

Macy's, Inc.  
Form 10-Q  
August 28, 2015

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

FORM 10-Q

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

For the quarterly period ended August 1, 2015

OR

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

For the transition period from    to

Commission file number: 1-13536

Incorporated in Delaware

I.R.S. Employer Identification No.  
13-3324058

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

and  
151 West 34th Street  
New York, New York 10001  
(212) 494-1602

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

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

Class	Outstanding at August 1, 2015
Common Stock, \$0.01 par value per share	330,982,967 shares

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## MACY'S, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(millions, except per share figures)

	13 Weeks Ended		26 Weeks Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Net sales	\$6,104	\$6,267	\$12,336	\$12,546
Cost of sales	(3,610 )	(3,672 )	(7,410 )	(7,508 )
Gross margin	2,494	2,595	4,926	5,038
Selling, general and administrative expenses	(2,058 )	(2,024 )	(4,081 )	(4,024 )
Operating income	436	571	845	1,014
Interest expense	(94 )	(101 )	(189 )	(201 )
Interest income	1	1	1	1
Income before income taxes	343	471	657	814
Federal, state and local income tax expense	(126 )	(179 )	(247 )	(298 )
Net income	\$217	\$292	\$410	\$516
Basic earnings per share	\$.65	\$.81	\$1.21	\$1.42
Diluted earnings per share	\$.64	\$.80	\$1.19	\$1.40

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

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

(millions)

	13 Weeks Ended		26 Weeks Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Net income	\$217	\$292	\$410	\$516
Other comprehensive income:				
Amortization of net actuarial loss on post employment and postretirement benefit plans included in net income, before tax	11	7	24	13
Tax effect related to items of other comprehensive income	(4 )	(3 )	(9 )	(5 )
Total other comprehensive income, net of tax effect	7	4	15	8
Comprehensive income	\$224	\$296	\$425	\$524

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

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

(millions)

	August 1, 2015	January 31, 2015	August 2, 2014
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$843	\$2,246	\$1,630
Receivables	334	424	352
Merchandise inventories	5,622	5,516	5,416
Prepaid expenses and other current assets	437	493	399
Total Current Assets	7,236	8,679	7,797
Property and Equipment - net of accumulated depreciation and amortization of \$5,974, \$5,594 and \$6,453	7,704	7,800	7,771
Goodwill	3,897	3,743	3,743
Other Intangible Assets – net	523	496	512
Other Assets	756	743	783
Total Assets	\$20,116	\$21,461	\$20,606
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities:			
Short-term debt	\$83	\$76	\$483
Merchandise accounts payable	2,067	1,693	1,990
Accounts payable and accrued liabilities	2,278	3,109	2,150
Income taxes	64	296	120
Deferred income taxes	367	362	393
Total Current Liabilities	4,859	5,536	5,136
Long-Term Debt	7,181	7,265	6,729
Deferred Income Taxes	1,082	1,081	1,287
Other Liabilities	2,150	2,201	1,647
Shareholders' Equity	4,844	5,378	5,807
Total Liabilities and Shareholders' Equity	\$20,116	\$21,461	\$20,606

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

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

(millions)

	26 Weeks Ended	
	August 1, 2015	August 2, 2014
Cash flows from operating activities:		
Net income	\$410	\$516
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	520	507
Stock-based compensation expense	47	38
Amortization of financing costs and premium on acquired debt	(2)	(3)
Changes in assets and liabilities:		
Decrease in receivables	92	86
(Increase) decrease in merchandise inventories	(77)	141
Increase in prepaid expenses and other current assets	(29)	(14)
Increase in other assets not separately identified	—	(31)
Increase in merchandise accounts payable	340	276
Decrease in accounts payable, accrued liabilities and other items not separately identified	(625)	(531)
Decrease in current income taxes	(232)	(242)
Increase (decrease) in deferred income taxes	(20)	2
Decrease in other liabilities not separately identified	(26)	(9)
Net cash provided by operating activities	398	736
Cash flows from investing activities:		
Purchase of property and equipment	(367)	(335)
Capitalized software	(144)	(116)
Acquisition of Bluemercury, Inc., net of cash acquired	(212)	—
Disposition of property and equipment	4	24
Other, net	104	49
Net cash used by investing activities	(615)	(378)
Cash flows from financing activities:		
Debt issued	—	500
Financing costs	—	(4)
Debt repaid	(72)	(459)
Dividends paid	(227)	(204)
Decrease in outstanding checks	(136)	(61)
Acquisition of treasury stock	(909)	(922)
Issuance of common stock	158	149
Net cash used by financing activities	(1,186)	(1,001)
Net decrease in cash and cash equivalents	(1,403)	(643)
Cash and cash equivalents beginning of period	2,246	2,273
Cash and cash equivalents end of period	\$843	\$1,630
Supplemental cash flow information:		
Interest paid	\$194	\$202
Interest received	1	1

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Income taxes paid (net of refunds received)	450	495
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The accompanying notes are an integral part of these Consolidated Financial Statements.

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MACY'S, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Summary of Significant Accounting Policies

Nature of Operations

Macy's, Inc. and subsidiaries (the "Company") is an omnichannel retail organization operating stores, websites and mobile applications under three brands (Macy's, Bloomingdale's and Bluemercury) that sell a wide range of merchandise, including apparel and accessories (men's, women's and children's), cosmetics, home furnishings and other consumer goods. The Company's operations include approximately 885 stores in 45 states, the District of Columbia, Guam and Puerto Rico, as well as macys.com, bloomingdales.com and bluemercury.com. In addition, Bloomingdale's in Dubai, United Arab Emirates is operated under a license agreement with Al Tayer Insignia, a company of Al Tayer Group, LLC.

A description of the Company's significant accounting policies is included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2015 (the "2014 10-K"). The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2014 10-K.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

The Consolidated Financial Statements for the 13 and 26 weeks ended August 1, 2015 and August 2, 2014, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly, in all material respects, the consolidated financial position and results of operations of the Company.

Seasonality

Because of the seasonal nature of the retail business, the results of operations for the 13 and 26 weeks ended August 1, 2015 and August 2, 2014 (which do not include the Christmas season) are not necessarily indicative of such results for the full fiscal year.

Reclassifications

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

Comprehensive Income

Total comprehensive income represents the change in equity during a period from sources other than transactions with shareholders and, as such, includes net income. For the Company, the only other component of total comprehensive income for the 13 and 26 weeks ended August 1, 2015 and August 2, 2014 is the amortization of post employment and postretirement plan items. These reclassifications out of accumulated other comprehensive loss are included in the computation of net periodic benefit cost (income) and are included in selling, general and administrative expenses on the Consolidated Statements of Income. See Note 4, "Benefit Plans," for further information.

## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## 2. Earnings Per Share

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

	13 Weeks Ended		August 2, 2014	
	August 1, 2015		August 2, 2014	
	Net	Shares	Net	Shares
	Income		Income	
	(millions, except per share data)			
Net income and average number of shares outstanding	\$217	334.9	\$292	358.3
Shares to be issued under deferred compensation and other plans		0.8		0.9
	\$217	335.7	\$292	359.2
Basic earnings per share	\$ .65		\$ .81	
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units		5.3		6.2
	\$217	341.0	\$292	365.4
Diluted earnings per share	\$ .64		\$ .80	

	26 Weeks Ended		August 2, 2014	
	August 1, 2015		August 2, 2014	
	Net	Shares	Net	Shares
	Income		Income	
	(millions, except per share data)			
Net income and average number of shares outstanding	\$410	337.3	\$516	361.5
Shares to be issued under deferred compensation and other plans		0.9		1.0
	\$410	338.2	\$516	362.5
Basic earnings per share	\$1.21		\$1.42	
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units		5.5		6.5
	\$410	343.7	\$516	369.0
Diluted earnings per share	\$1.19		\$1.40	

In addition to the stock options, restricted stock and restricted stock units reflected in the foregoing tables, stock options to purchase 3.4 million shares of common stock and restricted stock units relating to 1.1 million shares of common stock were outstanding at August 1, 2015, but were not included in the computation of diluted earnings per share for the 13 or 26 weeks ended August 1, 2015 because their inclusion would have been antidilutive or they were subject to performance conditions that had not been met.

In addition to the stock options, restricted stock and restricted stock units reflected in the foregoing tables, stock options to purchase 3.2 million shares of common stock and restricted stock units relating to 1.0 million shares of common stock were outstanding at August 2, 2014, but were not included in the computation of diluted earnings per share for the 13 or 26 weeks ended August 2, 2014 because their inclusion would have been antidilutive or they were subject to performance conditions that had not been met.



## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## 3. Financing Activities

The following table shows the detail of debt repayments:

	26 Weeks Ended	
	August 1, 2015	August 2, 2014
	(millions)	
7.5% Senior debentures due 2015	\$69	\$—
5.75% Senior notes due 2014	—	453
9.5% amortizing debentures due 2021	2	2
9.75% amortizing debentures due 2021	1	1
Capital leases and other obligations	—	3
	\$72	\$459

On June 1, 2015, the Company repaid \$69 million of 7.5% senior debentures at maturity.

On May 23, 2014, the Company issued \$500 million aggregate principal amount of 3.625% senior unsecured notes due 2024. On July 15, 2014, the Company repaid \$453 million of 5.75% senior unsecured notes at maturity.

On August 17, 2015, the Company redeemed at par the principal amount of \$76 million of 8.125% senior debentures due 2035, pursuant to the terms of the debentures. Interest expense in the third quarter of 2015 will be lower due to the recognition of unamortized debt premium associated with this debt.

During the 26 weeks ended August 1, 2015, the Company repurchased approximately 13.9 million shares of its common stock pursuant to existing stock purchase authorizations for a total of approximately \$937 million. As of August 1, 2015, the Company had \$1,595 million of authorization remaining under its share repurchase program. The Company may continue or, from time to time, suspend repurchases of shares under its share repurchase program, depending on prevailing market conditions, alternate uses of capital and other factors.

## 4. Benefit Plans

The Company has defined contribution plans which cover substantially all employees who work 1,000 hours or more in a year. In addition, the Company has a funded defined benefit plan ("Pension Plan") and an unfunded defined benefit supplementary retirement plan ("SERP"), which provides benefits, for certain employees, in excess of qualified plan limitations. Effective January 1, 2012, the Pension Plan was closed to new participants, with limited exceptions, and effective January 2, 2012, the SERP was closed to new participants.

In February 2013, the Company announced changes to the Pension Plan and SERP whereby eligible employees no longer earn future pension service credits after December 31, 2013, with limited exceptions. All retirement benefits attributable to service in subsequent periods are provided through defined contribution plans.

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

## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

The defined contribution plan expense and actuarially determined components of the net periodic benefit cost (income) associated with the defined benefit plans are as follows:

	13 Weeks Ended		26 Weeks Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
	(millions)			
401(k) Defined Contribution Plan	\$24	\$25	\$47	\$50
<b>Pension Plan</b>				
Service cost	\$1	\$1	\$3	\$3
Interest cost	34	37	68	75
Expected return on assets	(58 )	(62 )	(117 )	(123 )
Recognition of net actuarial loss	9	7	19	13
Amortization of prior service credit	—	—	—	—
	\$(14 )	\$(17 )	\$(27 )	\$(32 )
<b>Supplementary Retirement Plan</b>				
Service cost	\$—	\$—	\$—	\$—
Interest cost	8	9	16	17
Recognition of net actuarial loss	2	1	5	2
Amortization of prior service cost	—	—	—	—
	\$10	\$10	\$21	\$19
<b>Total Retirement Expense</b>	<b>\$20</b>	<b>\$18</b>	<b>\$41</b>	<b>\$37</b>
<b>Postretirement Obligations</b>				
Service cost	\$—	\$—	\$—	\$—
Interest cost	2	2	4	4
Recognition of net actuarial gain	—	(1 )	—	(2 )
Amortization of prior service cost	—	—	—	—
	\$2	\$1	\$4	\$2

## 5. Fair Value Measurements

The following table shows the Company's financial assets that are required to be measured at fair value on a recurring basis, by level within the hierarchy as defined by applicable accounting standards:

	August 1, 2015				August 2, 2014			
	Total	Fair Value Measurements Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Fair Value Measurements Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(millions)							
Marketable equity and debt	\$101	\$—	\$101	\$—	\$91	\$—	\$91	\$—

securities

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MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Other financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, receivables, short-term debt, merchandise accounts payable, accounts payable and accrued liabilities and long-term debt. With the exception of long-term debt, the carrying amount approximates fair value because of the short maturity of these instruments. The fair values of long-term debt, excluding capitalized leases, are generally estimated based on quoted market prices for identical or similar instruments, and are classified as Level 2 measurements within the hierarchy as defined by applicable accounting standards.

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

	August 1, 2015			August 2, 2014		
	Notional Amount (millions)	Carrying Amount	Fair Value	Notional Amount	Carrying Amount	Fair Value
Long-term debt	\$6,994	\$7,153	\$7,585	\$6,544	\$6,713	\$7,375

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

During the second quarter of fiscal 2015, the Company completed its annual impairment test of goodwill and indefinite lived intangible assets and determined that goodwill and indefinite lived intangible assets were not impaired as of May 30, 2015.

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

#### 6. Condensed Consolidating Financial Information

Certain debt obligations of the Company, which constitute debt obligations of Macy's Retail Holdings, Inc. ("Subsidiary Issuer"), a 100%-owned subsidiary of Macy's, Inc. ("Parent"), are fully and unconditionally guaranteed by Parent. In the following condensed consolidating financial statements, "Other Subsidiaries" includes all other direct subsidiaries of Parent, including Bluemercury, Inc., FDS Bank, West 34th Street Insurance Company and its subsidiary West 34th Street Insurance Company New York, Macy's Merchandising Corporation, Macy's Merchandising Group, Inc. and its subsidiaries Macy's Merchandising Group (Hong Kong) Limited, Macy's Merchandising Group Procurement, LLC, Macy's Merchandising Group International, LLC, and Macy's Merchandising Group International (Hong Kong) Limited. "Subsidiary Issuer" includes operating divisions and non-guarantor subsidiaries of the Subsidiary Issuer on an equity basis. The assets and liabilities and results of operations of the non-guarantor subsidiaries of the Subsidiary Issuer are also reflected in "Other Subsidiaries." Condensed Consolidating Balance Sheets as of August 1, 2015, August 2, 2014 and January 31, 2015, the related Condensed Consolidating Statements of Comprehensive Income for the 13 and 26 weeks ended August 1, 2015 and August 2, 2014, and the related Condensed Consolidating Statements of Cash Flows for the 26 weeks ended August 1, 2015 and August 2, 2014 are presented on the following pages.

## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Balance Sheet

As of August 1, 2015

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents	\$511	\$76	\$256	\$—	\$843
Receivables	—	85	249	—	334
Merchandise inventories	—	2,780	2,842	—	5,622
Prepaid expenses and other current assets	—	104	333	—	437
Income taxes	98	—	—	(98 )	—
Total Current Assets	609	3,045	3,680	(98 )	7,236
Property and Equipment – net	—	4,230	3,474	—	7,704
Goodwill	—	3,315	582	—	3,897
Other Intangible Assets – net	—	62	461	—	523
Other Assets	2	74	680	—	756
Deferred Income Taxes	24	—	—	(24 )	—
Intercompany Receivable	—	—	3,634	(3,634 )	—
Investment in Subsidiaries	4,779	3,640	—	(8,419 )	—
Total Assets	\$5,414	\$14,366	\$12,511	\$(12,175 )	\$20,116
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>					
Current Liabilities:					
Short-term debt	\$—	\$82	\$1	\$—	\$83
Merchandise accounts payable	—	997	1,070	—	2,067
Accounts payable and accrued liabilities	23	981	1,274	—	2,278
Income taxes	—	10	152	(98 )	64
Deferred income taxes	—	301	66	—	367
Total Current Liabilities	23	2,371	2,563	(98 )	4,859
Long-Term Debt	—	7,162	19	—	7,181
Intercompany Payable	483	3,151	—	(3,634 )	—
Deferred Income Taxes	—	435	671	(24 )	1,082
Other Liabilities	64	551	1,535	—	2,150
Shareholders' Equity	4,844	696	7,723	(8,419 )	4,844
Total Liabilities and Shareholders' Equity	\$5,414	\$14,366	\$12,511	\$(12,175 )	\$20,116

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the 13 Weeks Ended August 1, 2015

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$—	\$2,761	\$5,049	\$(1,706)	\$6,104
Cost of sales	—	(1,688)	(3,628)	1,706	(3,610)
Gross margin	—	1,073	1,421	—	2,494
Selling, general and administrative expenses	—	(1,025)	(1,033)	—	(2,058)
Operating income	—	48	388	—	436
Interest (expense) income, net:					
External	—	(93)	—	—	(93)
Intercompany	—	(57)	57	—	—
Equity in earnings of subsidiaries	217	86	—	(303)	—
Income (loss) before income taxes	217	(16)	445	(303)	343
Federal, state and local income tax benefit (expense)	—	42	(168)	—	(126)
Net income	\$217	\$26	\$277	\$(303)	\$217
Comprehensive income	\$224	\$33	\$282	\$(315)	\$224

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the 26 Weeks Ended August 1, 2015

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$—	\$5,537	\$10,740	\$ (3,941 )	\$12,336
Cost of sales	—	(3,497 )	(7,854 )	3,941	(7,410 )
Gross margin	—	2,040	2,886	—	4,926
Selling, general and administrative expenses	(1 )	(2,005 )	(2,075 )	—	(4,081 )
Operating income (loss)	(1 )	35	811	—	845
Interest (expense) income, net:					
External	—	(188 )	—	—	(188 )
Intercompany	—	(115 )	115	—	—
Equity in earnings of subsidiaries	411	146	—	(557 )	—
Income (loss) before income taxes	410	(122 )	926	(557 )	657
Federal, state and local income tax benefit (expense)	—	79	(326 )	—	(247 )
Net income (loss)	\$410	\$(43 )	\$600	\$(557 )	\$410
Comprehensive income (loss)	\$425	\$(28 )	\$609	\$(581 )	\$425

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the 26 Weeks Ended August 1, 2015

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated	
Cash flows from operating activities:						
Net income (loss)	\$410	\$(43	) \$600	\$ (557	) \$410	
Equity in earnings of subsidiaries	(411	) (146	) —	557	—	
Dividends received from subsidiaries	337	—	—	(337	) —	
Depreciation and amortization	—	214	306	—	520	
Increase in working capital	(11	) (17	) (503	) —	(531	)
Other, net	24	2	(27	) —	(1	)
Net cash provided by operating activities	349	10	376	(337	) 398	
Cash flows from investing activities:						
Purchase of property and equipment and capitalized software, net	—	(158	) (349	) —	(507	)
Other, net	—	9	(117	) —	(108	)
Net cash used by investing activities	—	(149	) (466	) —	(615	)
Cash flows from financing activities:						
Debt repaid	—	(72	) —	—	(72	)
Dividends paid	(227	) —	(337	) 337	(227	)
Common stock acquired, net of issuance of common stock	(751	) —	—	—	(751	)
Intercompany activity, net	(722	) 262	460	—	—	
Other, net	(46	) (69	) (21	) —	(136	)
Net cash provided (used) by financing activities	(1,746	) 121	102	337	(1,186	)
Net increase (decrease) in cash and cash equivalents	(1,397	) (18	) 12	—	(1,403	)
Cash and cash equivalents at beginning of period	1,908	94	244	—	2,246	
Cash and cash equivalents at end of period	\$511	\$76	\$256	\$—	\$843	

## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Balance Sheet

As of August 2, 2014

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents	\$1,287	\$85	\$258	\$—	\$1,630
Receivables	—	91	261	—	352
Merchandise inventories	—	2,799	2,617	—	5,416
Prepaid expenses and other current assets	6	94	299	—	399
Income taxes	34	—	—	(34	) —
Total Current Assets	1,327	3,069	3,435	(34	) 7,797
Property and Equipment – net	—	4,438	3,333	—	7,771
Goodwill	—	3,315	428	—	3,743
Other Intangible Assets – net	—	85	427	—	512
Other Assets	4	110	669	—	783
Deferred Income Taxes	20	—	—	(20	) —
Intercompany Receivable	—	—	3,412	(3,412	) —
Investment in Subsidiaries	4,832	3,340	—	(8,172	) —
Total Assets	\$6,183	\$14,357	\$11,704	\$(11,638	) \$20,606
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>					
Current Liabilities:					
Short-term debt	\$—	\$481	\$2	\$—	\$483
Merchandise accounts payable	—	926	1,064	—	1,990
Accounts payable and accrued liabilities	122	951	1,077	—	2,150
Income taxes	—	45	109	(34	) 120
Deferred income taxes	—	305	88	—	393
Total Current Liabilities	122	2,708	2,340	(34	) 5,136
Long-Term Debt	—	6,709	20	—	6,729
Intercompany Payable	188	3,224	—	(3,412	) —
Deferred Income Taxes	—	568	739	(20	) 1,287
Other Liabilities	66	482	1,099	—	1,647
Shareholders' Equity	5,807	666	7,506	(8,172	) 5,807
Total Liabilities and Shareholders' Equity	\$6,183	\$14,357	\$11,704	\$(11,638	) \$20,606

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the 13 Weeks Ended August 2, 2014

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$—	\$2,961	\$4,994	\$(1,688 )	\$6,267
Cost of sales	—	(1,778 )	(3,582 )	1,688	(3,672 )
Gross margin	—	1,183	1,412	—	2,595
Selling, general and administrative expenses	(2 )	(1,044 )	(978 )	—	(2,024 )
Operating income (loss)	(2 )	139	434	—	571
Interest (expense) income, net:					
External	—	(100 )	—	—	(100 )
Intercompany	—	(58 )	58	—	—
Equity in earnings of subsidiaries	293	113	—	(406 )	—
Income before income taxes	291	94	492	(406 )	471
Federal, state and local income tax benefit (expense)	1	3	(183 )	—	(179 )
Net income	\$292	\$97	\$309	\$(406 )	\$292
Comprehensive income	\$296	\$101	\$311	\$(412 )	\$296

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the 26 Weeks Ended August 2, 2014

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	\$—	\$5,879	\$10,451	\$(3,784)	\$12,546
Cost of sales	—	(3,664)	(7,628)	3,784	(7,508)
Gross margin	—	2,215	2,823	—	5,038
Selling, general and administrative expenses	(4)	(2,052)	(1,968)	—	(4,024)
Operating income (loss)	(4)	163	855	—	1,014
Interest (expense) income, net:					
External	—	(200)	—	—	(200)
Intercompany	—	(116)	116	—	—
Equity in earnings of subsidiaries	518	179	—	(697)	—
Income before income taxes	514	26	971	(697)	814
Federal, state and local income tax benefit (expense)	2	41	(341)	—	(298)
Net income	\$516	\$67	\$630	\$(697)	\$516
Comprehensive income	\$524	\$75	\$634	\$(709)	\$524

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the 26 Weeks Ended August 2, 2014

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:					
Net income	\$516	\$67	\$630	\$ (697 )	\$516
Equity in earnings of subsidiaries	(518 )	(179 )	—	697	—
Dividends received from subsidiaries	319	—	—	(319 )	—
Depreciation and amortization	—	225	282	—	507
(Increase) decrease in working capital	55	8	(347 )	—	(284 )
Other, net	6	(27 )	18	—	(3 )
Net cash provided by operating activities	378	94	583	(319 )	736
Cash flows from investing activities:					
Purchase of property and equipment and capitalized software, net	—	(117 )	(310 )	—	(427 )
Other, net	—	6	43	—	49
Net cash used by investing activities	—	(111 )	(267 )	—	(378 )
Cash flows from financing activities:					
Debt issued, net of debt repaid	—	42	(1 )	—	41
Dividends paid	(204 )	—	(319 )	319	(204 )
Common stock acquired, net of issuance of common stock	(773 )	—	—	—	(773 )
Intercompany activity, net	(137 )	8	129	—	—
Other, net	68	(32 )	(101 )	—	(65 )
Net cash provided (used) by financing activities	(1,046 )	18	(292 )	319	(1,001 )
Net increase (decrease) in cash and cash equivalents	(668 )	1	24	—	(643 )
Cash and cash equivalents at beginning of period	1,955	84	234	—	2,273
Cash and cash equivalents at end of period	\$1,287	\$85	\$258	\$—	\$1,630

## MACY'S, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Condensed Consolidating Balance Sheet

As of January 31, 2015

(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS:</b>					
Current Assets:					
Cash and cash equivalents	\$1,908	\$94	\$244	\$—	\$2,246
Receivables	—	97	327	—	424
Merchandise inventories	—	2,817	2,699	—	5,516
Prepaid expenses and other current assets	—	113	380	—	493
Income taxes	88	—	—	(88 )	—
Total Current Assets	1,996	3,121	3,650	(88 )	8,679
Property and Equipment – net	—	4,315	3,485	—	7,800
Goodwill	—	3,315	428	—	3,743
Other Intangible Assets – net	—	73	423	—	496
Other Assets	1	74	668	—	743
Deferred Income Taxes	10	—	—	(10 )	—
Intercompany Receivable	—	—	4,140	(4,140 )	—
Investment in Subsidiaries	4,655	3,526	—	(8,181 )	—
Total Assets	\$6,662	\$14,424	\$12,794	\$(12,419 )	\$21,461
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>					
Current Liabilities:					
Short-term debt	\$—	\$75	\$1	\$—	\$76
Merchandise accounts payable	—	784	909	—	1,693
Accounts payable and accrued liabilities	42	1,360	1,707	—	3,109
Income taxes	—	22	362	(88 )	296
Deferred income taxes	—	295	67	—	362
Total Current Liabilities	42	2,536	3,046	(88 )	5,536
Long-Term Debt	—	7,245	20	—	7,265
Intercompany Payable	1,215	2,925	—	(4,140 )	—
Deferred Income Taxes	—	414	677	(10 )	1,081
Other Liabilities	27	593	1,581	—	2,201
Shareholders' Equity	5,378	711	7,470	(8,181 )	5,378
Total Liabilities and Shareholders' Equity	\$6,662	\$14,424	\$12,794	\$(12,419 )	\$21,461

MACY'S, INC.

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

For purposes of the following discussion, all references to "second quarter of 2015" and "second quarter of 2014" are to the Company's 13-week fiscal periods ended August 1, 2015 and August 2, 2014, respectively, and all references to "2015" and "2014" are to the Company's 26-week fiscal periods ended August 1, 2015 and August 2, 2014, respectively.

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes included elsewhere in this report, as well as the financial and other information included in the 2014 10-K. The following discussion contains forward-looking statements that reflect the Company's plans, estimates and beliefs. The Company's actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those discussed below and elsewhere in this report (particularly in "Forward-Looking Statements") and in the 2014 10-K (particularly in "Risk Factors"). This discussion includes non-GAAP financial measures. For information about these measures, see the disclosure under the caption "Important Information Regarding Non-GAAP Financial Measures" on page 25.

Overview

The Company is an omnichannel retail organization operating stores, websites and mobile applications under three brands (Macy's, Bloomingdale's and Bluemercury) that sell a wide range of merchandise, including apparel and accessories (men's, women's and children's), cosmetics, home furnishings and other consumer goods. The Company's operations include approximately 885 stores in 45 states, the District of Columbia, Guam and Puerto Rico, as well as macys.com, bloomingdales.com and bluemercury.com. In addition, Bloomingdale's in Dubai, United Arab Emirates is operated under a license agreement with Al Tayer Insignia, a company of Al Tayer Group, LLC.

The Company continues to be focused on three key strategies for continued growth in sales, earnings and cash flow in the years ahead: (i) maximizing the My Macy's localization initiative; (ii) driving the omnichannel business; and (iii) embracing customer centricity, including engaging customers on the selling floor through the Magic Selling program.

Through the My Macy's localization initiative, the Company has invested in talent, technology and marketing which ensures 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 provided for more local decision-making in every Macy's community, and involves tailoring merchandise assortments, space allocations, service levels, visual merchandising and special events on a store-by-store basis.

The Company's omnichannel strategy allows customers to shop seamlessly in stores and online, via desktops, laptops or mobile devices. A pivotal part of the omnichannel strategy is the Company's ability to allow associates in any store to sell a product that may be unavailable locally by shipping merchandise from other stores or customer fulfillment centers to the customer's door. Likewise, the Company's customer fulfillment centers can draw on store inventories nationwide to fill orders that originate online, via desktops, laptops or mobile devices. Nearly all Macy's and Bloomingdale's stores are fulfilling orders from other stores and/or online for shipment and fulfilling orders for store pick-up related to online purchases. Starting November 1, 2014, same-day delivery pilots were tested in eight Macy's markets and four Bloomingdale's markets and in August 2015 same-day delivery is expanding into nine additional markets.

Macy's Magic Selling program is an approach to customer engagement that helps Macy's to better understand the needs of customers, as well as to provide options and advice. This comprehensive ongoing training and coaching program is designed to improve the in-store shopping experience and all other customer interactions.

In January 2015, the Company announced a series of initiatives, including a restructuring of merchandising and marketing functions consistent with its omnichannel approach to retailing, as well as a series of adjustments to its field and store operations designed to increase productivity and efficiency. These changes are intended to support continued growth and an enhanced shopping experience online and via mobile, as well as in stores.

The Company is also focused on driving additional profitable sales growth through a series of organic and new business initiatives. The initiatives include a focus on key categories (e.g., active, dresses and jewelry), key store

locations, loyalty programs, gift registry and wedding offerings, best and private brands, off-price, international and new store formats.

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MACY'S, INC.

In March 2015, the Company completed its acquisition of Bluemercury, Inc., a luxury beauty products and spa retailer. The Company is focused on accelerating the growth of sales in self-standing Bluemercury stores in urban and suburban markets, enhancing Bluemercury's online capabilities and adding selected Bluemercury products and boutiques to Macy's stores nationwide.

In May 2015, the Company helped launch Plenti, the innovative loyalty program that brings powerful brands together to give customers the chance to earn and redeem points where they choose. The loyalty program is free to join and members earn points on virtually all purchases at Macy's and other businesses that have joined as Plenti partners. Additionally, in May and June 2015, the Company announced that the first six pilot stores in Macy's new off-price business, Macy's Backstage, will open early in the fall season of fiscal 2015 in metro New York City. The six Macy's Backstage locations will average about 30,000 square feet and sell an assortment of women's, men's and children's apparel, shoes, fashion accessories, housewares, home textiles, intimate apparel and jewelry.

In August 2015, the Company announced the formation of a Hong Kong-based joint venture to explore retailing in China. The joint venture, which is sixty-five percent owned by the Company, will start with an e-commerce pilot initiative and plans to begin selling merchandise in China in late 2015. The Company's periodic reporting will include the consolidated results of operations of the joint venture, with the thirty-five percent ownership reported as a noncontrolling interest.

Also in August 2015, the Company announced a real estate transaction related to its Brooklyn store location. The Company is selling the top five floors of its nine-story retail location as well as the air rights above the store and a related parking garage facility. The Company will receive \$170 million in cash in fiscal 2015 and will receive another \$100 million over the next three years to be used towards a total reinvent of this Macy's store location. As a result of this transaction, the Company is expected to record a gain of approximately \$250 million in the fourth quarter of fiscal 2015. The Company continually evaluates the highest and best use of its properties and its overall real estate portfolio. In light of current market conditions, the Company has retained specialized real estate advisors, in addition to financial, legal and tax advisors, to intensely study its real estate portfolio to determine where opportunities exist that would further enhance the value of the Company. The Company is actively working with its advisors and will communicate the results of its analysis and review as soon as complete.

Four new Bluemercury stores have opened since the acquisition in March. In the remainder of fiscal 2015, the Company intends to open one new Macy's store, one new Bloomingdale's store, one new Bloomingdale's Outlet store, six new Macy's Backstage stores, and 10 new Bluemercury stores. The Company did not open any new stores during the first half of 2014.

The Company's operations are impacted by competitive pressures from department stores, specialty stores, mass merchandisers, online retailers and all other retail channels. The Company's operations are also impacted by general consumer spending levels, including the impact of general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods and the effects of weather or natural disasters and other factors over which the Company has little or no control. In recent years, consumer spending levels have been affected to varying degrees by a number of factors, including modest economic growth, uncertainty regarding governmental spending and tax policies, employment levels, tightened consumer credit, an improving housing market and a rising stock market. In addition, consumer spending levels of international customers are impacted by the strength of the U.S. dollar relative to foreign currencies. These factors have affected to varying degrees 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.

All economic conditions ultimately affect the Company's overall operations. However, the effects of economic conditions can be experienced differently and 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 each of the Company's branded operations.

Based on its assessment of current and anticipated market conditions and its recent performance, the Company now expects comparable sales on an owned plus licensed basis to be approximately flat in fiscal 2015, with comparable sales on an owned basis approximately 50 basis points lower. The Company now expects that its total sales in fiscal

2015 will decrease approximately 1% from 2014 levels, reflecting Macy's store locations closed at the end of fiscal 2014 and a reduction in sales of private label goods to third parties, and that its earnings per share in fiscal 2015 will still be in the range of \$4.70 to \$4.80, including the expected gain on the sale of Brooklyn real estate.

## MACY'S, INC.

## Results of Operations

## Comparison of the Second Quarter of 2015 and the Second Quarter of 2014

	Second Quarter of 2015		Second Quarter of 2014	
	Amount	% to Sales	Amount	% to Sales
	(dollars in millions, except per share figures)			
Net sales	\$6,104		\$6,267	
Increase (decrease) in sales	(2.6	)%	3.3	%
Increase (decrease) in comparable sales	(2.1	)%	3.4	%
Cost of sales	(3,610	)	(3,672	)
	(59.1	)%	(58.6	)%
Gross margin	2,494	40.9	2,595	41.4
		%		%
Selling, general and administrative expenses	(2,058	)	(2,024	)
	(33.8	)%	(32.3	)%
Operating income	436	7.1	571	9.1
		%		%
Interest expense - net	(93	)	(100	)
Income before income taxes	343		471	
Federal, state and local income tax expense	(126	)	(179	)
Net income	\$217	3.6	\$292	4.7
		%		%
Diluted earnings per share	\$ .64		\$ .80	
Diluted Earnings Per Share				

Diluted earnings per share for the second quarter of 2015 decreased \$.16 or 20.0% compared to the second quarter of 2014, reflecting lower net income, partially offset by lower average diluted shares.

## Net Income

Net income for the second quarter of 2015 decreased \$75 million or 25.7% compared to the second quarter of 2014, reflecting lower net sales and gross margin in dollars and higher selling, general and administrative ("SG&A") expenses, partially offset by lower interest and tax expenses.

## Net Sales

Net sales for the second quarter of 2015 decreased \$163 million or 2.6% compared to the second quarter of 2014. The decrease in comparable sales on an owned basis for the second quarter of 2015 was 2.1% compared to the second quarter of 2014. The decrease in comparable sales on an owned plus licensed basis for the second quarter of 2015 was 1.5% compared to the second quarter of 2014. Sales in the southern regions continued to perform better relative to northern regions in the second quarter of 2015, and sales on the West Coast were also strong. Sales at locations that are frequented by international tourists, such as New York City, Las Vegas, San Francisco and Chicago, continued to be negatively impacted by lower levels of spending by these tourists. Sales in the second quarter of 2015 were also negatively impacted by delays in inventory receipts due to West Coast port issues, although the effect was smaller in the second quarter relative to the first quarter of 2015. Sales in the second quarter of 2015 were also impacted by a reduction in sales of private label goods to third parties. By family of business, sales in the second quarter of 2015 were stronger in the center core categories of handbags and fragrances, active apparel, furniture and mattresses. Sales in the second quarter of 2015 were weaker in fashion jewelry, watches, petites and large size women's apparel, men's tailored clothing, tabletop and housewares.

## Cost of Sales

Cost of sales for the second quarter of 2015 decreased \$62 million while the cost of sales rate as a percent to net sales increased 50 basis points from the second quarter of 2014 to 59.1% for the second quarter of 2015. The cost of sales rate as a percent to net sales in the second quarter of 2015 was negatively impacted by additional markdowns needed to keep inventory fresh due to weaker sales and the delays in inventory receipts due to West Coast port issues. The application of the last-in, first-out (LIFO) retail inventory method did not result in the recognition of any LIFO charges or credits affecting cost of sales in either period.



## MACY'S, INC.

## Selling, General and Administrative Expenses

SG&A expenses for the second quarter of 2015 increased \$34 million or 1.7% from the second quarter of 2014. The SG&A rate as a percent to net sales of 33.8% was 150 basis points higher in the second quarter of 2015, as compared to the second quarter of 2014. SG&A expenses in the second quarter of 2015 were negatively impacted by start-up expenses associated with the Macy's Backstage pilot, a full quarter of Bluemercury expenses, continued investments in the Company's omnichannel operations and investments in other new growth initiatives, higher medical benefit expense, and higher depreciation and amortization expense, partially offset by higher income from credit operations and expense benefits from the restructuring initiatives announced in January 2015. Depreciation and amortization expense was \$261 million for the second quarter of 2015, compared to \$254 million for the second quarter of 2014. Income from credit operations was \$195 million in the second quarter of 2015, compared to \$183 million in the second quarter of 2014, reflecting continued profitability of the portfolio.

## Net Interest Expense

Net interest expense for the second quarter of 2015 decreased \$7 million from the second quarter of 2014. Net interest expense for the second quarter of 2015 benefited from lower rates on outstanding borrowings as compared to the second quarter of 2014.

## Effective Tax Rate

The Company's effective tax rate of 36.6% for the second quarter of 2015 and 37.9% for the second quarter of 2014 differ from the federal income tax statutory rate of 35%, and on a comparative basis, principally because of the effect of state and local income taxes, including the settlement of various tax issues and tax examinations.

## Comparison of the 26 Weeks Ended August 1, 2015 and August 2, 2014

	2015		2014	
	Amount	% to Sales	Amount	% to Sales
	(dollars in millions, except per share figures)			
Net sales	\$12,336		\$12,546	
Increase (decrease) in sales	(1.7 )%		0.7 %	
Increase (decrease) in comparable sales	(1.4 )%		0.8 %	
Cost of sales	(7,410 )	(60.1 )%	(7,508 )	(59.8 )%
Gross margin	4,926	39.9 %	5,038	40.2 %
Selling, general and administrative expenses	(4,081 )	(33.1 )%	(4,024 )	(32.1 )%
Operating income	845	6.8 %	1,014	8.1 %
Interest expense - net	(188 )		(200 )	
Income before income taxes	657		814	
Federal, state and local income tax expense	(247 )		(298 )	
Net income	\$410	3.3 %	\$516	4.1 %
Diluted earnings per share	\$1.19		\$1.40	

## Diluted Earnings Per Share

Diluted earnings per share for 2015 decreased \$.21 or 15.0% compared to 2014, reflecting lower net income, partially offset by lower average diluted shares.

## Net Income

Net income for 2015 decreased \$106 million or 20.5% compared to 2014, reflecting lower net sales and gross margin in dollars and higher SG&A expenses, partially offset by lower interest and tax expenses.

MACY'S, INC.

Net Sales

Net sales for 2015 decreased \$210 million or 1.7% compared to 2014. The decrease in comparable sales on an owned basis for 2015 was 1.4% compared to 2014. The decrease in comparable sales on an owned plus licensed basis for 2015 was 0.8% compared to 2014. Sales in the southern regions continued to perform better relative to northern regions in 2015, while sales at locations that are frequented by international tourists, such as New York City, Las Vegas, San Francisco and Chicago, were negatively impacted by lower levels of spending by these tourists. Sales in 2015 were also negatively impacted by delays in inventory receipts due to West Coast port issues, disruption from the restructuring of the Company's merchandising and marketing functions, and unseasonably cold weather in the beginning of the first quarter of 2015. Sales in 2015 were also impacted by a reduction in sales of private label goods to third parties. By family of business, sales in 2015 were stronger in active apparel, dresses, furniture and mattresses. Sales in 2015 were weaker in fashion jewelry, watches, tabletop and housewares.

Cost of Sales

Cost of sales for 2015 decreased \$98 million while the cost of sales rate as a percent to net sales increased 30 basis points from 2014 to 60.1% for 2015. The cost of sales rate as a percent to net sales in 2015 was negatively impacted by additional markdowns needed to keep inventory fresh due to weaker sales and the delays in inventory receipts due to West Coast port issues. The application of the last-in, first-out (LIFO) retail inventory method did not result in the recognition of any LIFO charges or credits affecting cost of sales in either period.

Selling, General and Administrative Expenses

SG&A expenses for 2015 increased \$57 million or 1.4% from 2014. The SG&A rate as a percent to net sales of 33.1% was 100 basis points higher in 2015, as compared to 2014. SG&A expenses in 2015 were negatively impacted by start-up expenses associated with the Macy's Backstage pilot, continued investments in the Company's omnichannel operations and investments in other new growth initiatives, and higher depreciation and amortization expense, partially offset by higher income from credit operations and expense benefits from the restructuring initiatives announced in January 2015. Depreciation and amortization expense was \$520 million in 2015, compared to \$507 million in 2014. Income from credit operations was \$374 million in 2015, compared to \$354 million in 2014, reflecting continued profitability of the portfolio.

Net Interest Expense

Net interest expense for 2015 decreased \$12 million from 2014. Net interest expense for 2015 benefited from lower rates on outstanding borrowings as compared to 2014.

Effective Tax Rate

The Company's effective tax rate of 37.5% for 2015 and 36.6% for 2014 differ from the federal income tax statutory rate of 35%, and on a comparative basis, principally because of the effect of state and local income taxes, including the settlement of various tax issues and tax examinations.

## MACY'S, INC.

## Important Information Regarding Non-GAAP Financial Measures

The Company reports its financial results in accordance with generally accepted accounting principles (GAAP). However, management believes that certain non-GAAP financial measures provide users of the Company's financial information with additional useful information in evaluating operating performance. Management believes that providing changes in comparable sales on an owned plus licensed basis, which includes the impact of growth in comparable sales of departments licensed to third parties, supplementally to its results of operations calculated in accordance with GAAP assists in evaluating the Company's ability to generate sales growth, whether through owned businesses or departments licensed to third parties, on a comparable basis, and in evaluating the impact of changes in the manner in which certain departments are operated. Management also believes that the combined measure is useful in assessing changes in total customer demand at Macy's and Bloomingdale's stores.

See the table below for supplemental financial data and a corresponding reconciliation to the most directly comparable GAAP financial measure. The Company's non-GAAP financial measures should be viewed as supplementing, and not as an alternative or substitute for, the Company's financial results prepared in accordance with GAAP. Certain of the items that may be excluded or included in this non-GAAP financial measure may be significant items that could impact the Company's financial position, results of operations and cash flows and should therefore be considered in assessing the Company's actual financial condition and performance. Additionally, the amounts received by the Company on account of sales of departments licensed to third parties are limited to commissions received on such sales. The methods used by the Company to calculate its non-GAAP financial measures may differ significantly from methods used by other companies to compute similar measures. As a result, any non-GAAP financial measures presented herein may not be comparable to similar measures provided by other companies.

	Second Quarter of 2015		Second Quarter of 2014	
Increase (decrease) in comparable sales on an owned basis (note 1)	(2.1	)%	3.4	%
Impact of growth in comparable sales of departments licensed to third parties (note 2)	0.6	%	0.6	%
Increase (decrease) in comparable sales on an owned plus licensed basis	(1.5	)%	4.0	%
	2015		2014	
Increase (decrease) in comparable sales on an owned basis (note 1)	(1.4	)%	0.8	%
Impact of growth in comparable sales of departments licensed to third parties (note 2)	0.6	%	0.7	%
Increase (decrease) in comparable sales on an owned plus licensed basis	(0.8	)%	1.5	%

## Notes:

- Represents the period-to-period percentage change in net sales from stores in operation throughout the year presented and the immediately preceding year and all online sales, excluding commissions from departments
- (1) licensed to third parties. Stores undergoing remodeling, expansion or relocation remain in the comparable sales calculation unless the store is closed for a significant period of time. Definitions and calculations of comparable sales differ among companies in the retail industry.
- (2) Represents the impact of including the sales of departments licensed to third parties occurring in stores in operation throughout the year presented and the immediately preceding year and via the Internet in the calculation of comparable sales. The Company licenses third parties to operate certain departments in its stores and online and receives commissions from these third parties based on a percentage of their net sales. In its financial statements prepared in conformity with GAAP, the Company includes these commissions (rather than the sales of the departments licensed to third parties) in its net sales. The Company does not, however, include any amounts in respect of licensed department sales (or any commissions earned on such sales) in its comparable sales in accordance with GAAP (i.e., on an owned basis). The Company believes that the amounts of commissions earned

on sales of departments licensed to third parties are not material to its results of operations for the periods presented.

MACY'S, INC.

Liquidity and Capital Resources

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

Operating Activities

Net cash provided by operating activities in 2015 was \$398 million, compared to \$736 million provided in 2014, and reflects lower net income and a larger increase in merchandise inventories net of merchandise accounts payable in 2015 as compared to 2014.

Investing Activities

Net cash used by investing activities was \$615 million in 2015, compared to net cash used by investing activities of \$378 million in 2014. Investing activities for 2015 include the acquisition of Bluemercury, Inc., net of cash acquired, for \$212 million. Investing activities for 2015 also include purchases of property and equipment totaling \$367 million and capitalized software of \$144 million, compared to purchases of property and equipment totaling \$335 million and capitalized software of \$116 million for 2014.

In August 2015, the Company announced a real estate transaction related to its Brooklyn store location. The Company is selling the top five floors of its nine-story retail location as well as the air rights above it and a related parking garage facility. The Company will receive \$170 million in cash in fiscal 2015 and will receive another \$100 million over the next three years to be used towards a total reinvent of this Macy's store location. As a result of this transaction, the Company is expected to record a gain of approximately \$250 million in the fourth quarter of fiscal 2015. The Company continually evaluates the highest and best use of its properties and its overall real estate portfolio. In light of current market conditions, the Company has retained specialized real estate advisors, in addition to financial, legal and tax advisors, to intensely study its real estate portfolio to determine where opportunities exist that would further enhance the value of the Company. The Company is actively working with its advisors and will communicate the results of its analysis and review as soon as complete.

Financing Activities

Net cash used by the Company for financing activities was \$1,186 million for 2015, including \$909 million for the acquisition of the Company's common stock, primarily under its share repurchase program, the payment of \$227 million of cash dividends, and a decrease in outstanding checks of \$136 million, partially offset by \$158 million from the issuance of common stock, primarily related to the exercise of stock options.

During 2015, the Company repurchased approximately 13.9 million shares of its common stock pursuant to existing stock purchase authorizations for a total of approximately \$937 million. As of August 1, 2015, the Company had \$1,595 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 August 17, 2015, the Company redeemed at par the principal amount of \$76 million of 8.125% senior debentures due 2035, pursuant to the terms of the debentures. Interest expense in the third quarter of 2015 will be lower due to the recognition of unamortized debt premium associated with this debt.

Net cash used by the Company for financing activities was \$1,001 million for 2014, including \$922 million for the acquisition of the Company's common stock, primarily under its share repurchase program, the payment of \$204 million of cash dividends, the repayment of \$459 million of debt, and a decrease in outstanding checks of \$61 million, partially offset by the issuance of \$500 million aggregate principal amount of 3.625% senior unsecured notes due 2024 and \$149 million from the issuance of common stock, primarily related to the exercise of stock options.

The Company is a party to a credit agreement with certain financial institutions that 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 3.75. The Company's interest coverage ratio for the second quarter of 2015 was 9.61 and its leverage ratio at August 1, 2015 was 1.89, in each case as calculated in accordance with the credit agreement.

On August 28, 2015, the Company's Board of Directors declared a quarterly dividend of 36 cents per share on its common stock, payable October 1, 2015 to Macy's shareholders of record at the close of business on September 15,

2015.

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MACY'S, INC.

Liquidity and Capital Resources Outlook

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. Such alternative uses may include, among others, the redemption or repurchase of debt, equity or other securities through open market purchases, privately negotiated transactions or otherwise, and the funding of pension related obligations. 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, including the redemption or repurchase of debt, equity or other securities through open market purchases, privately negotiated transactions or otherwise, and the funding of pension related obligations.

The Company intends from time to time to consider additional acquisitions of, and investments in, retail businesses 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.

MACY'S, INC.

Item 4. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer have carried out, as of August 1, 2015, with the participation of the Company's management, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in reports the Company files under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms, and that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal 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.

MACY'S, INC.

## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings.

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

## Item 1A. Risk Factors.

There have been no material changes to the Risk Factors described in Part I, "Item 1A. Risk Factors" in the Company's Annual Report of Form 10-K for the fiscal year ended January 31, 2015 as filed with the SEC.

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

The following table provides information regarding the Company's purchases of Common Stock during the second quarter of 2015.

	Total Number of Shares Purchased	Average Price Paid per Share (\$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (1)(\$) (millions)
	(thousands)		(thousands)	
May 3, 2015 – May 30, 2015	1,633	67.59	1,633	2,037
May 31, 2015 – July 4, 2015	3,484	68.97	3,484	1,797
July 5, 2015 – August 1, 2015	2,916	68.96	2,916	1,595
	8,033	68.69	8,033	

Commencing in January 2000, the Company's Board of Directors has from time to time approved authorizations to purchase, in the aggregate, up to \$15 billion of Common Stock as of August 1, 2015. All authorizations are cumulative and do not have an expiration date. As of August 1, 2015, \$1,595 million of authorization remained unused. The Company may continue, discontinue or 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.

## Item 4. Mine Safety Disclosures.

Not Applicable.

## MACY'S, INC.

## Item 5. Other Information.

## Forward-Looking Statements

This report and other reports, statements and information previously or subsequently filed by the Company with the 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;
- our consideration of transactions involving our real estate portfolio;
- possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions;
- possible 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;
- changes in relationships with vendors and other product and service providers;
- currency, interest and exchange rates and other capital market, economic and geo-political conditions;
- severe or unseasonable weather, possible outbreaks of epidemic or pandemic diseases and natural disasters;
- unstable political conditions, civil unrest, terrorist activities and armed conflicts;
- the possible inability of the Company's manufacturers or transporters to deliver products in a timely manner or meet the Company's quality standards;
- 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;
- duties, taxes, other charges and quotas on imports; and
  - 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.

MACY'S, INC.

Item 6. Exhibits.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)

32.1 Certification by Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act

32.2 Certification by Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act

101\*\* The following financial statements from Macy's, Inc.'s Quarterly Report on Form 10-Q for the quarter ended August 1, 2015, filed on August 28, 2015, formatted in XBRL: (i) Consolidated Statements of Income, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

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**SIGNATURES**

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

**MACY'S, INC.**

By: /s/ DENNIS J. BRODERICK  
Dennis J. Broderick  
Executive Vice President, General Counsel  
and  
Secretary

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

Date: August 28, 2015