) | 3 | - | (1) |
| Cash and cash equivalents, beginning of year | - | 31 | 10 | - | 41 |
| Cash and cash equivalents, end of year | $ - | $ 27 | $ 13 | $ - | $ 40 |

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CONDENSED CONSOLIDATING FINANCIAL INFORMATION (continued) -

Condensed Consolidating Balance Sheet
As of February 3, 2001

(Millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Eliminations | Consolida |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ - | $ 137 | $ 19 | $ - | $ |
| Accounts receivable, net | - | 2,076 | 43 | (38) | 2, |
| Merchandise inventories | - | 2,877 | 61 | - | 2, |
| Other current assets | - | 86 | 10 | (1) | |
| Total current assets | - | 5,176 | 133 | (39) | 5, |
| Property and equipment, at cost | - | 8,093 | 74 | - | 8, |
| Accumulated depreciation | - | (3,254) | (14) | - | (3, |
| Property and equipment, net | - | 4,839 | 60 | - | 4, |
| Goodwill and other assets | - | 1,062 | 343 | - | 1, |
| Intercompany receivable (payable) | (648) | 449 | 199 | - | |
| Investment in subsidiaries | 4,808 | - | - | (4,808) | |
| Total assets | $ 4,160 | $11,526 | $ 735 | $(4,847) | $11, |
| LIABILITIES AND SHAREOWNERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Current maturities of long-term debt | $ - | $ 85 | $ - | $ - | $ |
| Accounts payable | - | 922 | 43 | - | |
| Accrued expenses | 6 | 857 | 47 | (39) | |
| Income taxes payable (receivable) | - | 299 | (6) | - | |
| Total current liabilities | 6 | 2,163 | 84 | (39) | 2, |
| Long-term debt | - | 4,531 | 3 | - | 4, |
| Intercompany note payable (receivable) | - | 3,200 | (3,200) | - | |
| Deferred income taxes | - | 583 | 3 | - | |
| Other liabilities | - | 777 | - | (442) | |
| ESOP preference shares | 299 | - | - | - | |
| Unearned compensation | - | (249) | - | - | ( |
| Shareowners' equity | 3,855 | 521 | 3,845 | (4,366) | 3, |
| Total liabilities and shareowners' equity | $ 4,160 | $11,526 | $ 735 | $(4,847) | $11, |

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

Results of Operations

Net retail sales (sales) represent sales of stores operating at the end of the latest period including lease department sales and excluding finance charge revenues and the sales of stores that have been closed and not replaced. Store-for-store sales represent sales of those stores open during both periods. David's Bridal sales are included in total sales for fiscal 2001 but are not included in store-for-store sales. Sales percent increases (decreases) are:

| | Total | Store-for-Store |
|---|---|---|

| | | |
|---|---|---|
| 13 Weeks Ended May 5, 2001 | 3.7% | (1.1)% |

The following table presents the components of costs and expenses, as a percent of revenues, for the first quarter of 2001 and 2000. Revenues include sales from all stores operating during the period, finance charge revenues and lease department income.

| | 2001 | 2000 |
|---|---|---|
| Revenues | 100.0% | 100.0% |
| Cost of sales | 69.8 | 70.2 |
| Selling, general and administrative expenses | 21.8 | 20.9 |
| Interest expense, net | 2.8 | 2.4 |
| Earnings before income taxes | 5.6 | 6.5 |
| Provision for income taxes | 38.8* | 40.0* |
| Net Earnings | 3.5% | 3.9% |

*-Percent represents effective income tax rate.

Cost of sales was $2,202 million in the 2001 first quarter, up 2.9% from $2,141 million in the 2000 first quarter. As a percent of revenues, cost of sales decreased 0.4% compared with the first quarter of 2000 principally due to the addition of David's Bridal, partially offset by buying and occupancy costs, which grew at a faster rate than revenues.

Selling, general and administrative expenses were $688 million in the 2001 first quarter, compared with $638 million in the 2000 first quarter, a 7.7% increase. Selling, general and administrative expenses as a percent of revenues increased 0.9% compared with the first quarter of 2000 due to the addition of David's Bridal and payroll, advertising, credit, and employee benefit expenses, which grew at a faster rate than revenues.



Net interest expense for the first quarter 2001 and 2000 was (millions):

| | 2001 | 2000 |
|---|---|---|
| Interest expense | $ 94 | $ 79 |
| Interest income | (4) | (4) |
| Capitalized interest | (4) | (4) |
| Net Interest Expense | $ 86 | $ 71 |

Interest expense principally relates to long-term debt. In 2000, we issued $1.1 billion in new debt of which $875 million was issued subsequent to the first quarter of 2000. In the first quarter of 2001, we financed the previously described business combination and store purchases principally through short-term borrowings and cash and cash equivalents.

Short-term borrowings for the first quarter were (dollars in millions):

| | 2001 | 2000 |
|---|---|---|
| Average balance outstanding | $112 | $17 |
| Average interest rate on average balance | 4.8% | 6.0% |

The effective income tax rate for the first quarter of 2001 was 38.8%, compared with 40.0% in the first quarter of 2000, as a result of implementing corporate structure changes which favorably impact our effective tax rate.

Operating results for the trailing years were (millions, except per share):

| | 52 Weeks Ended | |
|---|---|---|
| | May 5, 2001 | April 29, 2000 |
| Net retail sales | $ 14,516 | $ 13,927 |
| Revenues | 14,614 | 13,927 |
| Net earnings | 847 | 925 |
| Diluted earnings per share | 2.61 | 2.61 |

Financial Condition

Cash Flows. Cash flows from operations (net earnings plus depreciation and amortization) was $239 million in the first quarter of 2001 and 2000. A portion of the cash flows from operations was used to fund seasonal working capital changes during the quarter as detailed on the accompanying condensed consolidated statement of cash flows.

Available Credit and Debt Ratings. We can borrow up to $878 million under our credit agreements. In addition, we have filed with the Securities and Exchange Commission shelf registration statements that enable us to issue up to $775 million of debt securities.

Financial Ratios. Key financial ratios for the periods indicated are:

| | May 5, 2001 | April 29, 2000 | Feb. 3, 2001 |
|---|---|---|---|
| Current Ratio | 2.0 | 2.0 | 2.4 |
| Debt-to-Capitalization Ratio | 52% | 46% | 50% |
| Fixed Charge Coverage* | 3.8x | 4.8x | 4.0x |

The debt-to-capitalization ratio increased as of May 5, 2001 and February 3, 2001 compared with April 29, 2000 due to the issuance of debt and the repurchase of May common stock subsequent to April 29, 2000. The fixed charge coverage ratio for the 52 weeks ended May 5, 2001 declined from the 52 weeks ended April 29, 2000 due to higher interest expense and lower operating earnings.

* Fixed charge coverage, which is presented for the 52 weeks ended May 5, 2001, April 29, 2000 and February 3, 2001, is defined as earnings before gross interest expense, the expense portion of interest on the ESOP debt, rent expense and income taxes divided by gross interest expense, interest expense on the ESOP debt and total rent expense.

Recent Sales Results

Sales for the four-week period ended June 2, 2001 were $1.10 billion, a 5.8% increase from $1.04 billion in the similar period last year. Store-for-store sales increased 1.1%. Sales for the first seventeen weeks of fiscal 2001 were $4.23 billion, a 4.2% increase over $4.06 billion during the first seventeen weeks of fiscal 2000. Store-for-store sales decreased 0.5%. Sales comparisons in May 2001 benefited from the movement of a major sales promotion event from the first week of fiscal June to the last week of fiscal May 2001. The company anticipates its June performance will be adversely impacted by the shift in the promotional calendar.

Forward-looking Statements

Management's Discussion and Analysis contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. While such statements reflect all available information and management's judgment and estimates of current and anticipated conditions and circumstances and are prepared with the assistance of specialists within and outside the company, there are many factors outside of our control that have an impact on our operations. Such factors include, but are not limited to: competitive changes, general and regional economic conditions, consumer preferences and spending patterns, availability of adequate locations for building or acquiring new stores, and our ability to hire and retain qualified associates. Because of these factors, actual performance could differ materially from that described in the forward-looking statements.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which registrant or any of its subsidiaries is a party or of which any of their property is the subject.

Item 2 - Changes in Securities - None.

Item 3 - Defaults Upon Senior Securities - None.

Item 4 - Submission of Matters to a Vote of Security Holders - None.

Item 5 - Other Information - None.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

(3) - Bylaws of May, as amended
(12) - Computation of Ratio of Earnings to Fixed Charges
(15) - Letter Re: Unaudited Interim Financial Information

(b) Reports on Form 8-K

A report dated April 25, 2001, which contained information concerning debt ratings and incorporated by reference registrant's Annual Report on Form 10-K for the fiscal year ended February 3, 2001.

SIGNATURES

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

THE MAY DEPARTMENT STORES COMPANY
(Registrant)

Date: June 12, 2001 /s/ Thomas D. Fingleton

Thomas D. Fingleton
Executive Vice President and
Chief Financial Officer

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareowners of
The May Department Stores Company:

We have reviewed the accompanying condensed consolidated balance sheet of The May Department Stores Company (a Delaware corporation) and subsidiaries as of May 5, 2001, and April 29, 2000, and the related condensed consolidated statements of earnings and cash flows for the thirteen week periods ended May 5, 2001 and April 29, 2000. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of The May Department Stores Company as of February 3, 2001, (not presented separately herein), and in our report dated February 14, 2001, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of February 3, 2001, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Arthur Andersen LLP
St. Louis, Missouri
June 12, 2001

Exhibit 15

To the Board of Directors and Shareowners of
The May Department Stores Company:

We are aware that The May Department Stores Company, Inc. has incorporated by reference in its Registration Statements on Form S-3 (No. 333-42940, 333-42940-01, 333-71413 and 333-71413-01) and Form S-8 (No. 33-21415, 33-58985, 333-59792 and 333-76227) its Form 10-Q for the quarter ended May 5, 2001, which includes our report dated June 12, 2001 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1933, that report is not considered a part of the registration statement prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act. It should be noted that we have not performed any procedures subsequent to June 12, 2001.

/s/ Arthur Andersen LLP
St. Louis, Missouri
June 12, 2001



Exhibit 12

THE MAY DEPARTMENT STORES COMPANY AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
FOR THE FIVE FISCAL YEARS ENDED FEBRUARY 3, 2001 AND FOR THE
THIRTEEN WEEKS ENDED MAY 5, 2001, AND APRIL 29, 2000

| | 13 Weeks Ended | | Fiscal Year Ended | | | |
|---|---|---|---|---|---|---|
| | May 5, 2001 | April 29, 2000 | Feb. 3, 2001 | Jan. 29, 2000 | Jan. 30, 1999 | J |
| Earnings Available for Fixed Charges: | | | | | | |
| Pretax earnings from continuing operations | $ 177 | $ 200 | $ 1,402 | $ 1,523 | $ 1,395 | $ |
| Fixed charges (excluding interest capitalized and pretax preferred stock dividend requirements) | 103 | 87 | 406 | 346 | 344 | |
| Dividends on ESOP Preference Shares | (5) | (6) | (23) | (24) | (25) | |
| Capitalized interest amortization | 2 | 2 | 8 | 7 | 7 | |
| | 277 | 283 | 1,793 | 1,852 | 1,721 | |
| Fixed Charges: | | | | | | |
| Gross interest expense (a) | $ 99 | $ 85 | $ 395 | $ 340 | $ 339 | $ |
| Interest factor attributable to rent expense | 8 | 6 | 28 | 22 | 21 | |
| | 107 | 91 | 423 | 362 | 360 | |
| Ratio of Earnings to Fixed Charges | 2.6 | 3.1 | 4.2 | 5.1 | 4.8 | |

(a) Represents interest expense on long-term and short-term debt, ESOP debt and amortization of debt discount and debt issue expense.